TAB II

TAB II.1

CSR Qingdao Sifang Co., Ltd.

SECTION B
PART B TECHNICAL PROPOSAL AND
STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.
   Please reference proposal materials for further clarification.
2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.

Name of shareholders	Telephone numbers
CSR Corporation Limited	+86-10-51862017
Qingdao Ultimate Corporation Limited	+86-532-68868001
China Railway Wuhua Asset Management Centre	+86-10-51898888
Guangzhou Zhongche Railway Sales & Leasing Co., Ltd	+86-20-89006888
Fujian Haipeng Economic & Trade Co., Ltd	+86-591-83747666
Southwest Jiaotong University	+86-28-87600114
China Railway Science & Technology Development Company	+86-10-3249208

3. Provide the names, title and telephone numbers of all officers.

SECTION B
PART B TECHNICAL PROPOSAL AND
STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

Title	Name	Telephone numbers
Chairman	Zhang Zaizhong	+86-532-87801316
President	Ma Yunshuang	+86-532-87801818
Vice President	Gong Ming	+86-532- 87900590
Vice President	Zhang Min	+86-532- 87802617
Vice President	Zhao Jiaduo	+86-532-87805768
Vice President	Wang Chenglong	+86-532-68953725
Vice President	Tian Xuehua	+86-532- 87805776
Vice President	Ni Shengyi	+86-532-68953721
Vice President	Luo Bin	+86-532-68953727
Vice President	Guan Yushan	+86-532-68953723
Vice President	Lan Yuzhen	+86-532-87805988
Vice President	Liang Jianying	+86-532-68953587
General Manager of Overseas Business Division	Li Yongle	+86-532- 87805720
Director of HR Department	Lin Bao	+86-532-87805798
Director of Finance Department	Niu Yingguang	+86-532- 87805798

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.
   No.
5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.
   No.
6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.
   No.
7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.
   No.
8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

   Name: China Life Insurance Co., Ltd Qingdao Branch

   Address: 39# Hong Kong middle Road, Qingdao

   Contact person: Wang Guangfeng

   Tel: +86 15863067549

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

SECTION B
PART B TECHNICAL PROPOSAL AND
STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

1. Name: Bank of Communications Qingdao Sifang Branch

Address: 99# Renmin Road, Qingdao

Contact person: Liu Jing

Tel: +86-532-82959402

2. Name: China Life Insurance Co., Ltd Qingdao Branch

Address: 39# Hong Kong middle Road, Qingdao

Contact person: Wang Guangfeng

Tel: +86 15863067549

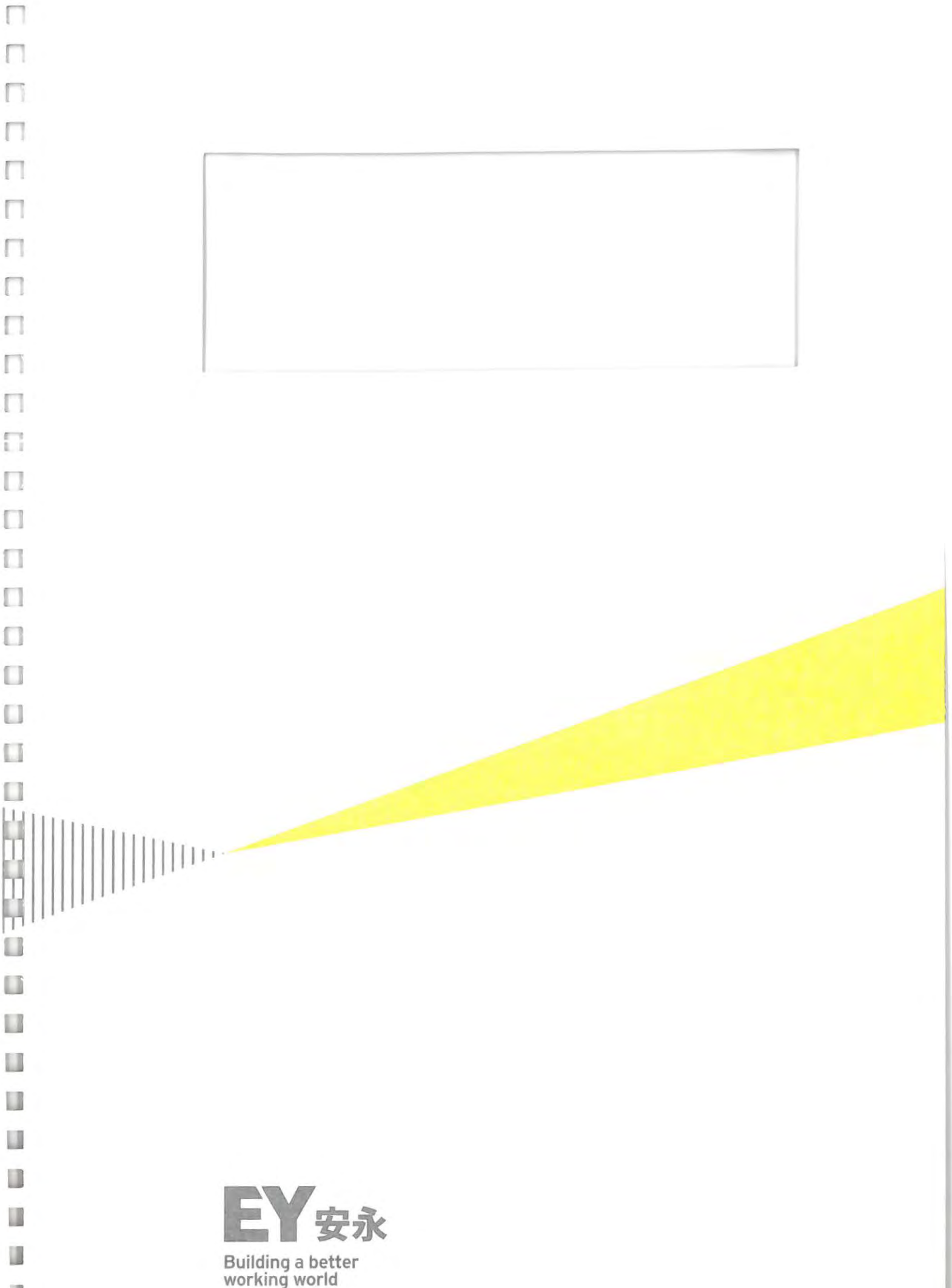
3. Name: Davis Wright Tremaine LLP Shanghai Representive Office

Address: 8# Century Avenue, Pudong, Shanghai

Contact person: Cai Rongwei

Tel：+86 21 61709500

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?
No.
11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.
Please refer to the attachment.
12. Provide the business's current code of business ethics or equivalent.
Please refer to the attachment.
13. Provide the responses to Questions Nos. 1 through 12 for all proposed suppliers of major subsystems identified in response to Tab I.1 – Technical Approach.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CSR Qingdao Sifang Co., Ltd.
Audited Financial Statements
31 December 2013

Important Notice

The attached financial statements have been translated from the statutory financial statements prepared in accordance with generally accepted accounting principles applicable to business enterprises established in the People's Republic of China. In the event of any differences in interpreting the financial statements, the Chinese version shall prevail.

CSR QINGDAO SIFANG CO., LTD.

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REPORT OF THE AUDITORS

Ernst & Young Hua Ming LLP(2014) Shen Zi No. 60626562_J01

To the board of directors of CSR Qingdao Sifang Co., Ltd.

We have audited the accompanying financial statements of CSR Qingdao Sifang Co., Ltd., which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Standards on Auditing. Those standards require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and company's financial position of CSR Qingdao Sifang Co., Ltd. as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China

12 March 2014

A member firm of Ernst & Young Global Limited

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2013
Renminbi Yuan

ASSETS	Note VI	2013	2012
CURRENT ASSETS:			
Cash and bank balances	1	2,411,737,112.39	1,766,394,113.61
Bills receivable	2	514,418,400.84	210,500,000.00
Trade receivables	3	8,519,621,933.36	5,153,224,324.87
Prepayments	4	230,442,309.83	32,400,109.79
Dividends receivable		942,372.02	-
Other receivables	5	3,517,864,175.85	3,185,440,111.20
Inventories	6	3,218,522,236.07	5,185,105,863.99
Other current assets	7	3,273,256.08	338,351,416.69
Total current assets		18,416,821,796.44	15,871,415,940.15
NON-CURRENT ASSETS:			
Long term equity investments	8	21,834,716.90	13,098,042.69
Fixed assets	9	3,250,115,184.41	3,314,870,458.32
Construction in progress	10	30,312,489.49	177,318,050.15
Fixed assets disposal		2,377,123.03	33,628.34
Intangible assets	11	661,920,680.65	657,371,079.38
Deferred tax assets	12	106,203,170.16	77,330,046.99
Total non-current assets		4,072,763,364.64	4,240,021,305.87
TOTAL ASSETS		22,489,585,161.08	20,111,437,246.02

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED BALANCE SHEET (CONTINUED)
31 December 2013
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note VI	2013	2012
CURRENT LIABILITIES:			
Bills payable		2,823,820,029.17	2,185,928,509.31
Accounts payable		9,371,089,221.30	10,151,965,742.20
Deposits received		2,450,148,491.87	899,631,542.72
Payroll and benefits payable	15	22,727,593.07	13,008,339.64
Taxes payable	16	304,021,855.99	49,263,277.16
Dividends payable	17	23,671,440.00	26,301,600.00
Other payables		855,242,214.91	414,482,511.17
Non-current liabilities due within one year	18	231,265,941.61	349,399,467.03
Total current liabilities		16,081,986,787.92	14,089,980,989.23
NON-CURRENT LIABILITIES:			
Long term loans	19	7,999,013.91	8,246,453.43
Accrued liability	20	190,500,705.32	94,920,964.82
Other non-current liabilities	21	284,066,214.42	241,946,972.97
Total non-current liabilities		482,565,933.65	345,114,391.22
Total liabilities		16,564,552,721.57	14,435,095,380.45
SHAREHOLDERS' EQUITY:			
Share capital	22	4,003,794,051.00	4,003,794,051.00
Capital reserve	23	686,981,008.43	683,967,900.19
Surplus reserves	24	976,929,973.58	728,270,939.71
Retained earnings	25	144,939,826.54	167,056,386.54
Exchange fluctuation reserve		(743,416.10)	(484,188.48)
Equity attributable to owners of the parent		5,811,901,443.45	5,582,605,088.96
Minority interests		113,130,996.06	93,736,776.61
Total shareholders' equity		5,925,032,439.51	5,676,341,865.57
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		22,489,585,161.08	20,111,437,246.02

The notes on pages 16 to 93 form an integral part of these financial statements.

The financial statements from pages 2 to 93 are signed by the following persons:

Company Representative: Chief Accountant: Head of Accounting:

CSR QINGDAO SIFANG CO., LTD.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

Renminbi Yuan

	Note VI	2013	2012
Revenue	26	21,630,476,185.41	24,050,951,012.60
Less: Cost of sales		17,681,718,489.70	20,080,110,550.99
Business taxes and surcharges		120,954,435.15	73,788,161.15
Selling expenses		656,369,205.21	459,239,439.83
Administrative expenses		1,790,698,017.79	1,491,856,238.79
Financial expenses	27	(116,161,432.16)	(30,982,535.35)
Assets impairment losses	28	(68,726,559.74)	134,874,902.30
Add: loss on fair value changes		-	(4,569,141.62)
Investment income/ (loss)	29	1,169,046.23	(646,440.68)
Including: Investment income/ (loss) of jointly-controlled entities and associates		1,169,046.23	(646,440.68)
Operating profit		1,566,793,075.69	1,836,848,672.59
Add: Non-operating income	30	131,121,580.96	60,393,575.30
Less: Non-operating expenses	31	1,002,994.83	5,108,694.65
Including: loss on disposal of non-current assets		796,848.06	4,200,551.26
Profit before tax		1,696,911,661.82	1,892,133,553.24
Less: Income tax expense	32	260,318,078.92	285,838,914.48
Net profit		1,436,593,582.90	1,606,294,638.76
Attributable to owners of the Parent		1,435,528,012.97	1,608,557,862.15
Non-controlling interests		1,065,569.93	(2,263,223.39)
Other comprehensive income	34	30,772.38	(484,188.48)
Total Comprehensive income		1,436,624,355.28	1,605,810,450.28
Including:			
Total comprehensive income attributable to owners of the Parent		1,435,558,785.35	1,608,073,673.67
Total comprehensive income attributable to non-controlling interests		1,065,569.93	(2,263,223.39)

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2013
Renminbi Yuan

	Attributable to owners of the Parent						Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained earnings	Exchange fluctuation reserve	Sub-total		
1. At 1 January 2013	4,003,794,051.00	683,967,900.19	728,270,939.71	167,056,386.54	(484,188.48)	5,582,605,088.96	93,736,776.61	5,676,341,865.57
2. Increase/(decrease) during the year								
(i) Net profit	-	-	-	1,435,528,012.97	-	1,435,528,012.97	1,065,569.93	1,436,593,582.90
(ii) Other comprehensive income	-	290,000.00	-	-	(259,227.62)	30,772.38	-	30,772.38
Total comprehensive income	-	290,000.00	-	1,435,528,012.97	(259,227.62)	1,435,558,785.35	1,065,569.93	1,436,624,355.28
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital invested by shareholders	-	-	-	-	-	-	22,000,000.00	22,000,000.00
(b) Share-based payment recorded in shareholders' equity	-	(908,091.76)	-	-	-	(908,091.76)	-	(908,091.76)
(c) Price difference of disposal non-controlling interests	-	3,631,200.00	-	40,150.48	-	3,671,350.48	(3,671,350.48)	-
(iv) Profit appropriation								
(a) Transfer to surplus reserves	-	-	248,659,033.87	(248,659,033.87)	-	-	-	-
(b) Dividend paid	-	-	-	(1,209,025,689.58)	-	(1,209,025,689.58)	-	(1,209,025,689.58)
3. At 31 December 2013	4,003,794,051.00	686,981,008.43	976,929,973.58	144,939,826.54	(743,416.10)	5,811,901,443.45	113,130,996.06	5,925,032,439.51

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
Year ended 31 December 2012
Renminbi Yuan

	Attributable to owners of the Parent						Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained earnings	Exchange fluctuation reserve	Sub-total		
1. At 1 January 2012	3,157,264,020.00	354,360,135.56	487,352,128.96	88,327,490.20	-	4,087,303,774.72	-	4,087,303,774.72
2. Increase/(decrease) during the year								
(i) Net profit	-	-	-	1,608,557,862.15	-	1,608,557,862.15	(2,263,223.39)	1,606,294,638.76
(ii) Other comprehensive income	-	-	-	-	(484,188.48)	(484,188.48)	-	(484,188.48)
Total comprehensive income	-	-	-	1,608,557,862.15	(484,188.48)	1,608,073,673.67	(2,263,223.39)	1,605,810,450.28
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital invested by shareholders	846,530,031.00	324,729,969.00	-	-	-	1,171,260,000.00	96,000,000.00	1,267,260,000.00
(b) Share-based payment recorded in shareholders' equity	-	4,877,795.63	-	-	-	4,877,795.63	-	4,877,795.63
(iv) Profit appropriation								
(a) Transfer to surplus reserves	-	-	240,918,810.75	(240,918,810.75)	-	-	-	-
(b) Dividend paid	-	-	-	(1,288,910,155.06)	-	(1,288,910,155.06)	-	(1,288,910,155.06)
3. At 31 December 2012	4,003,794,051.00	683,967,900.19	728,270,939.71	167,056,386.54	(484,188.48)	5,582,605,088.96	93,736,776.61	5,676,341,865.57

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2013
Renminbi Yuan

	Note VI	2013	2012
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		20,601,012,388.08	23,342,032,944.38
Refunds of taxes		51,674,181.27	6,810,303.31
Cash received relating to other operating activities		221,266,987.69	220,422,313.53
Sub-total of cash inflows		20,873,953,557.04	23,569,265,561.22
Cash paid for goods and services		14,465,954,184.78	18,713,534,809.88
Cash paid to and on behalf of employees		1,442,416,847.70	1,410,161,606.07
Cash paid for all taxes		1,075,649,393.42	1,176,623,734.10
Cash paid relating to other operating activities		1,363,463,791.06	847,151,815.19
Sub-total of cash outflows		18,347,484,216.96	22,147,471,965.24
Net cash flows from operating activities	35	2,526,469,340.08	1,421,793,595.98
2. Cash flows from investing activities:			
Cash received from investment income		-	5,850,000.00
Net cash received from disposal of fixed assets, intangible assets and other long term assets		2,058,708.60	2,731,400.17
Sub-total of cash inflows		2,058,708.60	8,581,400.17
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		301,582,873.52	597,106,148.71
Cash paid for acquisitions of investments		8,510,000.00	6,000,000.00
Cash paid relating to other investing activities		368,859,926.12	81,827,754.03
Sub-total of cash outflows		678,952,799.64	684,933,902.74
Net cash flows used in investing activities		(676,894,091.04)	(676,352,502.57)

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
Year ended 31 December 2013
Renminbi Yuan

	Note VI	2013	2012
3. Cash flows from financing activities:			
Cash received from capital contribution		22,000,000.00	1,267,260,000.00
Including: capital contribution by minority shareholders		22,000,000.00	96,000,000.00
Sub-total of cash inflows		22,000,000.00	1,267,260,000.00
Cash repayments of borrowings		-	1,400,000,000.00
Cash paid for distribution of dividend or profits and for interest expenses		1,211,671,911.30	1,361,547,361.99
Sub-total of cash outflows		1,211,671,911.30	2,761,547,361.99
Net cash flows used in financing activities		(1,189,671,911.30)	(1,494,287,361.99)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(10,517,768.96)	4,236,929.39
5. Net increase/(decrease) in cash and cash equivalents		649,385,568.78	(744,609,339.19)
Add: Balance of cash and cash equivalents at beginning of year		1,715,417,543.61	2,460,026,882.80
6. Balance of cash and cash equivalents at end of year	36	2,364,803,112.39	1,715,417,543.61

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

BALANCE SHEET

31 December 2013

Renminbi Yuan

ASSETS	Note XIV	2013	2012
CURRENT ASSETS:			
Cash and bank balances	1	2,188,731,954.17	1,597,139,532.01
Bills receivable	2	482,396,800.84	195,500,000.00
Trade receivables	3	8,636,229,613.47	5,235,012,864.15
Prepayments	4	195,305,086.94	32,382,109.79
Dividends receivable		62,542,585.97	34,234,487.50
Other receivables	5	3,592,887,081.10	3,268,152,611.00
Inventories	6	3,074,879,168.66	4,969,463,680.41
Other current assets	7	-	335,865,015.56
Total current assets		18,232,972,291.15	15,667,750,300.42
NON-CURRENT ASSETS:			
Long term equity investments	8	547,707,808.90	530,165,842.69
Fixed assets	9	2,971,373,432.76	3,156,686,761.53
Construction in progress	10	19,811,532.33	93,160,616.60
Disposal of fixed Assets		2,377,123.03	33,628.34
Intangible assets	11	429,757,363.00	420,309,257.44
Deferred tax assets	12	105,282,828.43	77,330,046.99
Total non-current assets		4,076,310,088.45	4,277,686,153.59
TOTAL ASSETS		22,309,282,379.60	19,945,436,454.01

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
BALANCE SHEET (CONTINUED)
31 December 2013
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note XIV	2013	2012
CURRENT LIABILITIES:			
Bills payable		2,823,820,029.17	2,185,928,509.31
Accounts payable		9,407,637,966.13	10,178,033,148.93
Deposits received		2,450,148,491.87	899,144,100.72
Payroll and benefits payable	15	22,713,865.97	12,962,447.20
Taxes payable	16	267,204,970.51	29,837,380.54
Dividends payable	17	23,671,440.00	26,301,600.00
Other payables		876,034,215.52	414,449,891.63
Non-current liabilities due within one year	18	229,600,835.57	347,835,835.35
Total current liabilities		16,100,831,814.74	14,094,492,913.68
NON-CURRENT LIABILITIES:			
Long term loans	19	7,999,013.91	8,246,453.43
Accrued liability	20	190,500,705.32	94,920,964.82
Other non-current liabilities	21	209,117,703.95	166,956,284.01
Total non-current liabilities		407,617,423.18	270,123,702.26
Total liabilities		16,508,449,237.92	14,364,616,615.94
SHAREHOLDERS' EQUITY:			
Share capital	22	4,003,794,051.00	4,003,794,051.00
Capital reserve	23	683,349,808.43	683,967,900.19
Surplus reserves	24	976,929,973.58	728,270,939.71
Retained earnings	25	136,759,308.67	164,786,947.17
Total shareholder's equity		5,800,833,141.68	5,580,819,838.07
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		22,309,282,379.60	19,945,436,454.01

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

INCOME STATEMENT

Year ended 31 December 2013

Renminbi Yuan

	Note XIV	2013	2012
Revenue	26	21,216,932,791.36	21,504,213,580.65
Less: Cost of sales		17,446,728,863.66	17,594,413,259.10
Business taxes and surcharges		115,053,301.22	72,157,458.98
Selling expenses		645,936,342.25	482,909,784.38
Administrative expenses		1,740,060,877.20	1,456,668,954.08
Financial expenses	27	(115,170,529.63)	(30,215,878.47)
Assets impairment losses	28	(68,740,686.93)	132,584,047.57
Add: Loss on fair value changes		-	(4,569,141.62)
Investment income	29	62,664,552.18	33,588,046.82
Including: Investment income/ (loss) of associates		121,966.21	(646,440.68)
Operating profit		1,515,729,175.77	1,824,714,860.21
Add: Non-operating income	30	126,071,681.70	57,876,793.62
Less: Non-operating expenses	31	948,136.27	5,105,792.28
Including: loss on disposal of non-current assets		796,848.06	4,200,551.26
Profit before tax		1,640,852,721.20	1,877,485,861.55
Less: Income tax expense	32	211,195,636.25	271,360,456.60
Net profit		1,429,657,084.95	1,606,125,404.95
Other comprehensive income	34	290,000.00	-
Total comprehensive income		1,429,947,084.95	1,606,125,404.95

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained earnings	Total shareholders' equity
1. At 1 January 2013	4,003,794,051.00	683,967,900.19	728,270,939.71	164,786,947.17	5,580,819,838.07
2. Increase/(decrease) during the year					
(i) Net profit	-	-	-	1,429,657,084.95	1,429,657,084.95
(ii) Other comprehensive income	-	290,000.00	-	-	290,000.00
Total comprehensive income	-	-	-	1,429,657,084.95	1,429,947,084.95
(iii) Capital contribution and withdrawal by shareholders					
(a) Capital contribution by shareholders	-	-	-	-	-
(b) Share-based payment recorded in shareholders' equity	-	(908,091.76)	-	-	(908,091.76)
(iv) Profit appropriation					
(a) Transfer to surplus reserves	-	-	248,659,033.87	(248,659,033.87)	-
(b) Dividend paid	-	-	-	(1,209,025,689.58)	(1,209,025,689.58)
3. At 31 December 2013	4,003,794,051.00	683,349,808.43	976,929,973.58	136,759,308.67	5,800,833,141.68

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2012

Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained earnings	Total shareholders' equity
1. At 1 January 2012	3,157,264,020.00	354,360,135.56	487,352,128.96	88,490,508.03	4,087,466,792.55
2. Increase/(decrease) during the year					
(i) Net profit	-	-	-	1,606,125,404.95	1,606,125,404.95
Total comprehensive income	-	-	-	1,606,125,404.95	1,606,125,404.95
(ii) Capital contribution and withdrawal by shareholders					
(a) Capital contribution by shareholders	846,530,031.00	324,729,969.00	-	-	1,171,260,000.00
(b) Share-based payment recorded in shareholders' equity	-	4,877,795.63	-	-	4,877,795.63
(iii) Profit appropriation					
(a) Transfer to surplus reserves	-	-	240,918,810.75	(240,918,810.75)	-
(b) Dividend paid	-	-	-	(1,288,910,155.06)	(1,288,910,155.06)
3. At 31 December 2012	4,003,794,051.00	683,967,900.19	728,270,939.71	164,786,947.17	5,580,819,838.07

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CASH FLOW STATEMENT
Year ended 31 December 2013
Renminbi Yuan

	Note XIV	2013	2012
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		19,513,003,296.53	20,273,911,169.14
Refunds of taxes		51,674,181.27	6,810,303.31
Cash received relating to other operating activities		214,750,056.34	219,712,204.85
Sub-total of cash inflows		19,779,427,534.14	20,500,433,677.30
Cash paid for goods and services		13,657,115,475.87	15,688,540,271.43
Cash paid to and on behalf of employees		1,407,301,933.95	1,391,203,458.50
Cash paid for all taxes		989,351,242.21	1,163,982,239.49
Cash paid relating to other operating activities		1,323,233,317.78	831,924,080.95
Sub-total of cash outflows		17,377,001,969.81	19,075,650,050.37
Net cash flows from operating activities	35	2,402,425,564.33	1,424,783,626.93
2. Cash flows from investing activities:			
Cash received from investment income		-	5,850,000.00
Net cash received from disposal of fixed assets, intangible assets and other long term assets		2,058,708.60	2,731,400.17
Cash received relating to other investing activities		25,000,000.00	-
Sub-total of cash inflows		27,058,708.60	8,581,400.17
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		225,638,902.01	450,206,954.76
Cash paid for acquisitions of investments		17,420,000.00	160,000,000.00
Cash paid relating to other investing activities		368,859,926.12	111,827,754.03
Sub-total of cash outflows		611,918,828.13	722,034,708.79
Net cash flows used in investing activities		(584,860,119.53)	(713,453,308.62)

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CASH FLOW STATEMENT (CONTINUED)
Year ended 31 December 2013
Renminbi Yuan

	Note XIV	2013	2012
3. Cash flows from financing activities:			
Cash received from capital contribution		-	1,171,260,000.00
Sub-total of cash inflows		-	1,171,260,000.00
Cash repayments of borrowings		-	1,400,000,000.00
Cash paid for distribution of dividend or profits and for interest expenses		1,211,671,911.30	1,361,547,361.99
Sub-total of cash outflows		1,211,671,911.30	2,761,547,361.99
Net cash flows used in financing activities		(1,211,671,911.30)	(1,590,287,361.99)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(10,258,541.34)	4,265,732.76
5. Net increase/(decrease) in cash and cash equivalents		595,634,992.16	(874,691,310.92)
Add: Balance of cash and cash equivalents at beginning of year		1,546,162,962.01	2,420,854,272.93
6. Balance of cash and cash equivalents at end of year	36	2,141,797,954.17	1,546,162,962.01

The notes on pages 16 to 93 form an integral part of these financial statements.

I. GENERAL INFORMATION OF THE GROUP

CSR Qingdao Sifang Co., Ltd. (the "Company"), a joint stock limited company, was incorporated in Qingdao City, Shandong Province, the People's Republic of China (the "PRC") on 22 July 2002. The registration number of the Company's business license is No. 370200018079774. The legal representative of the Company is Zhang Zaizhong. The headquarter of the Company is located at No. 88 Jin Hong Dong Road, Chengyang District, Qingdao City, Shandong Province, the PRC.

The Company was formerly known as CSR Sifang Locomotive & Rolling Stock Co., Ltd., which was founded on promotion through approval of NO.195 [2002] Guojingmaoqigai of the State Economic and Trade Commission of PRC. The CSR Group Company (the original name was China South Locomotive & Rolling Stock Industry Group Company, hereinafter referred to briefly as the CSR Group), the main sponsor, paid in net assets related to manufacture of locomotive and passenger train of its wholly-owned subsidy of the original Sifang Locomotive & Rolling Factory as investment, associated with Beiya Industry (Group) Stock Co., Ltd. ("Beiya Industry"), Qingdao Ultimate Corporation Limited (the "original" Qingdao Ultimate Transportation Equipment Co., Ltd.), China Railway Materials Company Limited, Guangzhou Zhongche Railway Sales & Leasing Co. Ltd, Fujian Ocean Eagle Economy & Trade Co. Ltd. , Southwest Jiaotong University, China Railway Science & Technology Development Company as other sponsors. The original registered capital of the Company was RMB286,046,150.00.

On April 2006, CSR Group increased investment RMB450,000,000.00 to the Company, which credited to share capital RMB264,015,000.00 and credited to the share premium RMB185,985,000.00 respectively. This capital increment was approved by the Company's shareholders at the first extraordinary annual general meeting and *Reply of Capital Increment of CSR Sifang Locomotive & Rolling Stock Co., Ltd. NO.231* [2006] Guozichanquan of the State-owned Assets Supervision and Administration Commission of the State Council of PRC.

In 2007, CSR Group acquired all 32,500,000 shares of the Company held by Beiya Industry. In the same year, CSR Group invested all 495,266,150 held shares into newly established CSR Corporation Limited because of the reorganization.

In 2008, CSR Corporation Limited increased investment RMB521,380,000.00 to the Company, which credited to share capital RMB478,824,900.00 and credited to the share premium RMB42,555,100.00 respectively, after listed in Shanghai Stock Exchange and Hong Kong Stock Exchange. In the same year, capitalizing of common reserves of the Company was 6 shares upon each 10 shares to the whole shareholders. Totally 330,030,000 shares are capitalized, which 318,060,000 shares capitalized from capital reserve and 11,970,000 shares capitalized from discretionary surplus reserve respectively. On December 2008, the Company changed name into CSR Qingdao Sifang Co., Ltd. .

On November 2009, CSR Corporation Limited increased investment RMB2,000,000,000.00 to the Company in cash, which credited to share capital RMB1,744,789,622.00 and credited to the share premium RMB255,210,378.00 respectively. This capital increment was approved by the Company's shareholders at the first extraordinary annual general meeting in 2009.

On October 2011, CSR Corporation Limited increased investment RMB87,000,000.00 to the Company in cash, which credited to share capital RMB53,551,643.00 and credited to the share premium RMB33,448,357.00 respectively. This capital increment was approved by the Company's shareholders at the third extraordinary annual general meeting in 2011.

On July 2012, CSR Corporation Limited increased investment RMB1,171,260,000.00 to the Company in cash, which credited to share capital RMB846,530,031.00 and credited to the share premium RMB324,729,969.00 respectively. This capital increment was approved by the Company's shareholders at the third extraordinary annual general meeting in 2012.

I. GENERAL INFORMATION OF THE GROUP (CONTINUED)

Above mentioned capital increments of the Company were specially verified by Certified Public Accountant of China through capital verification reports. The Company had made registration of change with the Industrial and Commercial Administration accordingly.

The share capital of the Company was RMB4,003,794,051.00 at 31 December 2013.

The Company together with its subsidiaries (collectively known as the "Group") is principally engaged in the manufacture, sale and repair of high-speed train and urban rail transit production business. The Company's principal activities include: design, manufacture, repair, sales and lease of locomotive, passenger train and urban rail transportation equipment; manufacture and sales of accessories of locomotive, passenger train and urban rail transportation equipment; technological services of locomotive and rolling; machining; welding processing; castings sales; heat treatment; metrological verification testing; physical and chemical inspection test; sales of measuring equipment; overhaul, sales and technical advisory of high-speed train and passenger train and related accessories; operating the export and import business and export and import of machine equipment, installation kit and raw and ancillary materials of the Company excluding goods of limited operating and prohibited export and import; the operation of processing with imported materials and processing with supplied material, assembling parts supplied by clients, processing with customer's samples and compensatory trade of the Company.

The parent company of the Group is CSR Corporation Limited and the ultimate parent company of the Group is CSR Group, which both are incorporated in the PRC.

II. BASIS OF PREPARATION

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

The financial statements are prepared based on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Provision for impairment is provided in accordance with related regulations when indications of impairment of assets noted.

Statement of adoption of the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 31 December 2013, and the results of their operations and their cash flows for the year then ended.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The financial statements for the year ended 31 December 2013 have been prepared and based on the following accounting policies and estimates, which are in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China ("PRC").

1. Accounting period

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

2. Reporting currency

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. Unless otherwise stated, the unit of the currency is Yuan.

The subsidiaries, jointly-controlled entities and associates use their respective local currencies for recording purposes in accordance with their own operating environments, and translate to Renminbi when preparing financial statements.

3. Adopt some revised/ new accounting standards

In January and February 2014, the MOF newly established the Accounting Standard for Business Enterprises No.39 – Fair Value Measurement and the Accounting Standard for Business Enterprises No.40 – Joint Arrangements, and revised the Accounting Standard for Business Enterprises No.30 – Presentation of Financial Statements, the Accounting Standard for Business Enterprises No.9 – Employee Benefits, the Accounting Standard for Business Enterprises No.33 – Consolidated Financial Statements and the Accounting Standard for Business Enterprises No.2 – Long-term Equity Investments. These six standards will become effective on 1 July 2014 for entities adopting Accounting Standards for Business Enterprises. Entities listed overseas are encouraged to adopt them early. The Company, as holding subsidy of entity listed overseas, adopted them early when prepared the financial statements for the year ended 31 December 2013, and did the accounting treatment according to the relevant connected rules.

The impacts of the financial statements when adopting these standards early includes the following:

The adoption of that, the Accounting Standard for Business Enterprises No.9 – Employee Benefits (revised in 2014), affects the accounting treatment of employee retirement plans of the Group. Before 1 January 2013, the employee retirement plans were regarded as being made according to defined benefit plans. That the defined benefit plans are recognized as liabilities, which is the present value of related defined benefit obligation as at balance sheet date, and the unrecognized actuarial profit and loss and cost of past service will be made adjustment. The defined benefit plan is calculated by independent actuary using the method of expected unit cost. That the present value of related defined benefit obligation is measured at the present value of the estimated future cash outflows using market yields of government bonds which have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets and 10% of the defined benefit obligation are charged or credited to the statement of profit or loss over the employees' expected average vesting period. The cost of past service is immediately recognized in income statement, but except for the change in retirement pension plan on condition that the employees have specific remained period or belonged period. On this case, the cost of past service is directly amortized over the belonged period.

According to the Accounting Standard for Business Enterprises No.9 – Employee Benefits (revised in 2014), the Group requires that all actuarial profit and loss of the defined benefit plans are immediately charged to other comprehensive income, which that the employee retirement benefit liabilities recognized in balance sheet will be reflected the full amount of defined benefit plans. As the revised accounting standard is immaterial to the financial statements for the year ended 31 December 2012, the Group has not restated to comparative information for the year ended 31 December 2012.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

4. Business combination

Business combination represents a transaction or event where two, or more than two, separate entities became one reporting entity. Business combinations are classified as "Business combination involving entities under common control" and "Business combination involving entities not under common control".

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

The assets and liabilities obtained under common control are measured at the carrying amounts as recorded by the entity being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

Business combination involving entities not under common control
Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under a business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date of acquisition.

Any excess of the sum of fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of fair value of considerations paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, and recognize immediately in the income statement any excess remaining after reassessment.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

5. Consolidated financial statements

The scope of consolidated financial statements is determined by control basis, which consists of financial statements of the Company and its subsidiaries for the year ended 31 December 2013. A subsidiary is a company or entity (including company, divisible part in investee and a structured entity) that is controlled by the Company.

The financial year and accounting policies of subsidiaries are applied consistently with the Company when preparing consolidated financial statements. All intercompany assets, liabilities, equities, revenues, expense and cash flows within the Group are fully eliminated on consolidation.

Where the current loss assumed by minority shareholders of a subsidiary exceeds the minority interests of beginning equity, the balance offsets minority interests.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing consolidated financial statements, the adjustments shall be made to the subsidiaries' financial statement based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of combination period. In preparing consolidated financial statements, the adjustments shall be made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

When change in relevant facts and circumstances leads to change of one or more of control factors, the Group considers re-assessing whether it has power over an investee.

6. Cash and cash equivalents

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

7. Foreign operations and foreign currency translation

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognized in the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in other comprehensive income.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

7. Foreign operations and foreign currency translation (continued)

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date; shareholders' equity, with the exception of Retained earnings, are translated at the rates of exchange ruling at the transaction date; all income and expense items in the income statement are translated at the average rates of exchange during the period. Exchange fluctuations arising from the translation mentioned above are recognized as other comprehensive income, and are presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

The foreign currency cash flows and cash flows of a foreign subsidiary shall be translated at the rates of exchange ruling at the dates of the cash flows. The effect of changes in rates of exchange on cash and cash equivalents are presented separately in the cash flow statement.

8. Inventories

Inventories are initially recognized at cost, which comprises of purchase cost, processing cost, and other costs. Cost of delivered inventories is determined on weighted average basis. Turnover material includes lower priced and easily worn articles and packaging materials, which uses one-off method to amortize.

At each balance sheet date, inventories shall be measured at the lower of cost and net realizable value. If the cost is in excess of amounts expected to be realized from their sale or use, provision for inventories is recognized in the income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realizable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to the income statement.

Net realizable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on an individual basis for both raw materials and finished goods. Inventories that are relevant to the products produced and sold in the same area, with same or similar end use or purpose, and unable to measure separately from other items should be considered on category basis.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Long term equity investments

Long term equity investments consist of investments in subsidiaries, jointly-controlled entities, associates, and other equity investments which the Group cannot control the investees, or the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. Long term equity investments are initially recognized at initial investment cost on acquisition.

The cost method is applied for long term equity investments when the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. The cost method is applied for long term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the right to obtain variable return through participating relevant activities of investee, and have ability to utilize right on investee to affect return amount.

When the cost method is adopted, long term equity investments are recorded at initial investment cost. Profits or cash dividends declared to be distributed by the investee should be recognized as investment income in the current period, but such investment income is limited to proportionate distributions from accumulated profits after the date of acquisition. Also, it should consider whether there is impairment for the long term investment in accordance with the related asset provision policy.

The equity method is applied for long term equity investments when investees are jointly controlled or significantly influenced by the Group. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

When the equity method is adopted, the initial cost of investment that in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, by which the difference had been charged to the income statement.

When the equity method is adopted, the investor recognizes its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's result should base on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. And the gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, it should be entirely recognized). The recognition should base on the adjusted income statement of the investee. With respect to the long term equity investment in associates and jointly controlled entities acquired before the first time adoption date, the remaining equity investment difference arising from the amortization using the straight line method (if exists) should be recognized as investment income or loss. The investor's share of profits distribution or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognizes net losses incurred by the investee to the extent that the carrying amount of the investment and other substantially treated as equity interests to the investee is reduced to zero, except for which the investor has extra obligation to assume loss of it. For the changes of equity in investee other than net income statement, the investor adjusts carrying amount of investment to shareholders' equity.

When long term equity investment are being disposed of, the difference between the carrying amount and the actual proceeds received should be charged to the income statement. For long term equity investments under equity method, the amount recognized in the equity previously shall be transferred to the income statement upon its disposal.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

10. Fixed assets

Fixed assets are recognized in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met and the carrying amount of parts which had been replaced shall be derecognized; otherwise, is charged to the income statement.

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

Depreciation is provided on fixed assets using the straight-line method. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings and structures	20 year	5%	4.75%
Machine equipment	5-15 year	5%	6%-19.00%
Transportation vehicles and equipment	4-15 year	5%	6% - 23.75%
Other Equipment	3-10 year	5%	9.50% - 31.67%

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjusts if appropriate, at least at each balance sheet date.

11. Construction in progress

Construction in progress is recognized based on the actual construction expenditures incurred. It consists of all types of expenditure necessarily to be incurred, capitalized borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

12. Intangible assets

Intangible assets are recognized if and only if it is probably that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for intangible asset acquired in the business combination whose fair value can be reliably measured, it is separately recognized and measured at its fair value

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets with indefinite useful lives.

The useful lives of the Group's intangible assets are as follows:

	Useful life
Land use rights	50 years
Proprietary technology	2-10 years
Software	10 years

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

12. Intangible assets (continued)

The Group accounts for its land use rights as intangible assets. The land use rights are measured as intangible assets that are separate from internally generated buildings measured as fixed assets. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets.

Intangible assets with finite useful lives are amortized over the useful lives on the straight-line basis. The Group reviews the useful lives and amortization method of intangible assets with finite useful lives, and adjusts if appropriate, at least at each balance sheet date.

13. Research expenditures and development expenditures

The expenditures for internal research and development projects of the Group were classified into research expenditures and development expenditures. All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized 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 the ability to use or sell the asset, how the asset will generate future economic benefits including demonstrating the asset or products produced using the asset exist market or usefulness when used internally, the availability of technical, financial and other resources to complete the project and the ability to use or sale, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

14. Financial instruments

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

Recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset (either a part of financial asset or a part of a Group of similar financial assets) will be derecognized and written-off from its account and balance sheet when and only when:

(1) The contractual rights to the cash flows from the financial asset expire; or
(2) It transfers the contractual rights to receive the cash flows of the financial asset in a manner, or assumes a contractual obligation to pay the cash flows to one or more recipients in an "transfer arrangement" and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

A financial liability is derecognized when, and only when, the current obligation is discharged or cancelled or expired. If existing financial liabilities is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from that regarding the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognize the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognized in the income statement.

All regular way purchases and sales of financial assets are recognized 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

14. Financial instruments (continued)

Classification and measurement of financial assets

The Group classifies its financial assets into four categories when recognized initially, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value initially. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to the income statement; for other financial assets, the directly associated transaction costs are recognized as initial investment cost.

The subsequent measurement of financial assets depends on its classification:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss comprise of financial assets held for trading and those that are designated as at fair value through the income statement upon initial recognition. A financial asset is classified as held for trading if it is: acquired principally for the purpose of selling it in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial assets are measured under fair value method subsequently. All the realized and unrealized gains or losses are recognized in the income statement. Any dividends or interest earned on these financial assets should be recognized in income statement.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method. Gains or losses are recognized in the income statement when the held-to-maturity investments are derecognized, impaired, or amortized.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. Gains or losses are recognized in the income statement when the loans and receivables are derecognized, impaired, or amortized.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the abovementioned other categories of financial instruments. Such available-for-sale financial assets are measured at fair value in subsequent measurement. The premium or discount is amortized using the effective interest method, with interests recognized as interest income or expense. The fair value changes of available-for-sale financial assets are recognized as other comprehensive income in capital reserves except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognized or impaired, the accumulated gains or losses recognized in prior periods are transferred to the income statement. All dividends or interest income related to available-for-sale financial assets are recognized in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

14. Financial instruments (continued)

Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when recognized initially as: financial liabilities at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, its transaction costs are charged to the income statement; whereas other financial liabilities, its transaction cost are recognized as initial cost.

The subsequent measurement of financial liabilities depending on their classification:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss comprise of financial liabilities held for trading and those that are designated as fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is: incurred principally for the purpose of repurchasing in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial liabilities are measured under fair value method subsequently. All the realized and unrealized gains or losses are recognized in the income statement.

Other financial liabilities
Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Derivative financial instrument

The Group uses derivative financial instrument such as forward foreign currency contract hedging for foreign exchange risk. Derivative financial instrument is initially recorded at fair value of signed date of derivative trading contract and subsequently measured at fair value. The fair value of derivative financial instrument which is positive is recognized as an asset and which is negative is recognized as a liability. A derivative financial instrument that is linked to and must be settled by delivery of such unquoted equity instruments in an active market and whose fair value cannot be reliably measured, is recorded at cost.

Profit or loss of generated by fair value change are charged to the income statement, except the part of cash flow pledging which is effective is charged to other comprehensive income.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

14. Financial instruments (continued)

Impairment of financial assets

The Group assesses carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events: occurred after the initial recognition of the financial asset; impacted on the estimated future cash flows of the financial asset; such impacts can be reliably measured.

Financial assets carried at amortized cost
If 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 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).

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognized in the income statement when objective evidence of impairment exists. Assets that are individually insignificant, the Group includes the assets in a Group of financial assets with similar credit risk characteristics and collectively assess them for impairment. For assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, are included within a Group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized cannot be subject to a collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds when the amortized cost would have had the impairment not been recognized at the reversal date.

Available-for-sale financial assets
When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income due to decline in the fair value shall be removed and recognized in the income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortization, current fair value, and any impairment loss on that financial asset previously recognized in the income statement.

Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement. Increase in their fair value after impairment is recognized directly in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognized in the income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

14. Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at cost
If there is objective evidence that an impairment loss on the financial asset 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 discounted at the current market rate of return for a similar financial asset, and recognized in the income statement. Impairment losses on these assets are not reversed.

With respect to long term equity investments measured at cost method in accordance with CAS 2 "Long-term Equity Investments", for which the investments are not quoted in an active market and their fair values cannot be reliably measured, their impairment are assessed under the above mentioned principles.

Transfer of financial assets

The Group transfers substantially all the risks and rewards or control of the asset; it shall derecognize the financial assets, whereas, if it retains substantially all the risks and rewards or control of the asset, it should not derecognize the financial asset.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, it should follow the below treatment: if the control over the financial asset is lost, it should derecognize the financial asset and recognize the related assets and liabilities incurred. If the control over the financial asset has not been lost, the Group recognizes the financial asset to the extent of its continuing involvement of the financial asset and recognize an associated liability.

15. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including interests, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or productions of all qualifying assets are capitalized and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs commences when:
(1) Expenditures for the assets are being incurred;
(2) Borrowing costs are incurred;
(3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

The capitalization of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter treated as an expense.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

15. Borrowing costs (continued)

Within the capitalization period, the amounts of capitalized borrowing costs for each accounting period are determined by following methods:

(1) For the specific borrowings, the borrowing costs eligible for capitalization are the actual borrowing costs incurred during current period deducted by any temporary interest or investment income

(2) For the general borrowings, the borrowing costs eligible for capitalization are determined by applying a capitalization rate to the capital expenditure that accumulated capital expenditures exceed the specific borrowings.

Capitalization of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than three months, until the acquisition or construction is resumed. Borrowing cost incurred during the interruption period is treated as an expense, which is recognized in the income statement, until the activity of construction or productions of the fixed asset restarts.

16. Impairment of assets

The impairment of assets excluding inventories, deferred income taxes and financial assets shall be determined in accordance with the below methods:

The Company shall assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset for impairment test. Irrespective of whether there is any indication of impairment, an entity shall also test goodwill acquired in a business combination and an intangible asset with an indefinite useful life for impairment at least annually at each year-end.

The recoverable amount is to be determined as the higher of an asset's or cash-generating unit's fair value less costs to sell and the present value of anticipated future cash flows. Recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). An asset's cash-generating unit is the smallest Group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or Groups of assets.

An impairment loss is recognized if the carrying amount of assets or Group assets exceeds its recoverable amount. The Company writes off the carrying amount to recoverable amount. The difference is recorded in current income statement and resultant provision accrued.

If above-stated impairment losses are recognized, no reversal of such impairment losses is permitted.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

17. Accrued liability

Except for contingent considerations or contingent liabilities assumed under a business combination, a accrued liability is recognized if:

(1) the obligation is a present obligation assumed by the Group; and
(2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(3) a reliable estimate can be made of the amount of the obligation.

Estimated liabilities are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value, etc. Estimated liabilities shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

18. Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow into the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and the relevant amounts of costs can be measured reliably. The revenue from the sale of goods shall be determined by the amount received or receivable by the purchaser stipulated in the contract or agreement, unless the amount received or receivable stipulated in the contract or agreement is not at fair value. If the receivable method of the amount stated in the contract or agreement is made by deferred method and it contains the nature of financing, it should be determined by the fair value of the amount receivable as stated in the contract or agreement.

Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognized by reference to the percentage of completion method; otherwise, revenue is recognized only to the extent of the expenses recognized that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow into the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction. For the revenue from rendering of services, it is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value.

When the Group enters in to contract or agreement with other parties which contains both sales of goods and rending of services, if the portion of sale of goods and rendering of services can be separately measured, the portion of sale of goods and rendering of services are measured individually. If the portion of sale of goods and rendering of services cannot be separately measured or even if it could separately measured but cannot measured individually, it is deemed to be sales of goods.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

18. Revenue (continued)

Interest income

Interest income is recognized based on the time horizon of the use of the Group's cash by others and effective interest rate.

Lease income

Lease income from operating lease is recognized over the lease terms on the straight-line basis. Contingent lease income is recognized when it incurred.

19. Lease

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. Leases where substantially all the rewards and risks of ownership of assets remain with the lesser are accounted for as operating leases.

As lessee under operating leases
Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lesser are charged to relevant assets cost or the income statement on the straight-line basis over the lease terms. Contingent rentals are recognized in income statement when actually incurred.

As lesser under operating leases
Where the Company is the lesser, rentals income under operating leases net of any incentives received from the lesser are charged to the income statement on the straight-line basis over the lease terms. Contingent rentals are recognized in income statement when actually incurred.

20. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives a monetary grant, the asset and the grant are recorded at the amount received or receivable. Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary assets or a nominal amount when the fair value is not available. When the grant relates to an expense item, it is credited to a deferred income account and recognized as income over the periods necessary to match the grant on a systematic basis to the future costs or losses that it is intended to compensate. When the grant relates to the expenses or losses already incurred, it is directly recognized in income statement. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments. But for grants received relating to an asset with a nominal amount, it is directly recognized in income statement.

21. Employee benefits

Employee benefits are all forms of retains and compensations given by an entity in exchange for service by employees or termination of labor relationship. Employee benefits include short-term benefits, post-employment benefits, termination benefits and other long-term benefits. That the Group provides benefits to spouse, children, dependents of employees, survivors of the late employees and other beneficiary etc..

Post-employment benefit (defined contribution plans)

Expenditures for employees' pension insurance scheme managed by local government are capitalized in related assets or charged to the income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

21. Employee benefits (continued)

Post-employment benefit (defined benefit plans)

Except the above mentioned pension insurance, the Group provides external retirement benefits plans such as supplementary pension insurance. These plans include paying subsistence allowance to staff monthly after retirement, which the amount of subsidy is determined by staff's service time and related subsidy policies. All external retirement benefits plans are belonged to defined benefit plans.

That re-measurement caused by defined benefits retirement pension plans are immediately recognized in balance sheet, including actuarial profit and loss, fluctuation affected by assets upper limit (deduct the amount contained in interest net amount) and planed assets retains (deduct the amount contained in interest net amount), which records into shareholders' equity in incurred period through other comprehensive income and cannot be written back to profit and loss in subsequent period.

That the earlier date of amendment to defined benefit plans and recognition of relevant expense of recombination or termination benefit is recognized cost of past service as current expense.

The Group does not provide and pay any external benefits (including retirement salary, subsidy and medical etc.) to staff who is retired from 1 July 2007.

22. Income tax

Income tax comprises current tax and deferred tax, and is normally recognized as income or expense in the income statement, except to the extent that it arises from: tax adjustment goodwill arising from a business combination; tax arising from an item that has been recognized directly in equity, which recognized in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Based on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base; and the differences between the carrying amount of some items that have a tax base but are not recognized as assets and liabilities and its tax base, the Group adopts liability method for provision of deferred tax.

A deferred tax liability is recognized in respect of all taxable temporary differences except those arising from:

(1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
(2) as to temporary differences associated with subsidiaries, jointly controlled entities and associates, the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognized in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilized except those arising from the initial recognition of an asset or liability in a transaction which:

(1) is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
(2) as to deductible temporary differences associated with subsidiaries, jointly controlled entities and associates, a deferred tax asset is recognized to the extent that it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

22. Income tax (continued)

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, taking into account the income tax effect of expected asset realization or liability settlement at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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.

23. Safety expense

Safety expense extracted according to the policy is recorded into the cost of related products or recognized in the income statement and recorded into the special reserve. That whether it can be formed fixed assets or not when using it shall be treated respectively. If it belonged to expense expenditure, the special reserve can be directly decreased. If it can be formed fixed assets, fixed assets can be recognized when the asset is ready for its intended use after accumulating incurred the expenditure, and the equivalent special reserve can be decreased and the equivalent accumulated depreciation can be recognized.

24. Joint operation

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control

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

24. Significant accounting judgments and estimates

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

24. Significant accounting judgments and estimates (continued)

Judgments

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

Sale of goods
The management considers sales of new production are not classified as construction contracts, which is not applicable to percentage of completion method in accounting treatment. The reasons are as follows: 1) The buyer and builder of the Group's main products do not have ability to assign significant structural changes before building and during the building; 2) The Group will not rashly change matured main structural design, although after finishing implementation of digestion and absorb of imported technology and localization of component parts. For other products: 1) the Group provides common standards and already-designed products for buyers, which the buyers can only choose from assigned series of design programs and be limited by established design of chosen products; 2) the buyer can only claim subtle changes on the basis of fundamental design but not the mainly structural changes; 3) the buyers are difficult to make significant changes for established design of the products, which is limited to factors of engineering, technology, design ability and the products that must comply with strictly mandatory national safety standards. So, the Group considers sale of above products as revenue from sale of goods.

Estimation uncertainty

Except the uncertainty of significant accounting policies mentioned above, the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Liabilities of supplementary pension benefit and other external benefit plans
Supplementary pension plan and other external benefit plans have been recognized as a liability by the Group. The estimated amount of the benefit plans' expenses and liabilities shall be calculated and paid by various assumptions, including discount rate, growth rate of related period benefit expense and other factors. Deviation between actuarial assumptions and real actual results will affect accuracy of accounting estimates. Any change of assumptions will affect amount of accrued liability of related supplementary pension insurance and other external benefit plans, although the management considers the assumptions above are reasonable.

Research expenditures and development expenditures
When determining the amount of capitalization, the management must make assumptions of estimated future cash flow related to assets, appropriate discount rate and estimated beneficial period.

Product warranties
The Group accrues product warranties of current year for sales of products that have warranty duty according to accrued liability accounting policy, which warranty expense occurred in previous years accounting for the proportion of current income and actual average warranty period translate into warranty money rate. The Group writes down provision of retention money when related warranty expenses actually occurred. That the difference between current estimate and results of re-estimated will affect amount of accrued liability of changed period of estimate.

Deferred tax assets
Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with tax planning strategies.

IV. TAX

The major taxes and rates for the Company during the year are as below:

Value-added tax	17% of taxable income of general taxpayer as output tax, less input tax that is deductible in current year; exporting business follow "Exemption, Set Off and Refund Method"
Business tax	Payable based on 5% of the taxable income.
City construction and maintenance tax	Payable based on 7% of the actual payment of turnover tax to be paid.
Income tax	On 6 September 2012, the Company got the certificate of high technology enterprises jointly awarded by Science and Technology Bureau, Financial Bureau, State Taxation Administration and Local Taxation Authorities of Qingdao. The certificate NO. is GF201337100081 and period of validity is three years. According to relevant provisions of *the Law of the People's Republic of China on Enterprise Income Tax*: high technology enterprises shall be subject to corporate income tax at the rate of 15%. Domestic subsidiaries of the Company shall be subject to corporate income tax at the rate of 25%. Overseas subsidiaries of the Company shall be subject to corporate taxable income and applicable tax rate.

V. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

The details of subsidiaries are as follows:

Corporate name	Place of registration	Business nature	Registered capital	Percentage of equity Direct	Indirect	Percentage of voting right
CSR (Tianjin) Subway Rolling Stock Co., Ltd.	Tianjin	Manufacturing	300,000,000.00	100%	-	100%
Wuhan CSR Sifang Reparement & Maintenance Center Co., Ltd.	Wuhan	Manufacturing	50,000,000.00	100%	-	100%
CSR America Incorporated	U.S.A	Service	US$2,000,000.00	100%	-	100%
Chengdu CSR Railway Vehicle Co., Ltd.	Chengdu	Manufacturing	222,630,000.00	51%	-	51%
Qingdao CSR Distribution & Service Co., Ltd.	Qingdao	Trading	50,000,000.00	100%	-	100%

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	2013	2012
Cash on hand	206,525.77	95,961.61
Bank deposit	2,364,596,586.62	1,715,321,582.00
Others	46,934,000.00	50,976,570.00
Total	2,411,737,112.39	1,766,394,113.61

As at 31 December 2013, the ownership of the Group's cash and bank balances amounting to RMB46,934,000.00 have been restricted (31 December 2012: RMB50,976,570.00), see Note VI.14.

2. Bills receivable

	2013	2012
Bank acceptance bills	4,896,800.84	-
Commercial acceptance bills	509,521,600.00	210,500,000.00
	514,418,400.84	210,500,000.00

As at 31 December 2013 and 31 December 2012, no bills receivable of the Group are restricted.

3. Trade receivables

The Group's trade receivables were interest-free with normal credit terms of 180 days.

The ageing of trade receivables is analyzed below:

	2013	2012
Within one year	8,430,737,944.99	4,715,520,030.60
One to two years	64,032,012.99	492,725,885.56
Two to three years	68,721,686.66	18,283,318.49
Over three years	479,669.98	60,727,809.55
	8,563,971,314.62	5,287,257,044.20
Less: Provisions for bad debts	44,349,381.26	134,032,719.33
Total	8,519,621,933.36	5,153,224,324.87

The movement of provision for bad debts against trade receivables is disclosed below:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
2013	134,032,719.33	52,838,277.46	142,521,615.53	-	44,349,381.26
2012	55,033,035.52	79,962,022.41	-	962,338.60	134,032,719.33

As at 31 December 2013 and 31 December 2012, no trade receivables' ownership of the Group are restricted, see Note VI.14.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Prepayments

The ageing of prepayments is analyzed below:

	2013	2012
Within one year	230,441,746.66	26,621,204.48
One to two years	563.17	5,778,905.31
Total	230,442,309.83	32,400,109.79

5. Other receivables

The ageing of other receivables is analyzed below:

	2013	2012
Within one year	3,509,226,450.18	3,176,692,904.15
One to two years	1,434,636.75	7,655,677.68
Two to three years	7,111,484.20	4,479,762.07
Three years to four years	3,669,985.04	-
	3,521,442,556.17	3,188,828,343.90
Less: Provisions for bad debts	3,578,380.32	3,388,232.70
Total	3,517,864,175.85	3,185,440,111.20

The movement of provision for bad debts against other receivables is disclosed below:

	Opening balance	Increase during the year	Closing balance
2013	3,388,232.70	190,147.62	3,578,380.32
2012	217,200.00	3,171,032.70	3,388,232.70

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Inventories

	2013	2012
Raw materials	1,819,284,475.07	2,098,006,350.47
Work in progress	1,298,058,715.75	2,930,328,173.98
Finished goods	42,003,188.74	36,523,839.27
Goods in transit	170,819,234.30	211,124,247.35
	3,330,165,613.86	5,275,982,611.07
Less: Provisions for bad debts	111,643,377.79	90,876,747.08
Total	3,218,522,236.07	5,185,105,863.99

The movement of provision for inventories is disclosed below:

2013

	Opening balance	Increase during the year	Write-back	Closing balance
Raw materials	85,178,310.57	86,786,799.06	75,747,133.16	96,217,976.47
Work in progress	208,490.12	12,235,736.93	208,490.12	12,235,736.93
Finished goods	2,179,700.52	888,551.37	2,179,700.52	888,551.37
Goods in transit	3,310,245.87	2,301,113.02	3,310,245.87	2,301,113.02
	90,876,747.08	102,212,200.38	81,445,569.67	111,643,377.79

2012

	Opening balance	Increase during the year	Write-back	Closing balance
Raw materials	35,365,721.58	49,812,588.99	-	85,178,310.57
Work in progress	208,490.12	-	-	208,490.12
Finished goods	261,385.50	1,918,315.02	-	2,179,700.52
Goods in transit	3,299,302.69	169,672.67	158,729.49	3,310,245.87
	39,134,899.89	51,900,576.68	158,729.49	90,876,747.08

As at 31 December 2013 and 31 December 2012, no inventory's ownership of the Group is restricted.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other current assets

	2013	2012
Value-added tax retained	2,491,440.24	338,351,416.69
Prepaid income tax	781,815.84	-
	3,273,256.08	338,351,416.69

8. Long term equity investments

	2013	2012
Equity method		
Joint ventures		
Guangzhou CSR Sifang Rail Transit Equipment Co., Ltd.	2,614,708.00	-
Associates		
Qingdao Sifang Kawasaki Rolling Technology Co., Ltd.	7,220,008.90	7,098,042.69
Cost method		
Beijing CSR Huasheng Chuangye Investment Fund	12,000,000.00	6,000,000.00
	21,834,716.90	13,098,042.69

Joint ventures' and Associates' major financial information:

	Registered Address	Business Nature	Registered Capital	Percentage of equity	Percentage of voting right
Joint ventures					
Guangzhou CSR Sifang Rail Transit Equipment Co., Ltd.	Guangzhou	Trading	5,020,000.00	50.00%	50.00%
Associates					
Qingdao Sifang Kawasaki Rolling Technology Co., Ltd.	Qingdao	Manufacturing	11,587,100.00	39.00%	39.00%

	Closing balance of assets	Closing balance of liabilities	Revenue during the year	Net profit during the year
Joint ventures				
Guangzhou CSR Sifang Rail Transit Equipment Co., Ltd.	50,559,998.58	45,330,582.58	38,489,592.35	2,094,160.04
Associates				
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.	20,744,836.40	2,231,993.07	15,113,400.40	312,733.86

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Fixed assets

2013

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Other equipment	Total
Cost:					
At 1 January 2013	1,842,082,651.45	2,587,088,721.12	17,275,165.82	177,914,097.65	4,624,360,636.04
Purchase	117,256.40	-	-	176,841.87	294,098.27
Transfer from construction in progress	167,280,291.06	127,900,012.69	356,929.68	37,148,359.77	332,685,593.20
Reclassification	1,298,762.07	-	-	(1,298,762.07)	-
Disposal	-	(37,809,046.99)	(91,308.13)	(5,989,408.42)	(43,889,763.54)
At 31 December 2013	2,010,778,960.98	2,677,179,686.82	17,540,787.37	207,951,128.80	4,913,450,563.97
Accumulated depreciation:					
At 1 January 2013	302,934,254.40	908,114,554.56	12,428,343.60	86,013,025.16	1,309,490,177.72
Provided during the year	98,634,960.33	255,762,255.79	1,530,188.60	38,596,228.81	394,523,633.53
Write-off	-	(34,763,520.17)	(90,395.05)	(5,824,516.47)	(40,678,431.69)
At 31 December 2013	401,569,214.73	1,129,113,290.18	13,868,137.15	118,784,737.50	1,663,335,379.56
Net carrying amount:					
At 31 December 2013	1,609,209,746.25	1,548,066,396.64	3,672,650.22	89,166,391.30	3,250,115,184.41
At 1 January 2013	1,539,148,397.05	1,678,974,166.56	4,846,822.22	91,901,072.49	3,314,870,458.32

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Fixed assets (continued)

2012

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Other equipment	Total
Cost:					
At 1 January 2012	1,821,843,357.98	2,261,995,914.61	17,522,900.00	123,073,558.93	4,224,435,731.52
Purchase	-	-	-	186,199.99	186,199.99
Transfer from construction in progress	25,457,836.85	346,138,271.78	788,082.22	66,526,067.19	438,910,258.04
Disposal	(5,218,543.38)	(21,045,465.27)	(1,035,816.40)	(11,871,728.46)	(39,171,553.51)
At 31 December 2012	1,842,082,651.45	2,587,088,721.12	17,275,165.82	177,914,097.65	4,624,360,636.04
Accumulated depreciation:					
At 1 January 2012	230,049,884.40	665,335,087.60	11,543,243.14	57,523,032.80	964,451,247.94
Provided during the year	74,549,542.03	262,307,185.40	1,891,230.10	40,075,073.73	378,823,031.26
Write-off	(1,665,172.03)	(19,527,718.44)	(1,006,129.64)	(11,585,081.37)	(33,784,101.48)
At 31 December 2012	302,934,254.40	908,114,554.56	12,428,343.60	86,013,025.16	1,309,490,177.72
Net carrying amount:					
At 31 December 2012	1,539,148,397.05	1,678,974,166.56	4,846,822.22	91,901,072.49	3,314,870,458.32
At 1 January 2012	1,591,793,473.58	1,596,660,827.01	5,979,656.86	65,550,526.13	3,259,984,483.58

Preparing for disposal of fixed assets are as follows:

	Carrying value	Fare value	Estimated disposal expense	Estimated disposal date
At 31 December 2013	2,377,123.03	4,700,400.00	-	March 2014
At 31 December 2012	33,628.34	211,000.00	-	February 2013

The carrying value of the fixed assets under operating lease are as follows:

	Buildings and structures	Plant machinery and equipment	Total
At 31 December 2013	7,519,302.75	78,455.95	7,597,758.70
At 31 December 2012	7,995,503.29	78,455.95	8,073,959.24

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Construction in progress

2013

	Opening balance	Increase during the year	Decrease during the year: Transferred to fixed assets	Decrease during the year: Transferred to intangible assets	Closing balance
High-speed train production project	32,088,025.85	23,820,548.58	52,962,956.24	-	2,945,618.19
High-speed train repair project	11,321,924.70	14,477,667.55	25,799,592.25	-	-
Urban rail transit production project	83,387,690.15	65,073,772.78	137,960,505.77	-	10,500,957.16
Other projects	50,520,409.45	100,352,436.75	115,962,538.94	18,044,393.12	16,865,914.14
At 31 December 2013	177,318,050.15	203,724,425.66	332,685,593.20	18,044,393.12	30,312,489.49

2012

	Opening balance	Increase during the year	Decrease during the year: Transferred to fixed assets	Decrease during the year: Transferred to intangible assets	Closing balance
High-speed train production project	252,706,223.22	4,688,977.22	225,307,174.59	-	32,088,025.85
High-speed train repair project	4,249,717.64	13,589,442.68	6,517,235.62	-	11,321,924.70
Urban rail transit production project	2,351,738.89	82,494,410.04	972,947.28	485,511.50	83,387,690.15
Other projects	93,679,585.36	162,953,724.64	206,112,900.55	-	50,520,409.45
At 31 December 2012	352,987,265.11	263,726,554.58	438,910,258.04	485,511.50	177,318,050.15

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Intangible assets

2013

	Land use rights	Software	Proprietary technology	Total
Cost:				
At 1 January 2013	613,202,519.12	101,081,718.28	14,294,901.65	728,579,139.05
Purchase	-	11,312,982.03	810,287.18	12,123,269.21
Transfer from construction in progress	-	18,044,393.12	-	18,044,393.12
Decrease during the year	-	3,225,393.19	-	3,225,393.19
At 31 December 2013	613,202,519.12	127,213,700.24	15,105,188.83	755,521,408.19
Accumulated amortization:				
At 1 January 2013	43,549,444.66	22,930,826.06	4,727,788.95	71,208,059.67
Provided during the year	12,997,886.89	11,286,220.65	1,054,922.91	25,339,030.45
Write off during the year	-	2,946,362.58	-	2,946,362.58
At 31 December 2013	56,547,331.55	31,270,684.13	5,782,711.86	93,600,727.54
Net carrying amount				
At 31 December 2013	556,655,187.57	95,943,016.11	9,322,476.97	661,920,680.65
At 1 January 2013	569,653,074.46	78,150,892.22	9,567,112.70	657,371,079.38

2012

	Land use rights	Software	Proprietary technology	Total
Cost:				
At 1 January 2012	552,141,069.12	70,195,990.99	13,674,337.88	636,011,397.99
Purchase	61,061,450.00	30,400,215.79	620,563.77	92,082,229.56
Transfer from construction in progress	-	485,511.50	-	485,511.50
At 31 December 2012	613,202,519.12	101,081,718.28	14,294,901.65	728,579,139.05
Accumulated amortization:				
At 1 January 2012	31,263,941.32	15,323,555.54	2,571,517.43	49,159,014.29
Provided during the year	12,285,503.34	7,607,270.52	2,156,271.52	22,049,045.38
At 31 December 2012	43,549,444.66	22,930,826.06	4,727,788.95	71,208,059.67
Net carrying amount				
At 31 December 2012	569,653,074.46	78,150,892.22	9,567,112.70	657,371,079.38
At 1 January 2012	520,877,127.80	54,872,435.45	11,102,820.45	586,852,383.70

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Deferred tax assets

Recognized deferred tax assets:

	2013	2012
Provisions of product warranties	49,388,986.26	39,072,202.27
Provisions of technology licensing usage fees	28,324,994.18	17,259,797.55
Accrued expenses	21,194,827.10	13,467,083.45
Government grants	3,104,743.52	4,047,894.61
Others	4,189,619.10	3,483,069.11
Total	106,203,170.16	77,330,046.99

The Group has recognized the deferred tax assets related to the above deductible temporary differences, because it is highly probable that future taxable profit will be available to be utilized.

13. Assets impairment provisions

2013

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Provisions for bad debts	137,420,952.03	53,028,425.08	142,521,615.53	-	47,927,761.58
Provisions for inventories	90,876,747.08	102,212,200.38	81,445,569.67	-	111,643,377.79
	228,297,699.11	155,240,625.46	223,967,185.20	-	159,571,139.37

2012

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Provisions for bad debts	55,250,235.52	83,133,055.11	-	962,338.60	137,420,952.03
Provisions for inventories	39,134,899.89	51,900,576.68	158,729.49	-	90,876,747.08
	94,385,135.41	135,033,631.79	158,729.49	962,338.60	228,297,699.11

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Restricted ownership of assets

2013

	Opening balance	Decrease during the year	Closing balance	Note
Pledged assets				
Cash and bank balances	50,976,570.00	4,042,570.00	46,934,000.00	Note I

2012

	Opening balance	Decrease during the year	Closing balance	Note
Pledged assets				
Cash and bank balances	113,079,217.99	62,102,647.99	50,976,570.00	Note I
Trade receivables	200,000,000.00	200,000,000.00	-	
	313,079,217.99	262,102,647.99	50,976,570.00	

Note I: Pledged cash and bank balances were as follows:

	2013	2012
Guarantee deposit	46,934,000.00	50,976,570.00

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Payroll and benefits payable

2013

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	11,380,622.08	939,810,111.41	929,866,441.16	21,324,292.33
Employee welfare	-	62,007,182.60	62,007,182.60	-
Social insurance	3,431.72	277,102,090.66	277,093,698.28	11,824.102
Include: 1. Medical insurance	799.00	80,135,658.17	80,133,473.17	2,984.00
2. Pension insurance	1,840.00	141,674,412.69	141,668,792.69	7,460.00
3. Annuity	-	32,994,867.49	32,994,867.49	-
4. Unemployment insurance	184.01	7,952,922.47	7,952,360.48	746.00
5. Work-related injury insurance	92.00	7,772,703.52	7,772,422.52	373.00
6. Maternity insurance	516.71	6,571,526.32	6,571,781.93	261.10
Housing fund	-	111,039,861.29	111,037,958.29	1,903.00
Labour union fee and employee education fee	124,285.84	35,117,524.66	34,772,236.86	469,573.64
Others	1,500,000.00	920,000.00	1,500,000.00	920,000.00
Total	13,008,339.64	1,425,996,770.62	1,416,277,517.19	22,727,593.07

2012

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	-	949,883,815.37	938,503,193.29	11,380,622.08
Employee welfare	-	59,788,090.05	59,788,090.05	-
Social insurance	1,752.65	276,126,463.68	276,124,784.61	3,431.72
Include: 1. Medical insurance	-	79,261,185.57	79,260,386.57	799.00
2. Pension insurance	-	137,444,381.65	137,442,541.65	1,840.00
3. Annuity	-	32,425,557.25	32,425,557.25	-
4. Unemployment insurance	494.42	13,277,991.71	13,278,302.12	184.01
5. Work-related injury insurance	-	7,444,462.38	7,444,370.38	92.00
6. Maternity insurance	1,258.23	6,272,885.12	6,273,626.64	516.71
Housing fund	-	98,238,773.00	98,238,773.00	-
Labour union fee and employee education fee	199,763.61	33,501,664.46	33,577,142.23	124,285.84
Others	1,920,000.00	2,169,207.31	2,589,207.31	1,500,000.00
Total	2,121,516.26	1,419,708,013.87	1,408,821,190.49	13,008,339.64

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Taxes payable

	2013	2012
Value added tax	181,683,671.60	3,673,001.67
Corporate income tax	69,203,234.68	22,986,099.91
Business tax	-	474,848.59
Property tax	3,770,573.60	3,668,004.20
Individual income tax	13,302,299.13	11,322,222.16
City construction and maintenance tax	11,866,244.21	755,055.17
Educational surtax and surcharge	8,553,083.50	539,325.13
Land use tax	2,009,559.75	2,009,595.75
Stamp duty	11,984,640.45	3,737,843.18
Local water conservancy construction funds	1,648,549.06	97,281.40
Total	304,021,855.99	49,263,277.16

17. Dividends payable

	2013	2012
Qingdao Ultimate Corporation Limited	11,232,000.00	12,480,000.00
China Railway Materials Company Limited	7,020,000.00	7,800,000.00
Guangzhou Zhongche Railway Sales & Leasing Co. Ltd	2,808,000.00	3,120,000.00
Fujian Ocean Eagle Economy & Trade Co. Ltd	2,246,400.00	2,496,000.00
Southwest Jiaotong University	280,800.00	312,000.00
China Railway Science & Technology Development Company	84,240.00	93,600.00
Total	23,671,440.00	26,301,600.00

18. Non-current liabilities due within one year

	2013	2012
Accrued liabilities due within one year	170,333,910.71	228,710,091.26
Deferred income due within one year	60,932,030.90	120,689,375.77
Total	231,265,941.61	349,399,467.03

As at 31 December 2013, deferred income due within one year was government grants, please refer to Note VI.33 for details; accrued liabilities due within one year, please refer to Note VI.20 for details.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Long term loans

	2013	2012
Guaranteed loans	7,999,013.91	8,246,453.43

20. Accrued liabilities

	2013	2012
Accrued expenditures of high-speed train	31,574,707.63	63,149,707.63
Product warranties	329,259,908.40	260,481,348.45
	360,834,616.03	323,631,056.08
Less: Accrued liabilities due within one year	170,333,910.71	228,710,091.26
	190,500,705.32	94,920,964.82

The movement of accrued liabilities is disclosed as below:

2013	Opening balance	Increase during the year	Decrease during the year	Closing balance
Accrued expenditures of high-speed train	63,149,707.63	-	31,575,000.00	31,574,707.63
Product warranties	260,481,348.45	307,297,430.58	238,518,870.63	329,259,908.40
Total	323,631,056.08	307,297,430.58	270,093,870.63	360,834,616.03

2012	Opening balance	Increase during the year	Decrease during the year	Closing balance
Accrued expenditures of high-speed train	98,670,000.00	-	35,520,292.37	63,149,707.63
Product warranties	209,730,745.62	277,014,702.55	226,264,099.72	260,481,348.45
Total	308,400,745.62	277,014,702.55	261,784,392.09	323,631,056.08

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Other non-current liabilities

	2013	2012
Deferred income (Note 1)	282,176,214.42	238,926,180.28
Actuarial welfare (Note 2)	1,890,000.00	3,020,792.69
	284,066,214.42	241,946,972.97

Note 1: As at 31 December 2013, deferred income related to government grants, please refer to note VI.33 for details.

Note 2: The Group provides external retirement benefits plans such as supplementary pension insurance. These plans include paying subsistence allowance to staff monthly after retirement, which the amount of subsidy is determined by staff's service time and related subsidy policies. All external retirement benefits plans are belonged to defined benefit plans.

The movements in the present value of defined benefit plans are as follows:

At 1 January 2013	4,520,792.69
Interest cost recognised in administrative expenses	328,072.31
Re-measurement on other comprehensive income	(290,000.00)
Amount paid	(1,748,865.00)
At 31 December 2013	2,810,000.00
Less: Current portion due within one year (containing in Payroll and benefits payable)	920,000.00
Non-current portion at 31 December 2013	1,890,000.00

22. Share capital

The Company's share capital is RMB4,003,794,051.00.

	2013		2012	
	Carrying balance	Percentage	Carrying balance	Percentage
CSR Corporation Limited	3,916,122,051.00	97.81%	3,916,122,051.00	97.81%
Qingdao Ultimate Corporation Limited	41,600,000.00	1.04%	41,600,000.00	1.04%
China Railway Materials Company Limited	26,000,000.00	0.65%	26,000,000.00	0.65%
Guangzhou Zhongche Railway Sales & Leasing Co. Ltd	10,400,000.00	0.25%	10,400,000.00	0.25%
Fujian Ocean Eagle Economy & Trade Co. Ltd	8,320,000.00	0.21%	8,320,000.00	0.21%
Southwest Jiaotong University	1,040,000.00	0.03%	1,040,000.00	0.03%
China Railway Science & Technology Development Company	312,000.00	0.01%	312,000.00	0.01%
Total	4,003,794,051.00	100.00%	4,003,794,051.00	100.00%

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Capital reserve

2013	Share premium	Share-based payment	others	total
Opening balance	676,663,789.00	5,984,111.19	1,320,000.00	683,967,900.19
Increase during the year	-	-	3,921,200.00	3,921,200.00
Write back during the year	-	(908,091.76)	-	(908,091.76)
Closing balance	676,663,789.00	5,076,019.43	5,241,200.00	686,981,008.43

2012	Share premium	Share-based payment	others	total
Opening balance	351,933,820.00	1,106,315.56	1,320,000.00	354,360,135.56
Increase during the year	324,729,969.00	4,877,795.63	-	329,607,764.63
Closing balance	676,663,789.00	5,984,111.19	1,320,000.00	683,967,900.19

24. Surplus reserves

2013	Opening balance	Increase during the year	Closing balance
Statutory surplus reserves	498,249,177.59	142,965,708.50	641,214,886.09
Discretionary surplus reserve	230,021,762.12	105,693,325.37	335,715,087.49
Total	728,270,939.71	248,659,033.87	976,929,973.58

2012	Opening balance	Increase during the year	Closing balance
Statutory surplus reserves	337,636,637.09	160,612,540.50	498,249,177.59
Discretionary surplus reserve	149,715,491.87	80,306,270.25	230,021,762.12
Total	487,352,128.96	240,918,810.75	728,270,939.71

In accordance with the Company Law of the PRC and the articles of association, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company.

The Company is authorized to allocate discretionary surplus reserve from profit after tax after the allocation of statutory surplus reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Retained earnings

	2013	2012
Retained earnings at beginning of year	167,056,386.54	88,327,490.20
Net profit attributable to equity holders of the parent	1,435,528,012.97	1,608,557,862.15
Less: Transfer to statutory surplus reserves	142,965,708.50	160,612,540.50
Transfer to discretionary surplus reserve	105,693,325.37	80,306,270.25
Cash dividend payable	1,209,025,689.58	1,288,910,155.06
Others	(40,150.48)	-
Retained earnings at end of year	144,939,826.54	167,056,386.54

In accordance with the resolution passed at the 2012 annual shareholder general meeting held on 28 June 2013, the cash dividend distribution proposal was RMB0.03197 per share and a total amount of RMB128,001,295.81 paid to shareholders. With the 2013 dividend plan proposal approved by the fifth meeting of the third board of directors held on 30 December 2013, the cash dividend distribution was RMB 0.27 per share and a total amount of RMB1,081,024,393.77. In 2013, the actual cash dividend paid by the Company amounted to RMB1,209,025,689.58.

26. Revenue

Revenue is stated as follows:

	2013	2012
Principal operating income	21,583,367,771.35	24,000,678,295.55
Other operating income	47,108,414.06	50,272,717.05
Total	21,630,476,185.41	24,050,951,012.60

	2013	2012
Sale of goods	18,011,484,641.02	22,551,939,966.94
Rendering of services	3,572,644,332.81	1,472,232,259.96
Lease income	2,821,211.80	900,338.96
Others	43,525,999.78	25,878,446.74
Total	21,630,476,185.41	24,050,951,012.60

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Financial expenses

	2013	2012
Interest expenses	104,193.66	58,453,931.31
Less: Interest income	87,262,331.22	67,603,177.47
Foreign exchange gain	(33,051,127.38)	(17,344,580.96)
Others	4,047,832.78	(4,488,708.23)
Total	(116,161,432.16)	(30,982,535.35)

28. Assets impairment loss

	2013	2012
Provision for bad debts	(89,493,190.45)	83,133,055.11
Provision for inventories	20,766,630.71	51,741,847.19
Total	(68,726,559.74)	134,874,902.30

29. Investment income/ (loss)

	2013	2012
Investment income/ (loss) of jointly-controlled entities and associates under the equity method	1,169,046.23	(646,440.68)

30. Non-operating income

	2013	2012
Government grants	122,631,741.86	54,551,515.75
Import discount interest	6,865,700.00	3,313,100.00
Gains on disposal of fixed assets	1,449,507.79	1,968,910.86
Others	174,631.31	560,048.69
Total	131,121,580.96	60,393,575.30

Please refer to note VI.33 for details of government grants.

31. Non-operating expenses

	2013	2012
Loss on disposal of non-current assets	796,848.06	4,200,551.26
Public relief donation	59,400.00	350,000.00
Expenditure of penalty, compensation and fine	6,250.95	2,050.00
Others	140,495.82	556,093.39
Total	1,002,994.83	5,108,694.65

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Income tax expenses

	2013	2012
Current income tax expense	289,191,202.09	283,968,707.83
Deferred income tax expense	(28,873,123.17)	1,870,206.65
Total	260,318,078.92	285,838,914.48
Relationship between income tax and profit before tax:		
Profit before tax	1,696,911,661.82	1,892,133,553.25
Tax at the statutory tax rate	424,227,915.46	473,033,388.31
Effect of tax privilege	(140,811,761.27)	(179,703,250.54)
Profits and losses attributable to jointly-controlled entities and associates	(292,261.56)	161,610.17
Expenses not deductible for tax	22,856,906.01	40,135,899.52
Others (note)	(45,662,719.72)	(47,788,732.98)
Tax charge at the Group's effective rate	260,318,078.92	285,838,914.48

Note: Others were effect of additional deduction to research and development expenses that the Group developed new technology, new products and new techniques.

33. Government grants

	2013	2012
Government grants related to assets	211,409,450.64	203,689,592.96
Government grants related to income	131,698,794.68	155,925,963.09
Total	343,108,245.32	359,615,556.05
Among:		
Deferred income due within one year	60,932,030.90	120,689,375.77
Deferred income due over one year	282,176,214.42	238,926,180.28

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Government grants (continued)

Movement details during the 2013 are as follows:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Credited to profit and loss	Paid to project partner	
Government grants related to assets:					
Appropriation of state key laboratory by the Ministry of Finance	13,456,249.98	-	1,425,000.00	-	12,031,249.98
High-speed train localization project	13,529,714.10	-	4,862,673.96	-	8,667,040.14
High-speed train information system of R&D and manufacture	2,631,847.15	-	2,327,499.96	-	304,347.19
High-speed train subsidy of industrialization technological transformation	20,423,313.10	-	2,373,133.80	-	18,050,179.30
Appropriation of three funds of technology by Science and Technology bureau of Chengyang District	33,148,525.68	-	3,322,477.94	-	29,826,047.74
Appropriation of three funds of technology by Science and Technology bureau of Chengyang District-Hollow shaft	45,034,684.80	-	4,832,402.57	-	40,202,282.23
Subsidies of ten services by Beichen district, Tianjin government	75,054,320.64	-	1,563,631.68	-	73,490,688.96
Appropriation of technology development subsidies by Chengyang District	-	24,600,000.00	-	-	24,600,000.00
Others	410,937.51	5,391,600.00	1,564,922.41	-	4,237,615.10
Government grants related to income:					
Common base and system integration subject	59,341,941.05	-	22,454,540.70	1,000,000.00	35,887,400.35
High-speed train key technology of pedigree of module Construction and integrated design for China State 863 projects	19,960,219.00	29,000,000.00	1,942,100.01	10,717,820.00	36,300,298.99
High-cold train key technical research	10,220,854.69	-	10,220,854.69	-	-
Official high-speed train key technical research	9,166,845.07	-	3,482,113.21	-	5,684,731.86
High-speed train integrated platform construction of design and manufacture and typical models development for State 863 projects	8,420,000.00	7,800,000.00	56,455.20	-	16,163,544.80
High-speed bogie subject	6,625,455.20	-	497,689.59	-	6,127,765.61
High-speed train reliability of key materials and components subject	4,105,864.88	-	3,105,156.57	-	1,000,708.31
High-speed body technology subject	8,557,185.30	-	4,256,041.18	-	4,301,144.12
Traction drive system of high-speed train based on permanent magnet motor for State 863 projects	7,257,101.30	5,000,000.00	2,305,979.42	4,455,000.00	5,496,121.88
Key technical research and prototype development for intelligent high-speed train	5,354,000.00	2,750,000.00	7,242,561.91	-	861,438.09
Key technical research of bogie and equipment development for higher-speed train	6,920,000.00	-	164,877.25	1,200,000.00	5,555,122.75
Development for 350 km/h high speed train	-	10,100,000.00	10,100,000.00	-	-
Development for higher-speed test train	-	28,660,000.00	28,660,000.00	-	-
Local government award	3,202,653.28	278,000.00	70,218.00	-	3,410,435.28
Others	6,793,843.32	10,728,901.13	5,801,411.81	811,250.00	10,910,082.64
	359,615,556.05	124,308,501.13	122,631,741.86	18,184,070.00	343,108,245.32

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Government grants (continued)

Movement details during the 2012 are as follows:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Credited to profit and loss	Paid to project partner	
Government grants related to assets:					
Appropriation of state key laboratory by the Ministry of Finance	14,881,249.98	-	1,425,000.00	-	13,456,249.98
High-speed train localization project	18,392,388.06	-	4,862,673.96	-	13,529,714.10
High-speed train information system of R&D and manufacture	6,805,543.11	-	4,173,695.96	-	2,631,847.15
High-speed train subsidy of industrialization technological transformation	24,480,860.90	-	4,057,547.80	-	20,423,313.10
Appropriation of three funds of technology by Science and Technology bureau of Chengyang District	35,557,200.00	-	2,408,674.32	-	33,148,525.68
Appropriation of three funds of technology by Science and Technology bureau of Chengyang District-Hollow shaft	50,570,097.35	-	5,535,412.55	-	45,034,684.80
Subsidies of ten services by Beichen district, Tianjin government	76,617,952.32	-	1,563,631.68	-	75,054,320.64
Others	-	500,000.00	89,062.49	-	410,937.51
Government grants related to income:					
Common base and system integration subject	70,306,843.41	12,200,000.00	12,637,902.36	10,527,000.00	59,341,941.05
High-speed train key technology of pedigree of module Construction and integrated design for China State 863 projects	-	34,100,000.00	1,204,481.00	12,935,300.00	19,960,219.00
High-speed train key technical research	-	12,570,000.00	2,349,145.31	-	10,220,854.69
Official high-speed train key technical research	-	12,000,000.00	2,833,154.93	-	9,166,845.07
High-speed train integrated platform construction of design and manufacture and typical models development for State 863 projects	-	8,420,000.00	-	-	8,420,000.00
High-speed bogie subject	6,285,062.89	1,220,000.00	879,607.69	-	6,625,455.20
High-speed train reliability of key materials and components subject	4,953,283.88	2,130,000.00	793,719.00	2,183,700.00	4,105,864.88
High-speed body technology subject	10,362,645.09	559,500.00	2,364,959.79	-	8,557,185.30
Traction drive system of high-speed train based on permanent magnet motor for State 863 projects	6,926,834.50	17,000,000.00	2,079,733.20	14,590,000.00	7,257,101.30
Key technical research and prototype development for intelligent high-speed train	3,900,000.00	2,850,000.00	1,396,000.00	-	5,354,000.00
Key technical research of bogie and equipment development for higher-speed train	7,000,000.00	3,000,000.00	280,000.00	2,800,000.00	6,920,000.00
Local government award	3,040,000.00	940,000.00	777,346.72	-	3,202,653.28
Others	8,171,710.31	1,757,400.00	2,839,766.99	295,500.00	6,793,843.32
	348,251,671.80	109,246,900.00	54,551,515.75	43,331,500.00	359,615,556.05

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Other comprehensive income

	2013	2012
Exchange fluctuation reserve	(259,227.62)	(484,188.48)
Re-measurement of retiree benefit recognized in the other comprehensive income statement	290,000.00	-
Decrease in deferred tax liabilities	30,772.38	(484,188.48)

35. Cash flows from operating activities

Reconciliation of net profit to cash flows from operating activities

	2013	2012
Net profit	1,436,593,582.90	1,606,294,638.76
Add: Assets impairment loss	(68,726,559.74)	134,874,902.30
Depreciation of fixed assets	394,523,633.95	378,823,031.26
Amortization of intangible assets	25,339,030.45	22,049,045.38
Loss/ (income) on disposal of fixed assets, intangible assets and other long-term assets	(652,659.73)	2,231,640.40
Financial expenses	(55,558,566.86)	17,462,761.22
Investment loss/ (income)	(1,169,046.23)	646,440.68
Loss on fair value changes	-	4,569,141.62
Decrease/ (increase) in deferred tax assets	(28,873,123.17)	2,555,577.89
Decrease in deferred tax liabilities	-	(685,371.24)
Decrease/ (Increase) in inventories	1,945,816,997.21	(521,900,450.75)
Increase in receivables from operating activities	(3,139,914,495.56)	(1,915,337,949.48)
Increase in payables from operating activities	2,019,998,638.62	1,685,332,392.31
Share-based payment/ (write back)	(908,091.76)	4,877,795.63
Net cash flows from operating activities	2,526,469,340.08	1,421,793,595.98

36. Cash and cash equivalents

	2013	2012
Cash	2,364,803,112.39	1,715,417,543.61
Including: Cash on hand	206,525.77	95,961.61
Bank deposit without restriction	2,364,596,586.62	1,715,321,582.00
Closing balance of cash and cash equivalents	2,364,803,112.39	1,715,417,543.61

VII. SEGMENT REPORTING

1. Operating segments

That over 93% revenue of the Group this year comes from high-speed train production, urban rail transit production and related supporting business, so operating segment information is not presented.

2. Corporate information

Product and service information

Revenue from external customers

	2013	2012
Sales of high-speed train	13,900,145,299.77	14,098,802,163.98
Sales of urban rail transit	1,209,731,028.74	2,319,169,706.09
Repair of high-speed train	3,517,099,834.19	1,436,664,274.53
Sales of high-speed train accessories	1,393,771,757.72	2,580,205,561.50
Sales of passenger train	-	439,847,863.34
Sales of passenger train accessories	57,872,135.26	26,062,808.58
Sales of materials	1,314,879,315.66	2,918,754,995.83
Others	236,976,814.07	231,443,638.75
	21,630,476,185.41	24,050,951,012.60

Geographical information

Revenue from external customers

	2013	2012
Mainland China	21,342,895,111.65	23,413,687,316.76
Japan	25,247,038.88	-
Sri Lanka	6,547,439.19	637,263,695.84
Madagascar	2,969,721.75	-
Singapore	252,816,873.94	-
	21,630,476,185.41	24,050,951,012.60

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

Non-current assets

	2013	2012
Mainland China	3,954,560,194.48	4,156,691,258.88

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

Major customer information

Revenue RMB18,446,202,358.68 was derived from sales to China Railway Corporation including all known entities under this client control (2012: RMB17,674,637,378.69).

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Definition of related parties

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

Related parties do not comprise a party which have no other related party relationships but is only under controls with the state.

2. Parent company and subsidiary

Name of parent company	Registered Place	Business nature	Equity interest held	Voting rights held	Registered capital
CSR Corporation Limited	Beijing	Locomotive, rolling and accessories manufacturing	97.81%	97.81%	13,803,000,000.00

The ultimate parent company of the Company is CSR Group.

The details of the subsidiaries of the Company are stated in Note V. Scope of financial statement consolidation.

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

3. Other related parties

	Related party relationship
CSR Sifang Co., Ltd.	Company controlled by parent company
Shijiazhuang King Transportation Equipment Co., Ltd.	Company controlled by parent company
CSR Zhuzhou Electric Co., Ltd.	Company controlled by parent company
Qingdao Sifang Rollingstock Casting & Forging Co.,Ltd.	Company controlled by parent company
CSR Luoyang Locomotive Co., Ltd.	Company controlled by parent company
CSR (Hong Kong) Co., Ltd.	Company controlled by parent company
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	Company controlled by parent company
Qingdao Siji Renewable Resources Co., Ltd.	Company controlled by parent company
Beijing Beijiufang Technology & Trade Co., Ltd.	Company controlled by parent company
Sichuan Braking technology Stock Co., Ltd.	Company controlled by parent company
Ziyang CSR Transmission Co., Ltd.	Company controlled by parent company
Nanjing Puzhen Entien Railway Bearing Co., Ltd.	Company controlled by parent company
CSR Investment & Leasing Co., Ltd.	Company controlled by parent company
Zhuzhou Times New Material Technology Co., Ltd.	Company controlled by parent company
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	Company controlled by parent company
Zhuzhou Times Equipment Technology Co., Ltd.	Company controlled by parent company
Qingdao CSR Logistics Co., Ltd.	Company controlled by parent company
Ziyang Chenfeng Electric Co., Ltd.	Company controlled by parent company
CSR Zhuzhou Electric Locomotive Co., Ltd.	Company controlled by parent company
CSR Changzhou Tech-Mark Industrial Co., Ltd.	Company controlled by parent company
CSR Qishuyan Locomotive & Rolling Stock Technology	Company controlled by parent company
Research Institute Co., Ltd.	Company controlled by parent company
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.	Company controlled by parent company
Zhuzhou CSR Times Electric Co., Ltd.	Company controlled by parent company
Tianjin CSR Wind Energy Equipment Technology Co., Ltd.	Company controlled by parent company
Tianjin CSR Wind & Electricity Blade Project Co., Ltd.	Company controlled by parent company
CSR Guangdong Rail Transit Locomotive Co., Ltd.	Company controlled by parent company
CSR Shijiazhuang Rolling Stock Co., Ltd.	Company controlled by parent company
Zhuzhou Times Electric Insulation Co., Ltd.	Company controlled by parent company
CSR Corporation Chengdu Locomotive Co., Ltd.	Company controlled by parent company
Bombardier Sifang (Qingdao) Transportation Ltd.	Jointly-controlled entities of parent company
Guangzhou CSR Sifang Rail Transit Equipment Co., Ltd.	Jointly-controlled entities of wholly-owned subsidiaries
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.	Associate

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4. The significant transactions carried out between the Group and its related parties

(1) Sales of products to related parties

	Note I	Amount of 2013	Amount of 2012
Zhuzhou CSR Times Electric Co., Ltd.		452,106,847.20	-
Bombardier Sifang (Qingdao) Transportation Ltd.		256,675,704.36	313,851,356.23
CSR Guangdong Rail Transit Locomotive Co., Ltd.		207,021,017.10	-
Guangzhou SCR Sifang Rail Transit Equipment Co., Ltd.		26,434,183.19	-
CSR Sifang Co., Ltd.		23,137,394.79	12,911,928.63
Nanjing Puzhen Haitai Braking Equipment Co., Ltd.		2,149,805.52	-
Qingdao Siji Renewable Resources Co., Ltd.		2,093,183.89	2,228,437.98
Qingdao CSR Logistics Co., Ltd.		330,281.18	502,327.51
Shijiazhuang King Transportation Equipment Co., Ltd.		273,337.99	50,941.95
CSR Changzhou Tech-Mark Industrial Co., Ltd.		154,481.12	274,486.33
CSR Zhuzhou Electric Locomotive Co., Ltd.		84,483.76	-
CSR Zhuzhou Electric Co., Ltd.		38,785.24	-
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.		2,387.00	-
CSR Nanjing Puzhen Rolling Stock Co., Ltd.		-	9,288,712.10
Tianjin CSR Wind & Electricity Blade Project Co., Ltd.		-	878,963.49
Tianjin CSR Wind Energy Equipment TechnologyCo., Ltd.		-	347,315.70
Zhuzhou Times New Material Technology Co., Ltd.		-	10,701.40
		970,501,892.34	340,345,171.32

(2) Purchases of products from related parties

	Note II	Amount of 2013	Amount of 2012
Zhuzhou CSR Times Electric Co., Ltd.		1,724,484,923.03	1,956,293,590.98
Nanjing Puzhen Haitai Braking Equipment Co., Ltd.		771,241,001.30	591,025,867.85
CSR Sifang Co., Ltd.		625,094,775.71	574,653,725.51
CSR Zhuzhou Electric Co., Ltd.		548,142,223.57	443,338,513.01
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.		322,084,081.64	375,546,081.81
CSR Shijiazhuang Rolling Stock Co., Ltd.		226,012,882.10	-
Shijiazhuang King Transportation Equipment Co., Ltd.		237,003,248.04	184,070,694.45
Qingdao CSR Logistics Co., Ltd.		136,671,093.57	109,916,529.72
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.		149,518,701.29	321,300,584.20
CSR Changzhou Tech-Mark Industrial Co., Ltd.		122,339,206.36	65,868,409.90
Ziyang Chenfeng Electric Co., Ltd.		72,230,618.89	38,053,990.68
CSR Investment & Leasing Co., Ltd.		34,555,698.95	16,054,503.82
CSR Zhuzhou Electric Locomotive Co., Ltd.		17,812,155.92	11,239,320.56
Zhuzhou Times New Material Technology Co., Ltd.		13,852,695.04	16,957,261.44
CSR Nanjing Puzhen Rolling Stock Co., Ltd.		8,297,053.31	277,739.82
Ziyang CSR Transmission Co., Ltd.		521,183.76	2,479,500.00
Qingdao Sifang Rollingstock Casting & Forging Co.,Ltd.		400,049.93	6,130,878.21
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.		-	17,810,256.41
CSR Luoyang Locomotive Co., Ltd.		-	10,917,435.90
Sichuan Braking technology Stock Co., Ltd.		-	750,682.91
Zhuzhou Times Equipment Technology Co., Ltd.		-	694,718.80
CSR (Hong Kong) Co., Ltd.		-	430,676.00
		5,010,261,592.41	4,743,810,961.98

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4. The significant transactions carried out between the Group and its related parties (continued)

(3) Other primary related parties transactions

	Note	Amount of 2013	Amount of 2012
Receiving services	(3)(a)	46,643,944.50	50,625,540.47
Providing services		8,008,551.32	6,772,756.73
Interest income	(3)(b)	79,433,418.21	36,920,781.81
Accepting guarantees		7,999,013.91	8,246,453.43
Leasing in of fixed assets		17,472,400.00	13,860,000.00
Leasing out of fixed assets		1,941,211.80	600,000.00
Disposal of fixed assets		-	619,393.08
		161,498,539.74	117,644,925.52
The key management personnel awarded the equity incentive shares	(3)(c)	1,125,000.00	1,391,400.00

Note:

(1) Sales of products to related parties

The Group sells high-speed train accessories and passenger train accessories etc. to the above related parties according to the mutually agreed price.

(2) purchase of products from related parties

The Group purchases high-speed train accessories and passenger train accessories etc. from the above related parties according to the mutually agreed price.

(3) Other primary related parties transactions

(a) During the year, CSR Corporation Limited received RMB44,000,000.00 for providing management consulting service to the Group according to the mutually agree prices, Tianjin CSR Wind & Electricity Blade Project Co., Ltd. received RMB810,000.00 for providing supporting service to the industrial park for the Group according to the mutually agree prices, and Qingdao CSR Logistics Co., Ltd. received RMB1,833,944.50 for providing transportation and storage service to the Group according to the mutually agree prices (2012: CSR Corporation Limited received RMB48,000,000.00 for providing management consulting service to the Group and Qingdao CSR Logistics Co., Ltd. received RMB2,625,540.47 for providing transportation and storage service to the Group according to the mutually agree prices).

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4. The significant transactions carried out between the Group and its related parties (continued)

Note (continued):

(3) Other primary related parties transactions (continued)

(b) During the period, interest income of providing funds to CSR Corporation Limited is RMB65,921,301.86 (2012: RMB36,920,781.81) according to the mutually agreed interest rate. Interest income of providing funds to CSR Finance Corporation Limited is RMB13,512,116.35 (2012: None) according to the mutually agreed interest rate.

(c) During the period, partial key management personnel of the Group were conferred 1,125,000 shares of CSR Corporation Limited A stock option by the parent company. In 2013, the loss of the stock option was RMB-908,091.76 (2012: RMB4,877,795.63).

5. The commitment of the Group with related parties

As at the date of balance sheet, that the commitments already signed the contract but not necessary to be disclosed on financial statement with related parties are presented below:

Purchases of products from related parties:

	2013	2012
Zhuzhou CSR Times Electric Co., Ltd.	276,493,658.33	186,820,039.41
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	231,941,862.96	156,717,474.97
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	176,171,212.84	119,034,603.27
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.	116,360,493.74	78,621,955.23
CSR Changzhou Tech-Mark Industrial Co., Ltd.	77,792,571.05	52,562,548.01
CSR Sifang Co., Ltd.	60,884,193.41	41,137,968.52
CSR Zhuzhou Electric Co., Ltd.	39,732,878.16	26,846,539.30
Shijiazhuang King Transportation Equipment Co., Ltd.	26,773,474.36	18,090,185.38
Zhuzhou Times New Material Technology Co., Ltd.	7,484,989.07	5,057,425.05
Ziyang Chenfeng Electric Co., Ltd.	6,049,324.15	4,087,381.18
CSR Investment & Leasing Co., Ltd.	1,252,989.68	846,614.65
CSR Zhuzhou Electric Locomotive Co., Ltd.	206,188.04	139,316.24
	1,021,143,835.79	689,962,051.21

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6. Receivable from/payable to related parties

	2013	2012
Trade receivables:		
CSR Guangdong Rail Transit Locomotive Co., Ltd.	239,960,000.00	-
Guangzhou SCR Sifang Rail Transit Equipment Co., Ltd.	30,927,994.34	-
Bombardier Sifang (Qingdao) Transportation Ltd.	3,947,140.45	347,891,954.81
Tianjin CSR Wind & Electricity Blade Project Co., Ltd.	843,439.78	1,028,387.29
CSR Sifang Co., Ltd.	264,669.08	370,462.00
CSR Changzhou Tech-Mark Industrial Co., Ltd.	-	321,149.00
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	-	295,697.62
Tianjin CSR Wind Energy Equipment Technology Co., Ltd.	-	181,202.08
Shijiazhuang King Transportation Equipment Co., Ltd.	-	33,600.00
	275,943,243.65	350,122,452.80
Other receivables:		
CSR Corporation Limited	3,377,743,233.55	3,008,883,307.43
Prepayments:		
CSR (Hong Kong) Co., Ltd.	542,545.20	2,393,215.95
Zhuzhou CSR Times Electric Co., Ltd.	-	497,100.00
	542,545.20	2,890,315.95
Accounts payable:		
Zhuzhou CSR Times Electric Co., Ltd.	277,573,788.38	635,650,112.06
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	214,189,503.29	200,086,666.18
CSR Sifang Co., Ltd.	106,989,710.60	211,937,721.89
CSR Zhuzhou Electric Co., Ltd.	87,026,279.24	231,430,235.32
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	59,931,196.37	102,658,801.28
Shijiazhuang King Transportation Equipment Co., Ltd.	44,203,670.16	120,994,136.41
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.	32,360,159.29	150,295,209.61
Qingdao CSR Logistics Co., Ltd.	32,378,363.82	41,212,912.53
CSR Shijiazhuang Rolling Stock Co., Ltd.	29,010,372.00	-
CSR Changzhou Tech-Mark Industrial Co., Ltd.	19,290,537.02	76,032,681.40
CSR Zhuzhou Electric Locomotive Co., Ltd.	16,196,078.17	12,920,668.21
Ziyang Chenfeng Electric Co., Ltd.	8,393,375.13	12,792,102.72
CSR Investment & Leasing Co., Ltd.	7,279,991.45	5,483,936.49
Zhuzhou Times New Material Technology Co., Ltd.	6,616,834.78	5,347,119.36
CSR Luoyang Locomotive Co., Ltd.	2,114,500.00	1,834,500.00
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	683,422.95	3,323,422.95
Qingdao Sifang Rollingstock Casting & Forging Co., Ltd.	612,782.92	1,883,105.10
Sichuan Braking technology Stock Co., Ltd.	40,489.00	120,489.00
Zhuzhou Times Electric Insulation Co., Ltd.	51.30	-
Beijing Beijiufang Technology & Trade Co., Ltd.	36.33	10,036.33
Ziyang CSR Transmission Co., Ltd.	-	141,755.00
	944,891,142.20	1,814,155,611.84

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6. Receivable from/payable to related parties (continued)

	2013	2012
Bills payable:		
Shijiazhuang King Transportation Equipment Co., Ltd.	149,580,000.00	25,000,000.00
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	149,280,000.00	58,000,000.00
CSR Zhuzhou Electric Co., Ltd.	146,730,000.00	100,000,000.00
CSR Sifang Co., Ltd.	121,630,000.00	51,060,000.00
Zhuzhou CSR Times Electric Co., Ltd.	121,440,000.00	318,900,000.00
CSR Changzhou Tech-Mark Industrial Co., Ltd.	69,780,000.00	6,700,000.00
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	56,911,313.98	98,700,000.00
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.	42,600,000.00	39,600,000.00
Zhuzhou Times New Material Technology Co., Ltd.	6,300,000.00	1,100,000.00
Ziyang Chenfeng Electric Co., Ltd.	6,000,000.00	3,500,000.00
CSR Zhuzhou Electric Locomotive Co., Ltd.	900,000.00	-
CSR Investment & Leasing Co., Ltd.	600,000.00	15,000,000.00
Qingdao CSR Logistics Co., Ltd.	370,000.00	9,800,000.00
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	-	3,150,000.00
Qingdao Sifang Rollingstock Casting & Forging Co., Ltd.	-	1,300,000.00
CSR Luoyang Locomotive Co., Ltd.	-	750,000.00
Ziyang CSR Transmission Co., Ltd.	-	600,000.00
	872,121,313.98	733,160,000.00

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6. Receivable from/payable to related parties (continued)

	2013	2012
Other payables:		
CSR Corporation Limited	324,181,689.86	-
CSR Sifang Co., Ltd.	20,380,095.93	4,123,530.91
Zhuzhou CSR Times Electric Co., Ltd.	5,530,000.00	8,825,000.00
Shijiazhuang King Transportation Equipment Co., Ltd.	2,423,700.00	2,423,700.00
CSR Zhuzhou Electric Co., Ltd.	1,820,000.00	3,700,000.00
CSR Changzhou Tech-Mark Industrial Co., Ltd.	1,356,000.00	1,348,200.00
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	1,253,000.00	1,829,000.00
Zhuzhou Times New Material Technology Co., Ltd.	1,092,000.00	1,092,000.00
Qingdao CSR Logistics Co., Ltd.	539,171.12	459,903.92
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	246,000.00	100,000.00
CSR Zhuzhou Electric Locomotive Co., Ltd.	90,000.00	-
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	44,880.00	44,880.00
	358,956,536.91	23,946,214.83
Advances from customers:		
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	62,695,890.00	487,442.00

Accounts payable and receivable are non-interest bearing and unsecured, excluding other receivable from CSR Corporation Limited which annual interest rate is from 1.15% to 2.6%. The term of trade receivables and payable complies with trade clauses, otherwise have no fixed terms of payment.

7. Cash and bank balances deposit in related parties

	2013	2012
CSR Finance Corporation Limited	1,545,737,156.03	-

Annual interest rate of that Cash and bank balances deposited in CSR Finance Corporation Limited was 1.15%.

IX. CONTINGENCIES

As at the balance sheet date, the Group has no contingencies that need to be disclosed.

X. LEASING ARRANGEMENT

1. As lesser

See Note VI.9 for details of the fixed assets of operating lease.

2. As lessee

Significant operating lease: According to lease contract signed with lesser, minimal payment of irrevocable lease is as follows:

	2013	2012
Within one year, inclusive	21,394,750.00	13,860,000.00
One year to two years, inclusive	17,769,150.00	13,860,000.00
Two years to three years, inclusive	3,909,150.00	-
Three year to four years, inclusive	3,909,150.00	-
Four years to five years, inclusive	3,909,150.00	-
	50,891,350.00	27,720,000.00

XI. COMMITMENTS

	2013	2012
Capital commitments:		
Contracted, but not provided for	3,727,840.00	14,540,561.00
Investment commitments:		
Contracted, but not provided for	112,000,000.00	-

XII. FINANCIAL INSTRUMENT AND RISKS

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk.

1. Classification of financial instruments

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

2013

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
Cash and bank balances	2,411,737,112.39	-	2,411,737,112.39
Bills receivable	514,418,400.84	-	514,418,400.84
Trade receivables	8,519,621,933.36	-	8,519,621,933.36
Dividends receivable	942,372.02	-	942,372.02
Other receivables	3,517,864,175.85	-	3,517,864,175.85
Long term equity investments	-	12,000,000.00	12,000,000.00
	14,964,583,994.46	12,000,000.00	14,976,583,994.46

Financial liabilities

	Other financial liabilities
Bills payable	2,823,820,029.17
Accounts payable	9,371,089,221.30
Dividends payable	23,671,440.00
Other payables	855,242,214.91
Long term loans	7,999,013.91
	13,081,821,919.29

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

1. Classification of financial instruments (continued)

2012

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
Cash and bank balances	1,766,394,113.61	-	1,766,394,113.61
Bills receivable	210,500,000.00	-	210,500,000.00
Trade receivables	5,153,224,324.87	-	5,153,224,324.87
Other receivables	3,185,440,111.20	-	3,185,440,111.20
Long term equity investments	-	6,000,000.00	6,000,000.00
	10,315,558,549.68	6,000,000.00	10,321,558,549.68

Financial liabilities

	Other financial liabilities
Bills payable	2,185,928,509.31
Accounts payable	10,151,965,742.20
Dividends payable	26,301,600.00
Other payables	414,482,511.17
Long term loans	8,246,453.43
	12,786,924,816.11

2. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group trades only with recognized 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, trade receivables and bills receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other major financial assets of the Group, which comprise cash and bank balances, other receivables and some derivative instruments, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

2. Credit risk (continued)

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customers. As at 31 December 2013, the Group has certain concentrations of credit risk as 88.55% (31 December 2012: 64.28%) and 95.54% (31 December 2012: 79.90%) of the Group's trade receivables were due from the Group's largest customer and five largest customers. The Group has no collateral for balance of trade receivables or other credit enhancement.

Further quantitative data in respect of the Group's exposure to credit risk arising from bills receivable, trade receivables and other receivables are disclosed in notes VI.2 and VI.3 and VI.5 to the financial statement.

As at 31 December, the ageing analysis of the Group's financial assets that are not considered to be impaired is as follows:

2013

			Over due		
	Total	not overdue not impaired	within six months	six months to one year	over one year
Bills receivable	514,418,400.84	514,418,400.84	-	-	-
Trade receivables	8,430,737,944.99	8,341,607,858.91	89,130,086.08	-	-
Dividends receivable	942,372.02	942,372.02	-	-	-
Other receivables	3,515,613,263.44	3,452,376,132.07	56,850,318.11	5,513,797.26	873,016.00
Long term equity Investments	12,000,000.00	12,000,000.00	-	-	-
	12,473,711,981.29	12,321,344,763.84	145,980,404.19	5,513,797.26	873,016.00

2012

			Over due		
	Total	not overdue not impaired	within six months	six months to one year	over one year
Bills receivable	210,500,000.00	210,500,000.00	-	-	-
Trade receivables	4,715,520,030.60	4,171,976,700.49	189,943,330.11	353,600,000.00	-
Other receivables	3,176,692,904.15	3,174,974,279.62	1,718,624.53	-	-
Long term equity investments	6,000,000.00	6,000,000.00	-	-	-
	8,108,712,934.75	7,563,450,980.11	191,661,954.64	353,600,000.00	-

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

2. Credit risk (continued)

As at 31 December 2013, the Group's trade receivables that are not overdue and considered to be impaired were mainly related to China Railway Corporation, which is the largest client of the Group. Other receivables that are not overdue and considered to be impaired are mainly related to CSR Corporation Limited, which is the parent company of the Company.

As at 31 December 2013, the Group's trade receivables that are overdue but not considered to be impaired were mainly related to time delay between some separate subordinate units of China Railway Corporation paid first to China Railway Corporation and then paid to the Group by the way of unified settlement. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group's other receivables that are overdue but not considered to be impaired were mainly related to prepaid value added tax arising from pro-forma exclusive value-added tax invoices issued to China Railway Corporation. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable.

3. Liquidity risk

Liquidity risk is the risk of fund shortage that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group applies a planning tool of liquidity circulation to manage liquidity risk of fund shortage, which takes both maternity of financial instruments and estimated operating cash flow of the Group into consideration.

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.

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

2013

Financial assets

	One to three months	Three months to one year	One year to five years	Over five years	Total
Cash and bank balances	2,364,803,112.39	46,934,000.00	-	-	2,411,737,112.39
Bills receivable	258,054,594.84	256,363,806.00	-	-	514,418,400.84
Trade receivables	8,519,621,933.36	-	-	-	8,519,621,933.36
Dividends receivable	942,372.02	-	-	-	942,372.02
Other receivables	3,517,864,175.85	-	-	-	3,517,864,175.85
Long term equity Investments	12,000,000.00	-	-	-	12,000,000.00
	14,673,286,188.46	303,297,806.00	-	-	14,976,583,994.46

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

3. Liquidity risk (continued)

2013 (continued)

Financial liabilities

	One to three months	Three months to one year	One year to five years	Over five years	Total
Bills payable	1,153,110,223.91	1,670,709,805.26	-	-	2,823,820,029.17
Account payable	9,371,089,221.30	-	-	-	9,371,089,221.30
Other payable	855,242,214.91	-	-	-	855,242,214.91
Dividends payable	23,671,440.00	-	-	-	23,671,440.00
Long term loans	-	15,998.03	64,312.71	8,278,150.36	8,358,461.10
	11,403,113,100.12	1,670,725,803.29	64,312.71	8,278,150.36	13,082,181,366.48

2012

Financial assets

	One to three months	Three months to one year	One year to five years	Over five years	Total
Cash and bank balances	1,715,417,543.61	50,976,570.00	-	-	1,766,394,113.61
Bills receivable	90,500,000.00	120,000,000.00	-	-	210,500,000.00
Trade receivables	5,153,224,324.87	-	-	-	5,153,224,324.87
Other receivables	3,185,440,111.20	-	-	-	3,185,440,111.20
Long term equity investments	6,000,000.00	-	-	-	6,000,000.00
	10,150,581,979.69	170,976,570.00	-	-	10,321,558,549.69

Financial liabilities

	One to three months	Three months to one year	One year to five years	Over five years	Total
Bills payable	2,145,928,509.31	40,000,000.00	-	-	2,185,928,509.31
Account payable	10,151,965,742.20	-	-	-	10,151,965,742.20
Other payable	414,482,511.17	-	-	-	414,482,511.17
Dividends payable	26,301,600.00	-	-	-	26,301,600.00
Long term loans	-	16,492.91	66,302.15	8,534,224.62	8,617,019.68
	12,738,678,362.68	40,016,492.91	66,302.15	8,534,224.62	12,787,295,382.36

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

4. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The main market risk mainly include interest rate risk and foreign currency risk.

Foreign currency risk

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The foreign currency risk of the Group was mainly derived from its operating activities (when the currencies of receipt and payment were different from the Group's functional currency).

The Group faces transactional foreign currency risk. This risk was derived from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies. The Group has1.33% (2012: 2.65%) of the sales amount which were generated from sales of the operating units which transacted in currencies other than their functional currencies. The Group has 100% (2012: 100%) of the cost amount which transacted in functional currencies.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and shareholder's equity (due to forward foreign exchange contracts).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in shareholder's equity*
2013			
Depreciation of RMB to USD	2.99%	1,029,551.91	-
Appreciation of RMB to USD	(2.99%)	(1,029,551.91)	-
Depreciation of RMB to Euro	5.99%	0.10	-
Appreciation of RMB to Euro	(5.99%)	(0.10)	-
Depreciation of RMB to Japanese Yen	19.09%	(32,365,946.79)	-
Appreciation of RMB to Japanese Yen	(19.09%)	32,365,946.79	-
Depreciation of RMB to HK Dollar	2.95%	41,072.54	-
Appreciation of RMB to HK Dollar	(2.95%)	(41,072.54)	-
Depreciation of RMB to Singapore Dollar	5.31%	4,299,955.31	-
Appreciation of RMB to Singapore Dollar	(5.31%)	(4,299,955.31)	-

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

4. Market risk (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in shareholder's equity*
2012			
Depreciation of RMB to USD	1.05%	2,697,829.42	-
Appreciation of RMB to USD	(1.05%)	(2,697,829.42)	-
Depreciation of RMB to Euro	9.24%	0.15	-
Appreciation of RMB to Euro	(9.24%)	(0.15)	-
Depreciation of RMB to Japanese Yen	12.31%	(9,954,582.48)	-
Appreciation of RMB to Japanese Yen	(12.31%)	9,954,582.48	-
Depreciation of RMB to Singapore Dollar	4.06%	304,401.07	-
Appreciation of RMB to Singapore Dollar	(4.06%)	(304,401.07)	-

*Excluding retained profit.

5. Fair value

The carrying amount and fair values of the Group's financial instruments excluded short term instruments that carrying amount approximately equals to fair values are as follows:

	Carrying value		Fair value	
	2013	2012	2013	2012
Financial liabilities				
Long term loans	7,999,013.91	8,246,453.43	4,378,685.24	4,627,087.82

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

The fair value of cash and bank balances, bills receivable, trade receivables, dividends receivables, other receivables, long term equity investments, bills payable, accounts payable, other payables and dividends payable approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the long term and loans have been calculated by discounting the expected future cash flows using market return rates currently available for instruments on similar terms and characteristics.

XIII. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Group signed a cooperation agreement with CSR Shijiazhuang Rolling Stock Co., Ltd. at 30 December 2013 to jointly establish CSR Shijiazhuang Rail Transit Equipment Co., Ltd., whose registered capital amounted to RMB40 million. On 19 January 2014, the predetermined registered capital was invested in CSR Shijiazhuang Rail Transit Equipment Co., Ltd. of which RMB19.6 million and RMB20.4 million derived from the Group and CSR Shijiazhuang Rolling Stock Co., Ltd. respectively. The process of registration has been completed on 21 January 2014.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. Cash and bank balances

	2013	2012
Cash on hand	140,367.61	23,605.61
Bank deposit	2,141,657,586.56	1,546,139,356.40
Others	46,934,000.00	50,976,570.00
Total	2,188,731,954.17	1,597,139,532.01

As at 31 December 2013, the ownership of the Company's cash and bank balances amounting to RMB46,934,000.00 have been restricted (31 December 2012: RMB50,976,570.00), see Note XIV.14.

2. Bills receivable

	2013	2012
Bank acceptance bills	4,396,800.84	-
Commercial acceptance bills	478,000,000.00	195,500,000.00
	482,396,800.84	195,500,000.00

As at 31 December 2013 and 31 December 2012, no bills receivable of the Company are restricted.

3. Trade receivables

The Company's trade receivables were interest-free with normal credit terms of 180 days.

The ageing of trade receivables is analyzed below:

	2013	2012
Within one year	8,556,714,668.31	4,801,799,813.12
One to two years	53,268,464.51	489,945,104.56
Two to three years	68,281,632.66	14,028,159.71
Over three years	479,669.98	60,727,809.55
	8,678,744,435.46	5,366,500,886.94
Less: Provisions for bad debts	42,514,821.99	131,488,022.79
Total	8,636,229,613.47	5,235,012,864.15

The movement of provision for bad debts against trade receivables is disclosed below:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Reversal	Write-off	
2013	131,488,022.79	51,090,276.29	140,063,477.09	-	42,514,821.99
2012	55,033,035.52	78,699,081.46	1,281,755.59	962,338.60	131,488,022.79

As at 31 December 2013 and 31 December 2012, no trade receivables' ownership of the Company are restricted, see Note XIV.14.

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. Prepayments

The ageing of prepayments is analyzed below:

	2013	2012
Within one year	195,304,523.77	26,603,204.48
One to two years	563.17	5,778,905.31
Total	195,305,086.94	32,382,109.79

5. Other receivables

The ageing of other receivables is analyzed below:

	2013	2012
Within one year	3,511,582,245.30	3,259,405,403.95
One to two years	74,942,512.88	7,655,677.68
Two to three years	6,238,468.20	4,479,762.07
Three to four years	3,669,985.04	-
	3,596,433,211.42	3,271,540,843.70
Less: Provisions for bad debts	3,546,130.32	3,388,232.70
Total	3,592,887,081.10	3,268,152,611.00

The movement of provision for bad debts against other receivables for the year is disclosed below:

	Opening balance	Increase during the year	Closing balance
2013	3,388,232.70	157,897.62	3,546,130.32
2012	217,200.00	3,171,032.70	3,388,232.70

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

6. Inventories

	2013	2012
Raw materials	1,819,157,203.31	2,098,006,350.47
Work in progress	1,277,208,643.59	2,910,289,170.10
Goods in transit	83,974,738.70	46,554,960.53
	3,180,340,585.60	5,054,850,481.10
Less: Provisions for bad debts	105,461,416.94	85,386,800.69
Total	3,074,879,168.66	4,969,463,680.41

The movement of provision for inventories is disclosed below:

2013

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Other reversal	
Raw materials	85,178,310.57	86,786,799.06	75,747,133.16	-	96,217,976.47
Work in progress	208,490.12	9,243,440.47	208,490.12	-	9,243,440.47
	85,386,800.69	96,030,239.53	75,955,623.28	-	105,461,416.94

2012

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Other reversal	
Raw materials	35,365,721.58	49,812,588.99	-	-	85,178,310.57
Work in progress	208,490.12	-	-	-	208,490.12
Finished goods	261,385.50	1,060,073.91	-	1,321,459.41	-
Goods in transit	3,299,302.69	-	158,729.49	3,140,573.20	-
	39,134,899.89	50,872,662.90	158,729.49	4,462,032.61	85,386,800.69

As at 31 December 2013 and 31 December 2012, no inventories' ownership of the Group are restricted.

7. Other current assets

	2013	2012
Value-added tax retained	-	335,865,015.56

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

8. Long term equity investments

	2013	2012
Equity method		
Associates		
Qingdao Sifang Kawasaki Rolling Technology Co., Ltd.	7,220,008.90	7,098,042.69
Cost method		
CSR (Tianjin) Subway Rolling Stock Co., Ltd.	300,000,000.00	300,000,000.00
Wuhan CSR Sifang Reparement & Maintenance Center Co., Ltd.	50,000,000.00	50,000,000.00
Chengdu CSR Rail Vehicle Co., Ltd.	115,420,000.00	104,000,000.00
Qingdao CSR Distribution & Service Co.,Ltd	50,000,000.00	50,000,000.00
Beijing CSR Huasheng Chuangye Investment Fund	12,000,000.00	6,000,000.00
CSR America Incorporated	13,067,800.00	13,067,800.00
Total	547,707,808.90	530,165,842.69

9. Fixed assets

2013

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Other equipment	Total
Cost:					
At 1 January 2013	1,716,599,610.00	2,542,067,837.45	16,134,298.18	170,415,043.90	4,445,216,789.53
Transfer from construction in progress	71,836,942.98	92,293,722.91	-	29,380,707.39	193,511,373.28
Disposal	-	(37,809,046.99)	(91,308.13)	(5,698,713.97)	(43,599,069.09)
At 31 December 2013	1,788,436,552.98	2,596,552,513.37	16,042,990.05	194,097,037.32	4,595,129,093.72
Accumulated depreciation:					
At 1 January 2013	292,861,941.54	899,336,008.75	11,897,890.67	84,434,187.04	1,288,530,028.00
Provided during the year	89,544,065.85	249,037,344.44	1,236,250.22	35,795,709.69	375,613,370.20
Write-off	-	(34,763,520.17)	(90,395.05)	(5,533,822.02)	(40,387,737.24)
At 31 December 2013	382,406,007.39	1,113,609,833.02	13,043,745.84	114,696,074.71	1,623,755,660.96
Net carrying amount:					
At 31 December 2013	1,406,030,545.59	1,482,942,680.35	2,999,244.21	79,400,962.61	2,971,373,432.76
At 1 January 2013	1,423,737,668.46	1,642,731,828.70	4,236,407.51	85,980,856.86	3,156,686,761.53

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

9. Fixed assets (continued)

2012

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Other equipment	Total
Cost:					
At 1 January 2012	1,698,231,254.40	2,218,508,294.03	16,382,032.36	120,175,829.83	4,053,297,410.62
Transfer from construction in progress	23,588,796.98	344,605,008.69	788,082.22	62,438,187.25	431,420,075.14
Disposal	(5,220,441.38)	(21,045,465.27)	(1,035,816.40)	(12,198,973.18)	(39,500,696.23)
At 31 December 2012	1,716,599,610.00	2,542,067,837.45	16,134,298.18	170,415,043.90	4,445,216,789.53
Accumulated depreciation:					
At 1 January 2012	225,855,208.38	661,469,759.78	11,283,962.11	57,149,039.74	955,757,970.01
Provided during the year	68,671,905.19	257,393,967.41	1,620,058.20	39,160,923.12	366,846,853.92
Write-off	(1,665,172.03)	(19,527,718.44)	(1,006,129.64)	(11,875,775.82)	(34,074,795.93)
At 31 December 2012	292,861,941.54	899,336,008.75	11,897,890.67	84,434,187.04	1,288,530,028.00
Net carrying amount:					
At 31 December 2012	1,423,737,668.46	1,642,731,828.70	4,236,407.51	85,980,856.86	3,156,686,761.53
At 1 January 2012	1,472,376,046.02	1,557,038,534.25	5,098,070.25	63,026,790.09	3,097,539,440.61

Preparing for disposal of fixed assets are as follows:

	Carrying value	Fare value	Estimated disposal expense	Estimated disposal date
At 31 December 2013	2,377,123.03	4,700,400.00	-	March 2014
At 31 December 2012	33,628.34	211,000.00	-	February 2013

The fixed assets of operating lease's carrying value of are as follows:

	Buildings and structures	Plant machinery and equipment	Total
At 31 December 2013	5,639,204.95	78,455.95	5,717,660.90
At 31 December 2012	5,980,157.82	78,455.95	6,058,613.77

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

10. Construction in progress

2013

	Opening Balance	Increase during the year	Decrease during the year: Transferred to fixed assets	Decrease during the year: Transferred to intangible assets	Total
High-speed train production project	32,088,025.85	23,820,548.58	52,962,956.24	-	2,945,618.19
High-speed train repair project	10,552,181.30	14,033,696.80	24,585,878.10	-	-
Other projects	50,520,409.45	100,352,436.75	115,962,538.94	18,044,393.12	16,865,914.14
At 31 December 2013	93,160,616.60	138,206,682.13	193,511,373.28	18,044,393.12	19,811,532.33

2012

	Opening Balance	Increase during the year	Decrease during the year: Transferred to fixed assets	Decrease during the year: Transferred to intangible assets	Total
High-speed train production project	252,706,223.22	4,688,977.22	225,307,174.59	-	32,088,025.85
High-speed train repair project	1,317,334.18	9,234,847.12	-	-	10,552,181.30
Other projects	93,679,585.36	162,953,724.64	206,112,900.55	-	50,520,409.45
At 31 December 2012	347,703,142.76	176,877,548.98	431,420,075.14	-	93,160,616.60

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

11. Intangible assets

2013

	Land use rights	Software	Proprietary technology	Total
Cost:				
At 1 January 2013	368,277,301.12	101,081,718.28	14,294,901.65	483,653,921.05
Purchase	-	11,312,982.03	810,287.18	12,123,269.21
Transfer from construction in progress	-	18,044,393.12	-	18,044,393.12
Decrease during the year	-	3,225,393.19	-	3,225,393.19
At 31 December 2013	368,277,301.12	127,213,700.24	15,105,188.83	510,596,190.19
Accumulated amortization:				
At 1 January 2013	35,686,048.60	22,930,826.06	4,727,788.95	63,344,663.61
Provided during the year	8,099,382.60	11,286,220.65	1,054,922.91	20,440,526.16
Write off during the year	-	2,946,362.58	-	2,946,362.58
At 31 December 2013	43,785,431.20	31,270,684.13	5,782,711.86	80,838,827.19
Net carrying amount				
At 31 December 2013	324,491,869.92	95,943,016.11	9,322,476.97	429,757,363.00
At 1 January 2013	332,591,252.52	78,150,892.22	9,567,112.70	420,309,257.44

2012

	Land use rights	Software	Proprietary technology	Total
Cost:				
At 1 January 2012	368,277,301.12	70,195,990.99	13,674,337.88	452,147,629.99
Purchase	-	30,885,727.29	620,563.77	31,506,291.06
At 31 December 2012	368,277,301.12	101,081,718.28	14,294,901.65	483,653,921.05
Accumulated amortization:				
At 1 January 2012	27,586,666.00	15,323,555.54	2,571,517.43	45,481,738.97
Provided during the year	8,099,382.60	7,607,270.52	2,156,271.52	17,862,924.64
At 31 December 2012	35,686,048.60	22,930,826.06	4,727,788.95	63,344,663.61
Net carrying amount				
At 31 December 2012	332,591,252.52	78,150,892.22	9,567,112.70	420,309,257.44
At 1 January 2012	340,690,635.12	54,872,435.45	11,102,820.45	406,665,891.02

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

12. Deferred tax assets

Recognized deferred tax assets:

	2013	2012
Provisions of product warranties	49,388,986.26	39,072,202.27
Provisions of technology licensing usage fees	28,324,994.18	17,259,797.55
Other accrued liabilities and accrued expenses	21,194,827.10	13,467,083.45
Government grants	3,104,743.52	4,047,894.61
Others	3,269,277.37	3,483,069.11
Total	105,282,828.43	77,330,046.99

The Company has recognized the deferred tax assets related to the above deductible temporary differences, because it is highly probable that future taxable profit will be available to be utilized.

13. Assets impairment provisions

2013

	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Write-back	Reversal	Write-off	
Provisions for bad debts	134,876,255.49	51,248,173.91	140,063,477.09	-	-	46,060,952.31
Provisions for inventories	85,386,800.69	96,030,239.53	75,955,623.28	-	-	105,461,416.94
	220,263,056.18	147,278,413.44	216,019,100.37	-	-	151,522,369.25

2012

	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Write-back	Reversal	Write-off	
Provisions for bad debts	55,250,235.52	81,870,114.16	-	1,281,755.59	962,338.60	134,876,255.49
Provisions for inventories	39,134,899.89	50,872,662.90	158,729.49	4,462,032.61	-	85,386,800.69
	94,385,135.41	132,742,777.06	158,729.49	5,743,788.20	962,338.60	220,263,056.18

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

14. Restricted ownership of assets

2013

	Opening balance	Decrease during the year	Closing balance	Note
Pledged assets				
Cash and bank balances	50,976,570.00	4,042,570.00	46,934,000.00	Note I

2012

	Opening balance	Decrease during the year	Closing balance	Note
Pledged assets				
Cash and bank balances	113,079,217.99	62,102,647.99	50,976,570.00	Note I
Trade receivables	200,000,000.00	200,000,000.00	-	
	313,079,217.99	262,102,647.99	50,976,570.00	

Note I: Pledged cash and bank balances were as follows:

	2013	2012
The guarantee deposit	46,934,000.00	50,976,570.00

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

15. Payroll and benefits payable

2013

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	11,338,161.36	910,296,662.64	900,310,531.67	21,324,292.33
Employee welfare	-	58,792,802.82	58,792,802.82	-
Social insurance	-	270,813,937.89	270,813,937.89	-
Include: 1. Medical insurance	-	78,474,098.41	78,474,098.41	-
2. Pension insurance	-	138,041,501.08	138,041,501.08	-
3. Annuity	-	32,598,894.34	32,598,894.34	-
4. Unemployment insurance	-	7,659,634.16	7,659,634.16	-
5. Work-related injury insurance	-	7,612,200.63	7,612,200.63	-
6. Maternity insurance	-	6,427,609.27	6,427,609.27	-
Housing fund	-	108,813,858.37	108,813,858.37	-
Labour union fee and employee education fee	124,285.84	34,115,718.86	33,770,431.06	469,573.64
Others	1,500,000.00	920,000.00	1,500,000.00	920,000.00
Total	12,962,447.20	1,383,752,980.58	1,374,001,561.81	22,713,865.97

2012

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	-	933,863,568.00	922,525,406.64	11,338,161.36
Employee welfare	-	57,673,041.10	57,673,041.10	-
Social insurance	-	272,426,803.31	272,426,803.31	-
Include: 1. Medical insurance	-	78,268,557.31	78,268,557.31	-
2. Pension insurance	-	135,308,417.16	135,308,417.16	-
3. Annuity	-	32,232,044.51	32,232,044.51	-
4. Unemployment insurance	-	13,072,321.99	13,072,321.99	-
5. Work-related injury insurance	-	7,354,365.59	7,354,365.59	-
6. Maternity insurance	-	6,191,096.75	6,191,096.75	-
Housing fund	-	96,989,626.00	96,989,626.00	-
Labour union fee and employee education fee	199,763.61	32,919,190.97	32,994,668.74	124,285.84
Others	1,920,000.00	2,169,207.31	2,589,207.31	1,500,000.00
Total	2,119,763.61	1,396,041,436.69	1,385,198,753.10	12,962,447.20

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

16. Taxes payable

	2013	2012
Value added tax	168,941,256.89	-
Corporate income tax	47,836,976.51	10,707,099.02
Business tax	-	474,848.59
Property tax	3,770,573.60	3,668,004.20
Individual income tax	12,641,226.28	11,228,584.63
City construction and maintenance tax	10,974,275.17	153,821.62
Educational surtax and surcharge	7,838,767.97	109,872.58
Land use tax	2,009,559.75	2,009,595.75
Stamp Duty	11,624,580.74	1,481,378.18
Local water conservancy construction funds	1,567,753.60	4,175.97
Total	267,204,970.51	29,837,380.54

17. Dividends payable

	2013	2012
Qingdao Ultimate Corporation Limited	11,232,000.00	12,480,000.00
China Railway Materials Company Limited	7,020,000.00	7,800,000.00
Guangzhou Zhongche Railway Sales & Leasing Co. Ltd	2,808,000.00	3,120,000.00
Fujian Ocean Eagle Economy & Trade Co. Ltd	2,246,400.00	2,496,000.00
Southwest Jiaotong University	280,800.00	312,000.00
China Railway Science & Technology Development Company	84,240.00	93,600.00
Total	23,671,440.00	26,301,600.00

18. Non-current liabilities due within one year

	2013	2012
Accrued liabilities due within one year	170,333,910.71	228,710,091.26
Deferred income due within one year	59,266,924.86	119,125,744.09
Total	229,600,835.57	347,835,835.35

As at 31 December 2013, deferred income due within one year was government grants, please refer to Note XIV.33 for details; accrued liabilities due within one year, please refer to Note XIV.20 for details.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

19. Long term loans

	2013	2012
Guaranteed loans	7,999,013.91	8,246,453.43

20. Accrued liabilities

	2013	2012
Expenditures of high-speed train plane transformation	31,574,707.63	63,149,707.63
Product warranties	329,259,908.40	260,481,348.45
	360,834,616.03	323,631,056.08
Less: Accrued liabilities due within one year	170,333,910.71	228,710,091.26
	190,500,705.32	94,920,964.82

The movement of accrued liabilities is disclosed as below:

2013	Opening balance	Increase during the year	Decrease during the year	Closing balance
Accrued expenditures of high-speed train	63,149,707.63	-	31,575,000.00	31,574,707.63
Product warranties	260,481,348.45	307,297,430.58	238,518,870.63	329,259,908.40
Total	323,631,056.08	307,297,430.58	270,093,870.63	360,834,616.03

2012	Opening balance	Increase during the year	Decrease during the year	Closing balance
Accrued expenditures of high-speed train	98,670,000.00	-	35,520,292.37	63,149,707.63
Product warranties	209,730,745.62	310,028,041.00	259,277,438.17	260,481,348.45
Total	308,400,745.62	310,028,041.00	294,797,730.54	323,631,056.08

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

21. Other non-current liabilities

	2013	2012
Deferred income over one year	207,227,703.95	163,935,491.32
Actuarial welfare	1,890,000.00	3,020,792.69
	209,117,703.95	166,956,284.01

Note 1: As at 31 December 2013, deferred income related to government grants, please refer to note XIV.33 for details.

Note 2: The Company provides external retirement benefits plans such as supplementary pension insurance. These plans include paying subsistence allowance to staff monthly after retirement, which the amount of subsidy is determined by staff's service time and related subsidy policies. All external retirement benefits plans are belonged to defined benefit plans.

The movements in the present value of defined benefit plans are as follows:

At 1 January 2013	4,520,792.69
Interest cost recognised in administrative expenses	328,072.31
Re-measurement on other comprehensive income	(290,000.00)
Amount paid	(1,748,865.00)
At 31 December 2013	2,810,000.00
Less: Current portion due within one year (containing in Payroll and benefits payable)	920,000.00
Non-current portion at 31 December 2013	1,890,000.00

22. Share capital

The Company's share capital is RMB4,003,794,051.00.

	2013		2012	
	Book balance	Percentage	Book balance	Percentage
CSR Corporation Limited	3,916,122,051.00	97.81%	3,916,122,051.00	97.81%
Qingdao Ultimate Corporation Limited	41,600,000.00	1.04%	41,600,000.00	1.04%
China Railway Materials Company Limited	26,000,000.00	0.65%	26,000,000.00	0.65%
Guangzhou Zhongche Railway Sales & Leasing Co. Ltd.	10,400,000.00	0.25%	10,400,000.00	0.25%
Fujian Ocean Eagle Economy & Trade Co. Ltd.	8,320,000.00	0.21%	8,320,000.00	0.21%
Southwest Jiaotong University	1,040,000.00	0.03%	1,040,000.00	0.03%
China Railway Science & Technology Development Company	312,000.00	0.01%	312,000.00	0.01%
Total	4,003,794,051.00	100.00%	4,003,794,051.00	100.00%

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

23. Capital reserve

2013	Share premium	Share-based payment	others	total
Opening balance	676,663,789.00	5,984,111.19	1,320,000.00	683,967,900.19
Increase during the year	-	-	290,000.00	290,000.00
Write back during the year	-	(908,091.76)	-	(908,091.76)
Closing balance	676,663,789.00	5,076,019.43	1,610,000.00	683,349,808.43

2012	Share premium	Share-based payment	others	total
Opening balance	351,933,820.00	1,106,315.56	1,320,000.00	354,360,135.56
Increase during the year	324,729,969.00	4,877,795.63	-	329,607,764.63
Closing balance	676,663,789.00	5,984,111.19	1,320,000.00	683,967,900.19

24. Surplus reserves

2013	Opening balance	Increase during the year	Closing balance
Statutory surplus reserves	498,218,521.85	142,965,708.50	641,184,230.35
Discretionary surplus reserve	230,052,417.86	105,693,325.37	335,745,743.23
Total	728,270,939.71	248,659,033.87	976,929,973.58

2012	Opening balance	Increase during the year	Closing balance
Statutory surplus reserves	337,605,981.35	160,612,540.50	498,218,521.85
Discretionary surplus reserve	149,746,147.61	80,306,270.25	230,052,417.86
Total	487,352,128.96	240,918,810.75	728,270,939.71

In accordance with the Company Law of the PRC and the articles of association, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company.

The Company is authorized to allocate discretionary surplus reserve from profit after tax after the allocation of statutory surplus reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

25. Retained earnings

	2013	2012
Retained earnings at beginning of year	164,786,947.17	88,490,508.03
Net profit attributable to equity holders of the parent	1,429,657,084.95	1,606,125,404.95
Less: Transfer to statutory surplus reserves	142,965,708.50	160,612,540.50
Transfer to discretionary surplus reserve	105,693,325.37	80,306,270.25
Cash dividend payable	1,209,025,689.58	1,288,910,155.06
Retained earnings at end of year	136,759,308.67	164,786,947.17

In accordance with the resolution passed at the 2012 annual shareholder general meeting held on 28 June 2013, the cash dividend distribution proposal was RMB0.03197 per share and a total amount of RMB128,001,295.81 paid to shareholders. With the 2013 dividend plan proposal approved by the fifth meeting of the third board of directors held on 30 December 2013, the cash dividend distribution was RMB 0.27 per share and a total amount of RMB1,081,024,393.77. In 2013, the actual cash dividend paid by the Company amounted to RMB1,209,025,689.58.

26. Revenue

Revenue is stated as follows:

	2013	2012
Principal operating income	21,175,263,647.73	21,456,518,322.52
Other operating income	41,669,143.63	47,695,258.13
Total	21,216,932,791.36	21,504,213,580.65

	2013	2012
Sale of goods	17,567,648,241.17	20,009,486,613.53
Rendering of services	3,624,029,135.98	1,467,582,259.96
Lease income	2,821,211.80	900,338.96
Others	22,434,202.41	26,244,368.20
Total	21,216,932,791.36	21,504,213,580.65

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

27. Financial expenses

	2013	2012
Interest expenses	104,193.66	58,690,631.75
Less: Interest income	86,236,959.26	67,049,207.92
Foreign exchange gain or loss	(33,051,127.38)	(17,344,580.96)
Others	4,013,363.35	(4,512,721.34)
Total	(115,170,529.63)	(30,215,878.47)

28. Assets impairment loss

	2013	2012
Provision for bad debts	(88,815,303.18)	81,870,114.16
Provision for inventories	20,074,616.25	50,713,933.41
Total	(68,740,686.93)	132,584,047.57

29. Investment income/ (loss)

	2013	2012
Long term equity investment income under the cost method	62,542,585.97	34,234,487.50
Investment income/ (loss) of associates under the equity method	121,966.21	(646,440.68)
Total	62,664,552.18	33,588,046.82

30. Non-operating income

	2013	2012
Government grants	117,606,536.60	52,087,884.07
Import discount interest	6,865,700.00	3,313,100.00
Gains on disposal of fixed assets	1,449,507.79	1,968,910.86
Others	149,937.31	506,898.69
Total	126,071,681.70	57,876,793.62

Please refer to note XIV.33 for details of government grants.

31. Non-operating expenses

	2013	2012
Loss on disposal of non-current assets	796,848.06	4,200,551.26
Public relief donation	59,400.00	350,000.00
Others	91,888.21	555,241.02
Total	948,136.27	5,105,792.28

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

32. Income tax expense

	2013	2012
Current income tax expense	239,148,417.70	269,490,249.95
Deferred income tax expense	(27,952,781.45)	1,870,206.65
Total	211,195,636.25	271,360,456.60
Relationship between income tax and profit before tax:		
Profit before tax	1,640,852,721.20	1,877,485,861.55
Tax at the statutory tax rate of 25%	410,213,180.30	469,371,465.39
Effect of tax privilege	(140,797,090.84)	(179,875,682.47)
Profits and losses attributable to associates	(30,491.55)	161,610.17
Income not subject to tax	(15,635,646.49)	(8,558,621.88)
Expenses not deductible for tax	3,108,404.55	38,050,418.37
Others (note)	(45,662,719.72)	(47,788,732.98)
Tax charge at the Group's effective rate	211,195,636.25	271,360,456.60

Note: Others were effect of additional deduction to research and development expenses that the Company developed new technology, new products and new techniques.

33. Government grants

	2013	2012
Government grants related to assets	135,595,834.13	128,635,272.32
Government grants related to income	130,898,794.68	154,425,963.09
Total	266,494,628.81	283,061,235.41
Among:		
Deferred income due within one year	59,266,924.86	119,125,744.09
Deferred income due over one year	207,227,703.95	163,935,491.32

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

33. Government grants (continued)

Movement details during the 2013 are as follows:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Credited to profit and loss	Paid to project partner	
Government grants related to assets:					
Appropriation of state key laboratory by the Ministry of Finance of PRC	13,456,249.98	-	1,425,000.00	-	12,031,249.98
High-speed train localization project	13,529,714.10	-	4,862,673.96	-	8,667,040.14
High-speed train information system of R&D and manufacture	2,631,847.15	-	2,327,499.96	-	304,347.19
High-speed train subsidy of industrialization technological transformation	20,423,313.10	-	2,373,133.80	-	18,050,179.30
Appropriation of three funds of technology by Science and Technology bureau of Chengyang District	33,148,525.68	-	3,322,477.94	-	29,826,047.74
Appropriation of three funds of technology by Science and Technology bureau of Chengyang District-Hollow shaft	45,034,684.80	-	4,832,402.57	-	40,202,282.23
Appropriation of technology development subsidies by Chengyang District	-	24,600,000.00	-	-	24,600,000.00
Others	410,937.51	3,000,000.00	1,496,249.96	-	1,914,687.55
Government grants related to income:					
Common base and system integration subject	59,341,941.05	-	22,454,540.70	1,000,000.00	35,887,400.35
High-speed train key technology of pedigree of module Construction and integrated design for China State 863 projects	19,960,219.00	29,000,000.00	1,942,100.01	10,717,820.00	36,300,298.99
High-cold train key technical research	10,220,854.69	-	10,220,854.69	-	-
Official high-speed train key technical research	9,166,845.07	-	3,482,113.21	-	5,684,731.86
High-speed train integrated platform construction of design and manufacture and typical models development for China State 863 projects	8,420,000.00	7,800,000.00	56,455.20	-	16,163,544.80
High-speed bogie subject	6,625,455.20	-	497,689.59	-	6,127,765.61
High-speed train reliability of key materials and components subject	4,105,864.88	-	3,105,156.57	-	1,000,708.31
High-speed body technology subject	8,557,185.30	-	4,256,041.18	-	4,301,144.12
Traction drive system of high-speed train based on permanent magnet motor for China State 863 projects	7,257,101.30	5,000,000.00	2,305,979.42	4,455,000.00	5,496,121.88
Key technical research and prototype development for intelligent high-speed train	5,354,000.00	2,750,000.00	7,242,561.91	-	861,438.09
Key technical research of bogie and equipment development for higher-speed train	6,920,000.00	-	164,877.25	1,200,000.00	5,555,122.75
Development for 350 km/h high speed train	-	10,100,000.00	10,100,000.00	-	-
Development for higher-speed test train	-	28,660,000.00	28,660,000.00	-	-
Local government award	3,202,653.28	278,000.00	70,218.00	-	3,410,435.28
Others	5,293,843.32	8,036,000.00	2,408,510.68	811,250.00	10,110,082.64
	283,061,235.41	119,224,000.00	117,606,536.60	18,184,070.00	266,494,628.81

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

33. Government grants (continued)

Movement details during the 2012 are as follows:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Credited to profit and loss	Paid to project partner	
Government grants related to assets:					
Appropriation of state key laboratory by the Ministry of Finance of PRC	14,881,249.98	-	1,425,000.00	-	13,456,249.98
High-speed train localization project	18,392,388.06	-	4,862,673.96	-	13,529,714.10
High-speed train information system of R&D and manufacture	6,805,543.11	-	4,173,695.96	-	2,631,847.15
High-speed train subsidy of industrialization technological transformation	24,480,860.90	-	4,057,547.80	-	20,423,313.10
Appropriation of three funds of technology by Science and Technology bureau of Chengyang District	35,557,200.00	-	2,408,674.32	-	33,148,525.68
Appropriation of three funds of technology by Science and Technology bureau of Chengyang District-Hollow shaft	50,570,097.35	-	5,535,412.55	-	45,034,684.80
Others	-	500,000.00	89,062.49	-	410,937.51
Government grants related to income:					
Common base and system integration subject	70,306,843.41	12,200,000.00	12,637,902.36	10,527,000.00	59,341,941.05
High-speed train key technology of pedigree of module Construction and integrated design for China State 863 projects	-	34,100,000.00	1,204,481.00	12,935,300.00	19,960,219.00
High-speed train key technical research	-	12,570,000.00	2,349,145.31	-	10,220,854.69
Official high-speed train key technical research	-	12,000,000.00	2,833,154.93	-	9,166,845.07
High-speed train integrated platform construction of design and manufacture and typical models development for China State 863 projects	-	8,420,000.00	-	-	8,420,000.00
High-speed bogie subject	6,285,062.89	1,220,000.00	879,607.69	-	6,625,455.20
High-speed train reliability of key materials and components subject	4,953,283.88	2,130,000.00	793,719.00	2,183,700.00	4,105,864.88
High-speed body technology subject	10,362,645.09	559,500.00	2,364,959.79	-	8,557,185.30
Traction drive system of high-speed train based on permanent magnet motor for China State 863 projects	6,926,834.50	17,000,000.00	2,079,733.20	14,590,000.00	7,257,101.30
Key technical research and prototype development for intelligent high-speed train	3,900,000.00	2,850,000.00	1,396,000.00	-	5,354,000.00
Key technical research of bogie and equipment development for higher-speed train	7,000,000.00	3,000,000.00	280,000.00	2,800,000.00	6,920,000.00
Local government award	3,040,000.00	940,000.00	777,346.72	-	3,202,653.28
Others	5,771,710.31	1,757,400.00	1,939,766.99	295,500.00	5,293,843.32
	269,233,719.48	109,246,900.00	52,087,884.07	43,331,500.00	283,061,235.41

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

34. Other comprehensive income

	2013	2012
Re-measurement of retiree benefit recognized in the other comprehensive income statement	290,000.00	-

35. Cash flows from operating activities

Reconciliation of net profit to cash flows from operating activities:

	2013	2012
Net profit	1,429,657,084.95	1,606,125,404.95
Add: Assets impairment loss	(68,740,686.93)	132,584,047.57
Depreciation of fixed assets	375,613,370.20	366,846,853.92
Amortization of intangible assets	20,440,526.16	17,862,924.64
Loss/ (income) on disposal of fixed assets, intangible assets and other long-term assets	(652,659.73)	2,231,640.40
Financial expenses	(55,558,566.86)	17,504,117.18
Investment income	(62,664,552.18)	(33,588,046.82)
Loss on fair value changes	-	4,569,141.62
Decrease/ (increase) in deferred tax assets	(27,952,781.44)	2,555,577.89
Decrease in deferred tax liabilities	-	(685,371.24)
Decrease/ (Increase) in inventories	1,874,509,895.50	(300,785,736.04)
Increase in receivables from operating activities	(3,752,662,563.32)	(2,130,206,334.19)
Increase in payables from operating activities	2,671,344,589.74	1,734,891,611.42
Share-based payment	(908,091.76)	4,877,795.63
Net cash flows from operating activities	2,402,425,564.33	1,424,783,626.93

36. Cash and cash equivalents

	2013	2012
Cash	2,141,797,954.17	1,546,162,962.01
Including: Cash on hand	140,367.61	23,605.61
Bank deposit without restriction	2,141,657,586.56	1,546,139,356.40
Closing balance of cash and cash equivalents	2,141,797,954.17	1,546,162,962.01

XV. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 12 March 2014.

CSR Qingdao Sifang Co., Ltd.

Audited Financial Statements

31 December 2012

Important Notice

The attached financial statements have been translated from the statutory financial statements prepared in accordance with generally accepted accounting principles applicable to business enterprises established in the People's Republic of China. In the event of any differences in interpreting the financial statements, the Chinese version shall prevail.

CSR QINGDAO SIFANG CO., LTD.

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REPORT OF THE AUDITORS

Ernst & Young Hua Ming (2013) Shen Zi No. 60626562_J01

To the board of directors of CSR Qingdao Sifang Co., Ltd.

We have audited the accompanying financial statements of CSR Qingdao Sifang Co., Ltd., which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Standards on Auditing. Those standards require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and company's financial position of CSR Qingdao Sifang Co., Ltd. as at 31 December 2012 and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China 28 March 2013

A member firm of Ernst & Young Global Limited

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED BALANCE SHEET
31 December 2012
Renminbi Yuan

ASSETS	Note VI	2012	2011
CURRENT ASSETS:			
Cash and bank balances	1	1,766,394,113.61	2,573,106,100.79
Financial assets held for trading		-	4,569,141.62
Bills receivable	2	210,500,000.00	-
Trade receivables	3	5,153,224,324.87	3,206,309,623.58
Prepayments	4	32,400,109.79	67,953,231.67
Other receivables	5	3,185,440,111.20	3,218,766,897.56
Inventories	6	5,185,105,863.99	4,714,947,260.43
Other current assets	7	338,351,416.69	-
Total current assets		15,871,415,940.15	13,785,652,255.65
NON-CURRENT ASSETS:			
Long-term equity investments	8	13,098,042.69	13,594,483.37
Fixed assets	9	3,314,870,458.32	3,259,984,483.58
Construction in progress	10	177,318,050.15	352,987,265.11
Disposal of fixed assets		33,628.34	-
Intangible assets	11	657,371,079.38	586,852,383.70
Deferred tax assets	12	77,330,046.99	79,885,624.88
Total non-current assets		4,240,021,305.87	4,293,304,240.64
TOTAL ASSETS		20,111,437,246.02	18,078,956,496.29

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2012

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note VI	2012	2011
CURRENT LIABILITIES:			
Short-term loans	15	-	1,400,000,000.00
Bills payable		2,185,928,509.31	1,909,595,829.00
Accounts payable		10,151,965,742.20	7,000,868,084.44
Advance from customers		899,631,542.72	2,244,530,255.57
Payroll and benefits payable	16	13,008,339.64	2,121,516.26
Taxes payable	17	49,263,277.16	196,473,337.27
Dividends payable	18	26,301,600.00	38,184,801.58
Other payables		414,482,511.17	529,084,450.86
Non-current liabilities due within one year	19	349,399,467.03	256,319,495.96
Total current liabilities		14,089,980,989.23	13,577,177,770.94
NON-CURRENT LIABILITIES:			
Long-term loans	20	8,246,453.43	8,266,657.93
Accrued liability	21	94,920,964.82	149,012,442.02
Deferred tax liability	12	-	685,371.24
Other non-current liabilities	22	241,946,972.97	256,510,479.44
Total non-current liabilities		345,114,391.22	414,474,950.63
Total liabilities		14,435,095,380.45	13,991,652,721.57
SHAREHOLDERS' EQUITY:			
Share capital	23	4,003,794,051.00	3,157,264,020.00
Capital reserve	24	683,967,900.19	354,360,135.56
Surplus reserves	25	728,270,939.71	487,352,128.96
Retained earnings	26	167,056,386.54	88,327,490.20
Exchange fluctuation reserve		(484,188.48)	-
Equity attributable to shareholders of the parent		5,582,605,088.96	4,087,303,774.72
Minority equity		93,736,776.61	-
Total shareholders' equity		5,676,341,865.57	4,087,303,774.72
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		20,111,437,246.02	18,078,956,496.29

The notes on pages 16 to 93 form an integral part of these financial statements.

The financial statements from pages 2 to 93 are signed by the following persons:

Company Representative: Chief Accountant: Head of Accounting:

CSR QINGDAO SIFANG CO., LTD.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2012

Renminbi Yuan

	Note VI	2012	2011
Revenue	27	24,050,951,012.60	23,979,769,424.32
Less: Cost of sales		20,080,110,550.99	20,109,262,335.29
Business taxes and surcharges		73,788,161.15	98,843,362.50
Selling expenses		459,239,439.83	535,289,676.49
Administrative expenses		1,491,856,238.79	1,521,372,735.11
Financial expenses	28	(30,982,535.35)	85,460,057.18
Assets impairment losses	29	134,874,902.30	21,935,383.58
Add: Income/ (loss) on fair value changes		(4,569,141.62)	4,569,141.62
Investment income/ (loss)	30	(646,440.68)	3,352,814.28
Including: Investment income/ (loss) of associates		(646,440.68)	3,352,814.28
Operating profit		1,836,848,672.59	1,615,527,830.07
Add: Non-operating income	31	60,393,575.30	36,409,633.41
Less: Non-operating expenses	32	5,108,694.65	1,384,010.53
Including: loss on disposal of non-current assets		4,200,551.26	-
Profit before tax		1,892,133,553.24	1,650,553,452.95
Less: Income tax expense	33	285,838,914.48	209,721,330.81
Net profit		1,606,294,638.76	1,440,832,122.14
Net profit attributable to shareholders of the Parent		1,608,557,862.15	1,440,832,122.14
Minority shareholders' loss		(2,263,223.39)	-
Other comprehensive loss		(484,188.48)	-
Total Comprehensive income		1,605,810,450.28	1,440,832,122.14
Including:			
Total comprehensive income attributable to shareholders of the Parent		1,608,073,673.67	1,440,832,122.14
Total comprehensive income attributable to minority shareholders		(2,263,223.39)	-

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2012
Renminbi Yuan

	Equity attributable to shareholders of the Parent						Minority equity	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained earnings	Exchange fluctuation reserve	Sub-total		
1. At 1 January 2012	3,157,264,020.00	354,360,135.56	487,352,128.96	88,327,490.20	-	4,087,303,774.72	-	4,087,303,774.72
2. Increase/(decrease) during the year								
(i) Net profit	-	-	-	1,608,557,862.15	-	1,608,557,862.15	(2,263,223.39)	1,606,294,638.76
(ii) Profit and loss directly recorded in the shareholders' equity								
(a) Exchange fluctuation reserve	-	-	-	-	(484,188.48)	(484,188.48)	-	(484,188.48)
Total comprehensive income	-	-	-	1,608,557,862.15	(484,188.48)	1,608,073,673.67	(2,263,223.39)	1,605,810,450.28
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital contribution by shareholders	846,530,031.00	324,729,969.00	-	-	-	1,171,260,000.00	96,000,000.00	1,267,260,000.00
(b) Share-based payment recorded in shareholders' equity	-	4,877,795.63	-	-	-	4,877,795.63	-	4,877,795.63
(iv) Profit appropriation								
(a) Transfer to surplus reserves	-	-	240,918,810.75	(240,918,810.75)	-	-	-	-
(b) Dividend paid	-	-	-	(1,288,910,155.06)	-	(1,288,910,155.06)	-	(1,288,910,155.06)
3. At 31 December 2012	4,003,794,051.00	683,967,900.19	728,270,939.71	167,056,386.54	(484,188.48)	5,582,605,088.96	93,736,776.61	5,676,341,865.57

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
Year ended 31 December 2011
Renminbi Yuan

	Equity attributable to shareholders of the Parent					Minority equity	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained earnings	Sub-total		
1. At 1 January 2011	3,103,712,377.00	319,805,463.00	271,233,513.70	164,756,442.24	3,859,507,795.94	-	3,859,507,795.94
2. Increase/(decrease) during the year							
(i) Net profit	-	-	-	1,440,832,122.14	1,440,832,122.14	-	1,440,832,122.14
Total comprehensive income	-	-	-	1,440,832,122.14	1,440,832,122.14	-	1,440,832,122.14
(ii) Capital contribution and withdrawal by shareholders							
(a) Capital contribution by shareholders	53,551,643.00	33,448,357.00	-	-	87,000,000.00	-	87,000,000.00
(b) Share-based payment recorded in shareholders' equity	-	1,106,315.56	-	-	1,106,315.56	-	1,106,315.56
(iii) Profit appropriation							
(a) Transfer to surplus reserves	-	-	216,118,615.26	(216,118,615.26)	-	-	-
(b) Dividend paid	-	-	-	(1,301,111,803.18)	(1,301,111,803.18)	-	(1,301,111,803.18)
(c) Others	-	-	-	(30,655.74)	(30,655.74)	-	(30,655.74)
3. At 31 December 2011	3,157,264,020.00	354,360,135.56	487,352,128.96	88,327,490.20	4,087,303,774.72	-	4,087,303,774.72

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2012
Renminbi Yuan

	Note VI	2012	2011
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		23,342,032,944.38	24,574,544,947.35
Refunds of taxes		6,810,303.31	-
Cash received relating to other operating activities		220,422,313.53	367,852,600.34
Sub-total of cash inflows		23,569,265,561.22	24,942,397,547.69
Cash paid for goods and services		18,713,534,809.88	20,694,870,066.22
Cash paid to and on behalf of employees		1,410,161,606.07	1,327,412,429.25
Cash paid for all taxes		1,176,623,734.10	937,307,733.20
Cash paid relating to other operating activities		847,151,815.19	949,386,851.20
Sub-total of cash outflows		22,147,471,965.24	23,908,977,079.87
Net cash flows from operating activities	35	1,421,793,595.98	1,033,420,467.82
2. Cash flows from investing activities:			
Cash received from retrieval of investments		-	50,000,000.00
Cash received from investment income		5,850,000.00	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,731,400.17	10,113,801.38
Cash received relating to other investing activities		-	878,254,211.34
Sub-total of cash inflows		8,581,400.17	938,368,012.72
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		597,106,148.71	637,975,923.34
Cash paid for acquisitions of investments		6,000,000.00	-
Cash paid relating to other investing activities		81,827,754.03	-
Sub-total of cash outflows		684,933,902.74	637,975,923.34
Net cash flows from/ (used in) investing activities		(676,352,502.57)	300,392,089.38

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
Year ended 31 December 2012
Renminbi Yuan

	Note VI	2012	2011
3. Cash flows from financing activities:			
Cash received from capital contribution		1,267,260,000.00	210,700.00
Including: capital contribution by minority shareholders		96,000,000.00	-
Cash received from borrowings		-	5,305,000,000.00
Sub-total of cash inflows		1,267,260,000.00	5,305,210,700.00
Cash repayments of borrowings		1,400,000,000.00	3,976,655,597.45
Cash paid for distribution of dividend or profits and for interest expenses		1,361,547,361.99	1,417,320,871.54
Sub-total of cash outflows		2,761,547,361.99	5,393,976,468.99
Net cash flows used in financing activities		(1,494,287,361.99)	(88,765,768.99)
4. Effect of foreign exchange rate changes on cash and cash equivalents		4,236,929.39	(21,787,887.54)
5. Net increase/(decrease) in cash and cash equivalents		(744,609,339.19)	1,223,258,900.67
Add: Balance of cash and cash equivalents at beginning of year		2,460,026,882.80	1,236,767,982.13
6. Balance of cash and cash equivalents at end of year	36	1,715,417,543.61	2,460,026,882.80

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

BALANCE SHEET

31 December 2012

Renminbi Yuan

ASSETS	Note XIII	2012	2011
CURRENT ASSETS:			
Cash and bank balances	1	1,597,139,532.01	2,533,933,490.92
Financial assets held for trading		-	4,569,141.62
Bills receivable	2	195,500,000.00	-
Trade receivables	3	5,235,012,864.15	3,205,561,942.36
Prepayments	4	32,382,109.79	67,953,231.67
Dividends receivable		34,234,487.50	-
Other receivables	5	3,268,152,611.00	3,216,981,661.01
Inventories	6	4,969,463,680.41	4,714,929,845.17
Other current assets	7	335,865,015.56	-
Total current assets		15,667,750,300.42	13,743,929,312.75
NON-CURRENT ASSETS:			
Long-term equity investments	8	530,165,842.69	376,662,283.37
Fixed assets	9	3,156,686,761.53	3,097,539,440.61
Construction in progress	10	93,160,616.60	347,703,142.76
Disposal of fixed Assets		33,628.34	-
Intangible assets	11	420,309,257.44	406,665,891.02
Deferred tax assets	12	77,330,046.99	79,885,624.88
Total non-current assets		4,277,686,153.59	4,308,456,382.64
TOTAL ASSETS		19,945,436,454.01	18,052,385,695.39

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
BALANCE SHEET (CONTINUED)
31 December 2012
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note XIII	2012	2011
CURRENT LIABILITIES:			
Short-term loans	15	-	1,400,000,000.00
Bills payable		2,185,928,509.31	1,909,595,829.00
Accounts payable		10,178,033,148.93	7,020,462,333.77
Advance from customers		899,144,100.72	2,244,526,426.75
Payroll and benefits payable	16	12,962,447.20	2,119,763.61
Taxes payable	17	29,837,380.54	197,099,114.81
Dividends payable	18	26,301,600.00	38,184,801.58
Other payables		414,449,891.63	561,154,139.05
Non-current liabilities due within one year	19	347,835,835.35	254,755,864.69
Total current liabilities		14,094,492,913.68	13,627,898,273.26
NON-CURRENT LIABILITIES:			
Long-term loans	20	8,246,453.43	8,266,657.93
Deferred tax liabilities	12	-	685,371.24
Accrued liability	21	94,920,964.82	149,012,442.02
Other non-current liabilities	22	166,956,284.01	179,056,158.39
Total non-current liabilities		270,123,702.26	337,020,629.58
Total liabilities		14,364,616,615.94	13,964,918,902.84
SHAREHOLDERS' EQUITY:			
Share capital	23	4,003,794,051.00	3,157,264,020.00
Capital reserve	24	683,967,900.19	354,360,135.56
Surplus reserves	25	728,270,939.71	487,352,128.96
Retained earnings	26	164,786,947.17	88,490,508.03
Total shareholder's equity		5,580,819,838.07	4,087,466,792.55
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		19,945,436,454.01	18,052,385,695.39

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

STATEMENT OF INCOME

Year ended 31 December 2012

Renminbi Yuan

	Note XIII	2012	2011
Revenue	27	21,504,213,580.65	24,126,634,099.05
Less: Cost of sales		17,594,413,259.10	20,280,642,255.29
Business taxes and surcharges		72,157,458.98	98,723,631.57
Selling expenses		482,909,784.38	535,249,676.49
Administrative expenses		1,456,668,954.08	1,497,865,405.88
Financial expenses	28	(30,215,878.47)	86,718,283.08
Assets impairment losses	29	132,584,047.57	21,935,383.58
Add: Income/ (Loss) on fair value changes		(4,569,141.62)	4,569,141.62
Investment income	30	33,588,046.82	6,232,340.94
Including: Investment income/ (loss) of associates		(646,440.68)	3,352,814.28
Operating profit		1,824,714,860.21	1,616,300,945.72
Add: Non-operating income	31	57,876,793.62	34,442,601.73
Less: Non-operating expenses	32	5,105,792.28	1,384,010.53
Including: loss on disposal of non-current assets		4,200,551.26	-
Profit before tax		1,877,485,861.55	1,649,359,536.92
Less: Income tax expense	33	271,360,456.60	208,364,396.95
Net profit		1,606,125,404.95	1,440,995,139.97
Other comprehensive income		-	-
Total comprehensive income		1,606,125,404.95	1,440,995,139.97

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained earnings	Total shareholders' equity
1. At 1 January 2012	3,157,264,020.00	354,360,135.56	487,352,128.96	88,490,508.03	4,087,466,792.55
2. Increase/(decrease) during the year					
(i) Net profit	-	-	-	1,606,125,404.95	1,606,125,404.95
Total comprehensive income	-	-	-	1,606,125,404.95	1,606,125,404.95
(ii) Capital contribution and withdrawal by shareholders					
(a) Capital contribution by shareholders	846,530,031.00	324,729,969.00	-	-	1,171,260,000.00
(b) Share-based payment recorded in shareholders' equity	-	4,877,795.63	-	-	4,877,795.63
(iii) Profit appropriation					
(a) Transfer to surplus reserves	-	-	240,918,810.75	(240,918,810.75)	-
(b) Dividend paid	-	-	-	(1,288,910,155.06)	(1,288,910,155.06)
3. At 31 December 2012	4,003,794,051.00	683,967,900.19	728,270,939.71	164,786,947.17	5,580,819,838.07

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2011

Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained earnings	Total shareholders' equity
1. At 1 January 2011	3,103,712,377.00	319,805,463.00	271,202,857.96	164,756,442.24	3,859,477,140.20
2. Increase/(decrease) during the year					
(i) Net profit	-	-	-	1,440,995,139.97	1,440,995,139.97
Total comprehensive income	-	-	-	1,440,995,139.97	1,440,995,139.97
(ii) Capital contribution and withdrawal by shareholders					
(a) Capital contribution by shareholders	53,551,643.00	33,448,357.00	-	-	87,000,000.00
(b) Share-based payment recorded in shareholders' equity	-	1,106,315.56	-	-	1,106,315.56
(iii) Profit appropriation					
(a) Transfer to surplus reserves	-	-	216,149,271.00	(216,149,271.00)	-
(b) Dividend paid	-	-	-	(1,301,111,803.18)	(1,301,111,803.18)
3. At 31 December 2011	3,157,264,020.00	354,360,135.56	487,352,128.96	88,490,508.03	4,087,466,792.55

The notes on pages 16 to 93 form an integral part of these financial statements.

CSR QINGDAO SIFANG CO., LTD.
CASH FLOW STATEMENT
Year ended 31 December 2012
Renminbi Yuan

	Note XIII	2012	2011
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		20,273,911,169.14	24,687,840,098.44
Refunds of taxes		6,810,303.31	-
Cash received relating to other operating activities		219,712,204.85	277,909,798.65
Sub-total of cash inflows		20,500,433,677.30	24,965,749,897.09
Cash paid for goods and services		15,688,540,271.43	20,808,321,799.29
Cash paid to and on behalf of employees		1,391,203,458.50	1,311,713,166.89
Cash paid for all taxes		1,163,982,239.49	933,531,764.04
Cash paid relating to other operating activities		831,924,080.95	988,100,164.34
Sub-total of cash outflows		19,075,650,050.37	24,041,666,894.56
Net cash flows from operating activities	35	1,424,783,626.93	924,083,002.53
2. Cash flows from investing activities:			
Cash received from retrieval of investments		-	50,000,000.00
Cash received from investment income		5,850,000.00	2,879,526.66
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,731,400.17	10,113,801.38
Cash received relating to other investing activities		-	878,254,211.34
Sub-total of cash inflows		8,581,400.17	941,247,539.38
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		450,206,954.76	476,623,428.49
Cash paid for acquisitions of investments		160,000,000.00	63,067,800.00
Cash paid relating to other investing activities		111,827,754.03	-
Sub-total of cash outflows		722,034,708.79	539,691,228.49
Net cash flows from/ (used in) investing activities		(713,453,308.62)	401,556,310.89

The notes on pages 16 to 93 form an integral part of these financial statements.

	Note XIII	2012	2011
3. Cash flows from financing activities:			
Cash received from capital contribution		1,171,260,000.00	210,700.00
Cash received from borrowings		-	5,305,000,000.00
Sub-total of cash inflows		1,171,260,000.00	5,305,210,700.00
Cash repayments of borrowings		1,400,000,000.00	3,976,655,597.45
Cash paid for distribution of dividend or profits and for interest expenses		1,361,547,361.99	1,418,102,083.07
Sub-total of cash outflows		2,761,547,361.99	5,394,757,680.52
Net cash flows used in financing activities		(1,590,287,361.99)	(89,546,980.52)
4. Effect of foreign exchange rate changes on cash and cash equivalents		4,265,732.76	(21,787,887.54)
5. Net increase/(decrease) in cash and cash equivalents		(874,691,310.92)	1,214,304,445.36
Add: Balance of cash and cash equivalents at beginning of year		2,420,854,272.93	1,206,549,827.57
6. Balance of cash and cash equivalents at end of year	36	1,546,162,962.01	2,420,854,272.93

The notes on pages 16 to 93 form an integral part of these financial statements.

I. GENERAL INFORMATION OF THE GROUP

CSR Qingdao Sifang Co., Ltd. (the "Company"), a joint stock limited company, was incorporated in Qingdao City, Shandong Province, the People's Republic of China (the "PRC") on 22 July 2002. The registration number of the Company's business license is No. 370200018079774. The legal representative of the Company is Zhang Zaizhong. The headquarter of the Company is located at No. 88 Jin Hong Dong Road, Chengyang District, Qingdao City, Shandong Province, the PRC.

The Company was formerly known as CSR Sifang Locomotive & Rolling Stock Co., Ltd., which was founded on promotion through approval of NO.195 [2002] Guojingmaoqigai of the State Economic and Trade Commission of PRC. The CSR Group Company (the original name was China South Locomotive & Rolling Stock Industry Group Company, hereinafter referred to briefly as the CSR Group), the main sponsor, paid in net assets related to manufacture of locomotive and passenger train of its wholly-owned subsidy of the original Sifang Locomotive & Rolling Factory as investment, associated with Beiya Industry (Group) Stock Co., Ltd. ("Beiya Industry"), Qingdao Ultimate Corporation Limited (the "original" Qingdao Ultimate Transportation Equipment Co., Ltd.), China Railway Materials Company Limited, Guangzhou Zhongche Railway Sales & Leasing Co. Ltd, Fujian Ocean Eagle Economy & Trade Co. Ltd. , Southwest Jiaotong University, China Railway Science & Technology Development Company as other sponsors. The original registered capital of the Company was RMB286,046,150.00.

On April 2006, CSR Group increased investment RMB450,000,000.00 to the Company, which credited to share capital RMB264,015,000.00 and credited to the share premium RMB185,985,000.00 respectively. This capital increment was approved by the Company's shareholders at the first extraordinary annual general meeting and *Reply of Capital Increment of CSR Sifang Locomotive & Rolling Stock Co., Ltd. NO.231* [2006] Guozichanquan of the State-owned Assets Supervision and Administration Commission of the State Council of PRC.

In 2007, CSR Group acquired all 32,500,000 shares of the Company held by Beiya Industry. In the same year, CSR Group invested all 495,266,150 held shares into newly established CSR Corporation Limited because of the reorganization.

In 2008, CSR Corporation Limited increased investment RMB521,380,000.00 to the Company, which credited to share capital RMB478,824,900.00 and credited to the share premium RMB42,555,100.00 respectively, after listed in Shanghai Stock Exchange and Hong Kong Stock Exchange. In the same year, capitalizing of common reserves of the Company was 6 shares upon each 10 shares to the whole shareholders. Totally 330,030,000 shares are capitalized, which 318,060,000 shares capitalized from capital reserve and 11,970,000 shares capitalized from discretionary surplus reserve respectively. On December 2008, the Company changed name into CSR Qingdao Sifang Co., Ltd. .

On November 2009, CSR Corporation Limited increased investment RMB2,000,000,000.00 to the Company in cash, which credited to share capital RMB1,744,789,622.00 and credited to the share premium RMB255,210,378.00 respectively. This capital increment was approved by the Company's shareholders at the first extraordinary annual general meeting in 2009.

On October 2011, CSR Corporation Limited increased investment RMB87,000,000.00 to the Company in cash, which credited to share capital RMB53,551,643.00 and credited to the share premium RMB33,448,357.00 respectively. This capital increment was approved by the Company's shareholders at the third extraordinary annual general meeting in 2011.

On July 2012, CSR Corporation Limited increased investment RMB1,171,260,000.00 to the Company in cash, which credited to share capital RMB846,530,031.00 and credited to the share premium RMB324,729,969.00 respectively. This capital increment was approved by the Company's shareholders at the third extraordinary annual general meeting in 2012.

I. GENERAL INFORMATION OF THE GROUP (CONTINUED)

Above mentioned capital increments of the Company were specially verified by Certified Public Accountant of China through capital verification reports. The Company had made registration of change with the Industrial and Commercial Administration accordingly.

The share capital of the Company was RMB4,003,794,051.00 at 31 December 2012.

The Company together with its subsidiaries (collectively known as the "Group") is principally engaged in the manufacture, sale and repair of high-speed train and urban rail transit production business. The Company's principal activities include: design, manufacture, repair, sales and lease of locomotive, passenger train and urban rail transportation equipment; manufacture and sales of accessories of locomotive, passenger train and urban rail transportation equipment; technological services of locomotive and rolling; machining; welding processing; castings sales; heat treatment; metrological verification testing; physical and chemical inspection test; sales of measuring equipment; overhaul, sales and technical advisory of high-speed train and passenger train and related accessories; operating the export and import business and export and import of machine equipment, installation kit and raw and ancillary materials of the Company excluding goods of limited operating and prohibited export and import; the operation of processing with imported materials and processing with supplied material, assembling parts supplied by clients, processing with customer's samples and compensatory trade of the Company.

The parent company of the Group is CSR Corporation Limited and the ultimate parent company of the Group is CSR Group, which both are incorporated in the PRC.

II. BASIS OF PREPARATION

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

The financial statements are prepared based on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Provision for impairment is provided in accordance with related regulations when indications of impairment of assets noted.

Statement of adoption of the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 31 December 2012, and the results of their operations and their cash flows for the year then ended.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The financial statements for the year ended 31 December 2012 have been prepared and based on the following accounting policies and estimates, which are in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China ("PRC").

1. Accounting period

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

2. Reporting currency

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. All values are rounded to the nearest Renminbi Yuan ("RMB") except when otherwise indicated.

The subsidiaries, jointly-controlled entities and associates use their respective local currencies for recording purposes in accordance with their own operating environments, and translate to Renminbi when preparing financial statements.

3. Business combination

Business combination represents a transaction or event where two, or more than two, separate entities became one reporting entity. Business combinations are classified as "Business combination involving entities under common control" and "Business combination involving entities not under common control".

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

The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

Business combination involving entities not under common control
Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under a business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date of acquisition.

Any excess of the sum of fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of fair value of considerations paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, and recognize immediately in the income statement any excess remaining after reassessment.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

4. Consolidated financial statements

The scope of consolidated financial statements is determined by control basis, which consists of financial statements of the Company and its subsidiaries for the year ended 31 December 2012. A subsidiary is a company or entity that is controlled by the Company.

The financial year and accounting policies of subsidiaries are applied consistently with the Company when preparing consolidated financial statements. All intercompany balances, transactions and unrealized gains and losses resulting from intercompany transactions, and dividends within the Group are fully eliminated on consolidation.

Where the current loss assumed by minority shareholders of a subsidiary exceeds the minority interests of beginning equity, the balance offsets minority interests. Any changes in the minority interests without losing control are recognized as an equity transaction.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing consolidated financial statements, the adjustments shall be made to the subsidiaries' financial statement based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of combination period. In preparing consolidated financial statements, the adjustments shall be made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

5. Cash and cash equivalents

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

6. Foreign operations and foreign currency translation

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognized in the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in other comprehensive income.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

6. Foreign operations and foreign currency translation (continued)

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the rates of exchange ruling at the transaction date; all income and expense items in the income statement are translated at the average rates of exchange during the period. Exchange fluctuations arising from the translation mentioned above are recognized as other comprehensive income, and are presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

The foreign currency cash flows and cash flows of a foreign subsidiary shall be translated at the rates of exchange ruling at the dates of the cash flows. The effect of changes in rates of exchange on cash and cash equivalents are presented separately in the cash flow statement.

7. Inventories

Inventories are initially recognized at cost, which comprises of purchase cost, processing cost, and other costs. Cost of delivered inventories is determined on weighted average basis. Turnover material includes lower priced and easily worn articles and packaging materials, which uses one-off method to amortize.

At each balance sheet date, inventories shall be measured at the lower of cost and net realizable value. If the cost is in excess of amounts expected to be realized from their sale or use, provision for inventories is recognized in the income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realizable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to the income statement.

Net realizable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on an individual basis for both raw materials and finished goods. Inventories that are relevant to the products produced and sold in the same area, with same or similar end use or purpose, and unable to measure separately from other items should be considered on category basis.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Long-term equity investments

Long-term equity investments consist of investments in subsidiaries, jointly-controlled entities, associates, and other equity investments which the Group cannot control the investees, or the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. Long-term equity investments are initially recognized at initial investment cost on acquisition.

The cost method is applied for long-term equity investments when the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. The cost method is applied for long-term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the right to decide on the financial and operating policies of a company and to obtain profit from the operating activities of the Company.

When the cost method is adopted, long-term equity investments are recorded at initial investment cost. Profits or cash dividends declared to be distributed by the investee should be recognized as investment income in the current period, but such investment income is limited to proportionate distributions from accumulated profits after the date of acquisition. Also, it should consider whether there is impairment for the long-term investment in accordance with the related asset provision policy.

The equity method is applied for long-term equity investments when investees are jointly controlled or significantly influenced by the Group. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

When the equity method is adopted, the initial cost of investment that in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, by which the difference had been charged to the income statement.

When the equity method is adopted, the investor recognizes its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's result should base on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. And the gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, it should be entirely recognized). The recognition should base on the adjusted income statement of the investee. With respect to the long-term equity investment in associates and jointly controlled entities acquired before the first time adoption date, the remaining equity investment difference arising from the amortization using the straight line method (if exists) should be recognized as investment income or loss. The investor's share of profits distribution or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognizes net losses incurred by the investee to the extent that the carrying amount of the investment and other substantially treated as equity interests to the investee is reduced to zero, except for which the investor has extra obligation to assume loss of it. For the changes of equity in investee other than net income statement, the investor adjusts carrying amount of investment to shareholders' equity.

When long-term equity investment are being disposed of, the difference between the carrying amount and the actual proceeds received should be charged to the income statement. For long-term equity investments under equity method, the amount recognized in the equity previously shall be transferred to the income statement upon its disposal.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Fixed assets

Fixed assets are recognized in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met and the carrying amount of parts which had been replaced shall be derecognized; otherwise, is charged to the income statement.

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

Depreciation is provided on fixed assets using the straight-line method. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings and structures	20 year	5%	4.75%
Machine equipment	5-15 year	5%	6%-19.00%
Transportation vehicles and equipment	4-15 year	5%	6% - 23.75%
Other Equipment	3-10 year	5%	9.50% - 31.67%

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjusts if appropriate, at least at each balance sheet date.

10. Construction in progress

Construction in progress is recognized based on the actual construction expenditures incurred. It consists of all types of expenditure necessarily to be incurred, capitalized borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

11. Intangible assets

Intangible assets are recognized if and only if it is probably that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for intangible asset acquired in the business combination whose fair value can be reliably measured, it is separately recognized and measured at its fair value

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets with indefinite useful lives.

The useful lives of the Group's intangible assets are as follows:

	Useful life
Land use rights	50 years
Proprietary technology	2-10 years
Software	10 years

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

11. Intangible assets (continued)

The Group accounts for its land use rights as intangible assets. The land use rights are measured as intangible assets that are separate from internally generated buildings measured as fixed assets. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets.

Intangible assets with finite useful lives are amortized over the useful lives on the straight-line basis. The Group reviews the useful lives and amortization method of intangible assets with finite useful lives, and adjusts if appropriate, at least at each balance sheet date.

12. Research expenditures and development expenditures

The expenditures for internal research and development projects of the Group were classified into research expenditures and development expenditures. All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized 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 the ability to use or sell the asset, how the asset will generate future economic benefits including demonstrating the asset or products produced using the asset exist market or usefulness when used internally, the availability of technical, financial and other resources to complete the project and the ability to use or sale, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

13. Financial instruments

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

Recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset (either a part of financial asset or a part of a Group of similar financial assets) will be derecognized when and only when:

(1) The contractual rights to the cash flows from the financial asset expire; or
(2) It transfers the contractual rights to receive the cash flows of the financial asset in a manner, or assumes a contractual obligation to pay the cash flows to one or more recipients in an "transfer arrangement" and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

A financial liability is derecognized when, and only when, the current obligation is discharged or cancelled or expired. If existing financial liabilities is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from that regarding the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognize the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognized in the income statement.

All regular way purchases and sales of financial assets are recognized 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

13. Financial instruments (continued)

Classification and measurement of financial assets

The Group classifies its financial assets into four categories when recognized initially, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value initially. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to the income statement; for other financial assets, the directly associated transaction costs are recognized as initial investment cost.

The subsequent measurement of financial assets depends on its classification:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss comprise of financial assets held for trading and those that are designated as at fair value through the income statement upon initial recognition. A financial asset is classified as held for trading if it is: acquired principally for the purpose of selling it in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial assets are measured under fair value method subsequently. All the realized and unrealized gains or losses are recognized in the income statement. Any dividends or interest earned on these financial assets should be recognized in income statement.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method. Gains or losses are recognized in the income statement when the held-to-maturity investments are derecognized, impaired, or amortized.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. Gains or losses are recognized in the income statement when the loans and receivables are derecognized, impaired, or amortized.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the abovementioned other categories of financial instruments. Such available-for-sale financial assets are measured at fair value in subsequent measurement. The premium or discount is amortized using the effective interest method, with interests recognized as interest income or expense. The fair value changes of available-for-sale financial assets are recognized as other comprehensive income in capital reserves except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognized or impaired, the accumulated gains or losses recognized in prior periods are transferred to the income statement. All dividends or interest income related to available-for-sale financial assets are recognized in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

13. Financial instruments (continued)

Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when recognized initially as: financial liabilities at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, its transaction costs are charged to the income statement; whereas other financial liabilities, its transaction cost are recognized as initial cost.

The subsequent measurement of financial liabilities depends on their classification:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss comprise of financial liabilities held for trading and those that are designated as fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is: incurred principally for the purpose of repurchasing in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial liabilities are measured under fair value method subsequently. All the realized and unrealized gains or losses are recognized in the income statement.

Other financial liabilities
Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Derivative financial instrument

The Group uses derivative financial instrument such as forward foreign currency contract hedging for foreign exchange risk. Derivative financial instrument is initially recorded at fair value of signed date of derivative trading contract and subsequently measured at fair value. The fair value of derivative financial instrument which is positive is recognized as an asset and which is negative is recognized as a liability. A derivative financial instrument that is linked to and must be settled by delivery of such unquoted equity instruments in an active market and whose fair value cannot be reliably measured, is recorded at cost.

Profit or loss of generated by fair value change are charged to the income statement, except the part of cash flow pledging which is effective is charged to other comprehensive income.

Fair value of financial instrument

The fair value of financial assets or financial liabilities traded in active markets is determined by reference to quoted market prices in active markets. For financial assets or financial liabilities where there is no active market, fair value is determined using valuation techniques. These techniques include using price of a market transaction at arm's length; reference to the current market value of instrument which is substantially the same; a discounted cash flow analysis, and option pricing models, etc.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

13. Financial instruments (continued)

Impairment of financial assets

The Group assesses carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events: occurred after the initial recognition of the financial asset; impacted on the estimated future cash flows of the financial asset; such impacts can be reliably measured.

Financial assets carried at amortized cost
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 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.

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognized in the income statement when objective evidence of impairment exists. Assets that are individually insignificant, the Group includes the assets in a Group of financial assets with similar credit risk characteristics and collectively assess them for impairment. For assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, are included within a Group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized cannot be subject to a collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds when the amortized cost would have had the impairment not been recognized at the reversal date.

Available-for-sale financial assets
When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income due to decline in the fair value shall be removed and recognized in the income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortization, current fair value, and any impairment loss on that financial asset previously recognized in the income statement.

Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement. Increase in their fair value after impairment is recognized directly in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognized in the income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

13. Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at cost
If there is objective evidence that an impairment loss on the financial asset 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 discounted at the current market rate of return for a similar financial asset, and recognized in the income statement. Impairment losses on these assets are not reversed.

With respect to long-term equity investments measured at cost method in accordance with CAS 2 "Long-term Equity Investments", for which the investments are not quoted in an active market and their fair values cannot be reliably measured, their impairment are assessed under the above mentioned principles.

Transfer of financial assets

The Group transfers substantially all the risks and rewards or control of the asset; it shall derecognize the financial assets, whereas, if it retains substantially all the risks and rewards or control of the asset, it should not derecognize the financial asset.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, it should follow the below treatment: if the control over the financial asset is lost, it should derecognize the financial asset and recognize the related assets and liabilities incurred. If the control over the financial asset has not been lost, the Group recognizes the financial asset to the extent of its continuing involvement of the financial asset and recognize an associated liability.

14. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including interests, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or productions of all qualifying assets are capitalized and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs commences when:
(1) Expenditures for the assets are being incurred;
(2) Borrowing costs are incurred;
(3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

The capitalization of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter treated as an expense.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

14. Borrowing costs (continued)

Within the capitalization period, the amounts of capitalized borrowing costs for each accounting period are determined by following methods:

(1) For the specific borrowings, the borrowing costs eligible for capitalization are the actual borrowing costs incurred during current period deducted by any temporary interest or investment income
(2) For the general borrowings, the borrowing costs eligible for capitalization are determined by applying a capitalization rate to the capital expenditure that accumulated capital expenditures exceed the specific borrowings.

Capitalization of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than three months, until the acquisition or construction is resumed. Borrowing cost incurred during the interruption period is treated as an expense, which is recognized in the income statement, until the activity of construction or productions of the fixed asset restarts.

15. Impairment of assets

The impairment of assets excluding inventories, deferred income taxes and financial assets shall be determined in accordance with the below methods:

The Company shall assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset for impairment test. Irrespective of whether there is any indication of impairment, an entity shall also test goodwill acquired in a business combination and an intangible asset with an indefinite useful life for impairment at least annually at each year-end.

The recoverable amount is to be determined as the higher of an asset's or cash-generating unit's fair value less costs to sell and the present value of anticipated future cash flows. Recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). An asset's cash-generating unit is the smallest Group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or Groups of assets.

An impairment loss is recognized if the carrying amount of assets or Group assets exceeds its recoverable amount. The Company writes off the carrying amount to recoverable amount. The difference is recorded in current income statement and resultant provision accrued.

If above-stated impairment losses are recognized, no reversal of such impairment losses is permitted.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

16. Accrued liability

Except for contingent considerations or contingent liabilities assumed under a business combination, a accrued liability is recognized if:

(1) the obligation is a present obligation assumed by the Group; and
(2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(3) a reliable estimate can be made of the amount of the obligation.

Estimated liabilities are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value, etc. Estimated liabilities shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

17. Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow into the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and the relevant amounts of costs can be measured reliably. The revenue from the sale of goods shall be determined by the amount received or receivable by the purchaser stipulated in the contract or agreement, unless the amount received or receivable stipulated in the contract or agreement is not at fair value. If the receivable method of the amount stated in the contract or agreement is made by deferred method and it contains the nature of financing, it should be determined by the fair value of the amount receivable as stated in the contract or agreement.

Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognized by reference to the percentage of completion method; otherwise, revenue is recognized only to the extent of the expenses recognized that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow into the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction. For the revenue from rendering of services, it is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value.

When the Group enters into contract or agreement with other parties which contains both sales of goods and rending of services, if the portion of sale of goods and rendering of services can be separately measured, the portion of sale of goods and rendering of services are measured individually. If the portion of sale of goods and rendering of services cannot be separately measured or even if it could separately measured but cannot measured individually, it is deemed to be sales of goods.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

17. Revenue (continued)

Interest income

Interest income is recognized based on the time horizon of the use of the Group's cash by others and effective interest rate.

Lease income

Lease income from operating lease is recognized over the lease terms on the straight-line basis. Contingent lease income is recognized when it incurred.

18. Lease

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. Leases where substantially all the rewards and risks of ownership of assets remain with the lesser are accounted for as operating leases.

As lessee under operating leases
Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lesser are charged to relevant assets cost or the income statement on the straight-line basis over the lease terms. Contingent rentals are recognized in income statement when actually incurred.

As lesser under operating leases
Where the Company is the lesser, rentals income under operating leases net of any incentives received from the lesser are charged to the income statement on the straight-line basis over the lease terms. Contingent rentals are recognized in income statement when actually incurred.

19. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives a monetary grant, the asset and the grant are recorded at the amount received or receivable. Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary assets or a nominal amount when the fair value is not available. When the grant relates to an expense item, it is credited to a deferred income account and recognized as income over the periods necessary to match the grant on a systematic basis to the future costs or losses that it is intended to compensate. When the grant relates to the expenses or losses already incurred, it is directly recognized in income statement. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments. But for grants received relating to an asset with a nominal amount, it is directly recognized in income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

20. Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. When an employee has rendered service to an entity during an accounting period, the entity shall recognize the unpaid amount of employee benefits as a liability. An entity shall recognize the discounted amount of defined benefit obligations due after one year in the financial statements if differ materially from the undiscounted amounts at balance sheet date.

Expenditures for employees' social security contributions (e.g. pension insurance, medical care insurance and unemployment insurance) and housing fund scheme managed by local government are capitalized in related assets or charged to the income statement.

Except the above mentioned pension insurance, the Group provides external retirement benefits plans such as supplementary pension insurance. These plans include paying subsistence allowance to staff monthly after retirement, which the amount of subsidy is determined by staff's service time and related subsidy policies. All external retirement benefits plans are belonged to defined benefit plans. That the defined benefits plans are recognized as liabilities, which is the difference between present value of related defined benefit obligation and fair value of planed assets. The unrecognized actuarial profit and loss and cost of past service will be made adjustment. The defined benefit plan is calculated by independent actuary using the method of expected cumulative welfare units. Actuarial profit and loss exceed the present value of defined benefit obligation and fair value of plan assets 10% the higher of the two parts will be on the expected average remaining working life of employees of participating amortization and charged to the income statement.

The Group does not provide and pay any external benefits (including retirement salary, subsidy and medical etc.) to staff who is retired from 1 July 2007.

21. Income tax

Income tax comprises current tax and deferred tax, and is normally recognized as income or expense in the income statement, except to the extent that it arises from: tax adjustment goodwill arising from a business combination; tax arising from an item that has been recognized directly in equity, which recognized in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Based on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base; and the differences between the carrying amount of some items that have a tax base but are not recognized as assets and liabilities and its tax base, the Group adopts liability method for provision of deferred tax.

A deferred tax liability is recognized in respect of all taxable temporary differences except those arising from:

(1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
(2) as to temporary differences associated with subsidiaries, jointly controlled entities and associates, the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

21. Income tax (continued)

A deferred tax asset is recognized in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilized except those arising from the initial recognition of an asset or liability in a transaction which:

(1) is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
(2) as to deductible temporary differences associated with subsidiaries, jointly controlled entities and associates, a deferred tax asset is recognized to the extent that it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, taking into account the income tax effect of expected asset realization or liability settlement at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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.

22. Safety expense

Safety expense extracted according to the policy is recorded into the cost of related products or recognized in the income statement and recorded into the special reserve. That whether it can be formed fixed assets or not when using it shall be treated respectively. If it belonged to expense expenditure, the special reserve can be directly decreased. If it can be formed fixed assets, fixed assets can be recognized when the asset is ready for its intended use after accumulating incurred the expenditure, and the equivalent special reserve can be decreased and the equivalent accumulated depreciation can be recognized.

23. Significant accounting judgments and estimates

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

23. Significant accounting judgments and estimates (continued)

Judgments

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

Sale of goods
The management considers sales of new production are not classified as construction contracts, which is not applicable to percentage of completion method in accounting treatment. The reasons are as follows: 1) The buyer and builder of the Group's main products do not have ability to assign significant structural changes before building and during the building; 2) The Group will not rashly change matured main structural design, although after finishing implementation of digestion and absorb of imported technology and localization of component parts. For other products: 1) the Group provides common standards and already-designed products for buyers, which the buyers can only choose from assigned series of design programs and be limited by established design of chosen products; 2) the buyer can only claim subtle changes on the basis of fundamental design but not the mainly structural changes; 3) the buyers are difficult to make significant changes for established design of the products, which is limited to factors of engineering, technology, design ability and the products that must comply with strictly mandatory national safety standards. So, the Group considers sale of above products as revenue from sale of goods.

Estimation uncertainty

Except the uncertainty of significant accounting policies mentioned above, the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Liabilities of supplementary pension benefit and other external benefit plans
Supplementary pension plan and other external benefit plans have been recognized as a liability by the Group. The estimated amount of the benefit plans' expenses and liabilities shall be calculated and paid by various assumptions, including discount rate, growth rate of related period benefit expense and other factors. Deviation between actuarial assumptions and real actual results will affect accuracy of accounting estimates. Any change of assumptions will affect amount of accrued liability of related supplementary pension insurance and other external benefit plans, although the management considers the assumptions above are reasonable.

Development expenditures
When determining the amount of capitalization, the management must make assumptions of estimated future cash flow related to assets, appropriate discount rate and estimated beneficial period.

Product warranties
The Group accrues product warranties of current year for sales of products that have warranty duty according to accrued liability accounting policy, which warranty expense occurred in previous years accounting for the proportion of current income and actual average warranty period translate into warranty money rate. The Group writes down provision of retention money when related warranty expenses actually occurred. That the difference between current estimate and results of re-estimated will affect amount of accrued liability of changed period of estimate.

Deferred tax assets
Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit 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 tax planning strategies.

IV. TAX

The major taxes and rates for the Company during the year are as below:

Value-added tax	17% of taxable income of general taxpayer as output tax, less input tax that is deductible in current year.
Business tax	Payable based on 5% of the taxable income.
City construction and maintenance tax	Payable based on 7% of the actual payment of turnover tax to be paid.
Income tax	On 6 September 2012, the Company got the certificate of high technology enterprises jointly awarded by Science and Technology Bureau, Financial Bureau, State Taxation Administration and Local Taxation Authorities of Qingdao. The certificate NO. is GF201237100081 and period of validity is three years. According to relevant provisions of *the Law of the People's Republic of China on Enterprise Income Tax*: high technology enterprises shall be subject to corporate income tax at the rate of 15%. Domestic subsidiaries of the Company shall be subject to corporate income tax at the rate of 25%. Overseas subsidiaries of the Company shall be subject to corporate income tax at the rate of 35%.

V. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

The details of subsidiaries are as follows:

Corporate name	Place of registration	Business nature	Registered capital	Percentage of equity Direct	Indirect	Percentage of voting right	Note
CSR (Tianjin) Subway Rolling Stock Co., Ltd.	Tianjin	Manufacturing	300,000,000.00	100%	-	100%	
Wuhan CSR Sifang Reparement & Maintenance Center Co., Ltd.	Wuhan	Manufacturing	50,000,000.00	100%	-	100%	
CSR America Incorporated	U.S.A	Manufacturing	US$2,000,000.00	100%	-	100%	
Chengdu CSR Railway Vehicle Co., Ltd.	Chengdu	Manufacturing	200,000,000.00	52%	-	52%	Note
Qingdao CSR Distribution & Service Co., Ltd.	Qingdao	Trading	50,000,000.00	100%	-	100%	Note

Note: The subsidiaries are newly established in this year.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	2012	2011
Cash on hand	95,961.61	166,872.86
Bank deposit	1,715,321,582.00	2,459,860,009.94
Others	50,976,570.00	113,079,217.99
Total	1,766,394,113.61	2,573,106,100.79

As at 31 December 2012, the ownership of the Group's cash and bank balances amounting to RMB50,976,570.00 has been restricted (31 December 2011: RMB113,079,217.99), see Note VI.14.

2. Bills receivable

	2012	2011
Commercial acceptance bills	210,500,000.00	-

As at 31 December 2012, no bills receivable of the Group are restricted.

3. Trade receivables

The Group's trade receivables were interest-free with normal credit terms of 180 days.

The ageing of trade receivables is analyzed below:

	2012	2011
Within one year	4,715,520,030.60	3,107,150,591.61
One to two years	492,725,885.56	83,033,834.09
Two to three years	18,283,318.49	49,192,866.50
Over three years	60,727,809.55	21,965,366.90
	5,287,257,044.20	3,261,342,659.10
Less: Provisions for bad debts	134,032,719.33	55,033,035.52
Total	5,153,224,324.87	3,206,309,623.58

The movement of provision for bad debts against trade receivables is disclosed below:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
2012	55,033,035.52	79,962,022.41	-	962,338.60	134,032,719.33
2011	53,961,207.60	1,071,827.92	-	-	55,033,035.52

As at 31 December 2012, no trade receivables' ownership of the Group are restricted (31 December 2011: RMB200,000,000.00), see Note VI.14.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Prepayments

The ageing of prepayments is analyzed below:

	2012	2011
Within one year	26,621,204.48	67,953,231.67
One to two years	5,778,905.31	-
Total	32,400,109.79	67,953,231.67

5. Other receivables

The ageing of other receivables is analyzed below:

	2012	2011
Within one year	3,176,692,904.15	3,010,241,438.29
One to two years	7,655,677.68	208,739,659.27
Two to three years	4,479,762.07	3,000.00
	3,188,828,343.90	3,218,984,097.56
Less: Provisions for bad debts	3,388,232.70	217,200.00
Total	3,185,440,111.20	3,218,766,897.56

The movement of provision for bad debts against other receivables is disclosed below:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
2012	217,200.00	3,171,032.70	-	-	3,388,232.70
2011	804,404.91	-	587,204.91	-	217,200.00

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Inventories

	2012	2011
Raw materials	2,098,006,350.47	2,580,484,675.38
Work in progress	2,930,328,173.98	1,986,480,567.76
Finished goods	36,523,839.27	39,819,487.94
Goods in transit	211,124,247.35	147,297,429.24
	5,275,982,611.07	4,754,082,160.32
Less: Provisions for bad debts	90,876,747.08	39,134,899.89
Total	5,185,105,863.99	4,714,947,260.43

The movement of provision for inventories is disclosed below:

2012

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Raw materials	35,365,721.58	49,812,588.99	-	-	85,178,310.57
Work in progress	208,490.12	-	-	-	208,490.12
Finished goods	261,385.50	1,918,315.02	-	-	2,179,700.52
Goods in transit	3,299,302.69	169,672.67	158,729.49	-	3,310,245.87
	39,134,899.89	51,900,576.68	158,729.49	-	90,876,747.08

2011

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Raw materials	16,779,058.79	18,586,662.79	-	-	35,365,721.58
Work in progress	208,490.12	-	-	-	208,490.12
Finished goods	696,590.41	-	435,204.91	-	261,385.50
Goods in transit	-	3,299,302.69	-	-	3,299,302.69
	17,684,139.32	21,885,965.48	435,204.91	-	39,134,899.89

As at 31 December 2012 and 31 December 2011, no inventories' ownership of the Group is restricted.

7. Other current assets

	2012	2011
Value-added tax retained	338,351,416.69	-

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Long-term equity investments

	2012	2011
Equity method		
Associates		
Qingdao Sifang Kawasaki Rolling Technology Co., Ltd.	7,098,042.69	13,594,483.37
Cost method		
Beijing CSR Huasheng Chuangye Investment Fund	6,000,000.00	-
	13,098,042.69	13,594,483.37

Associates' major financial information:

	Registered Address	Business Nature	Registered Capital	Percentage of equity	Percentage of voting right
Associates					
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.	Qingdao	Manufacturing	11,587,100.00	39.00%	39.00%

	Closing balance of assets	Closing balance of liabilities	Revenue during the year	Net profit during the year
Associates				
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.	19,500,618.54	1,300,509.07	15,355,960.00	(740,191.76)

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Fixed assets

2012

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Other equipment	Total
Cost:					
At 1 January 2012	1,821,843,357.98	2,261,995,914.61	17,522,900.00	123,073,558.93	4,224,435,731.52
Purchase	-	-	-	186,199.99	186,199.99
Transfer from construction in progress	25,457,836.85	346,138,271.78	788,082.22	66,526,067.19	438,910,258.04
Disposal	(5,218,543.38)	(21,045,465.27)	(1,035,816.40)	(11,871,728.46)	(39,171,553.51)
At 31 December 2012	1,842,082,651.45	2,587,088,721.12	17,275,165.82	177,914,097.65	4,624,360,636.04
Accumulated depreciation:					
At 1 January 2012	230,049,884.40	665,335,087.60	11,543,243.14	57,523,032.80	964,451,247.94
Provided during the year	74,549,542.03	262,307,185.40	1,891,230.10	40,075,073.73	378,823,031.26
Write-off	(1,665,172.03)	(19,527,718.44)	(1,006,129.64)	(11,585,081.37)	(33,784,101.48)
At 31 December 2012	302,934,254.40	908,114,554.56	12,428,343.60	86,013,025.16	1,309,490,177.72
Net carrying amount:					
At 31 December 2012	1,539,148,397.05	1,678,974,166.56	4,846,822.22	91,901,072.49	3,314,870,458.32
At 1 January 2012	1,591,793,473.58	1,596,660,827.01	5,979,656.86	65,550,526.13	3,259,984,483.58

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Fixed assets (continued)

2011

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Other equipment	Total
Cost:					
At 1 January 2011	1,408,048,773.63	1,718,769,816.13	15,624,533.03	100,183,767.28	3,242,626,890.07
Transfer from construction in progress	416,244,325.65	575,922,912.90	2,138,338.49	34,396,335.49	1,028,701,912.53
Disposal	(2,449,741.30)	(32,696,814.42)	(239,971.52)	(11,506,543.84)	(46,893,071.08)
At 31 December 2011	1,821,843,357.98	2,261,995,914.61	17,522,900.00	123,073,558.93	4,224,435,731.52
Accumulated depreciation:					
At 1 January 2011	136,828,939.31	495,469,553.66	10,086,504.07	57,130,113.39	699,515,110.43
Provided during the year	94,670,181.23	197,306,776.85	1,693,295.49	11,861,907.08	305,532,160.65
Write-off	(1,449,236.14)	(27,441,242.91)	(236,556.42)	(11,468,987.67)	(40,596,023.14)
At 31 December 2011	230,049,884.40	665,335,087.60	11,543,243.14	57,523,032.80	964,451,247.94
Net carrying amount:					
At 31 December 2011	1,591,793,473.58	1,596,660,827.01	5,979,656.86	65,550,526.13	3,259,984,483.58
At 1 January 2011	1,271,219,834.32	1,223,300,262.47	5,538,028.96	43,053,653.89	2,543,111,779.64

Preparing for disposal of fixed assets are as follows:

	Carrying value	Fare value	Estimated disposal expense	Estimated disposal date
At 31 December 2012	33,628.34	211,000.00	-	February 2013
At 31 December 2011	-	-	-	-

The carrying values of the fixed assets under operating lease's are as follows:

	Buildings and structures	Plant machinery and equipment	Total
At 31 December 2012	7,995,503.29	78,455.95	8,073,959.24
At 31 December 2011	6,321,110.69	232,400.22	6,553,510.91

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Construction in progress

2012

	Opening balance	Increase during the year	Decrease during the year: Transferred to fixed assets	Decrease during the year: Other	Closing balance
High-speed train production project	252,706,223.22	4,688,977.22	225,307,174.59	-	32,088,025.85
High-speed train repair project	4,249,717.64	13,589,442.68	6,517,235.62	-	11,321,924.70
Urban rail transit production project	2,351,738.89	82,494,410.04	972,947.28	485,511.50	83,387,690.15
Other projects	93,679,585.36	162,953,724.64	206,112,900.55	-	50,520,409.45
	352,987,265.11	263,726,554.58	438,910,258.04	485,511.50	177,318,050.15

2011

	Opening balance	Increase during the year	Decrease during the year: Transferred to fixed assets	Decrease during the year: Transferred to intangible assets	Closing balance
High-speed train production project	312,269,730.84	685,579,972.12	745,143,479.74	-	252,706,223.22
High-speed train repair project	4,783,831.28	36,952,911.32	37,487,024.96	-	4,249,717.64
Urban rail transit production project	9,185,788.27	33,349,417.61	40,183,466.99	-	2,351,738.89
Other projects	107,089,499.89	213,216,826.33	205,887,940.84	20,738,800.02	93,679,585.36
	433,328,850.28	969,099,127.38	1,028,701,912.53	20,738,800.02	352,987,265.11

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Intangible assets

2012

	Land use rights	Software	Proprietary technology	Total
Cost:				
At 1 January 2012	552,141,069.12	70,195,990.99	13,674,337.88	636,011,397.99
Increase during the year	61,061,450.00	30,885,727.29	620,563.77	92,567,741.06
At 31 December 2012	613,202,519.12	101,081,718.28	14,294,901.65	728,579,139.05
Accumulated amortization:				
At 1 January 2012	31,263,941.32	15,323,555.54	2,571,517.43	49,159,014.29
Provided during the year	12,285,503.34	7,607,270.52	2,156,271.52	22,049,045.38
At 31 December 2012	43,549,444.66	22,930,826.06	4,727,788.95	71,208,059.67
Net carrying amount				
At 31 December 2012	569,653,074.46	78,150,892.22	9,567,112.70	657,371,079.38
At 1 January 2012	520,877,127.80	54,872,435.45	11,102,820.45	586,852,383.70

2011

	Land use rights	Software	Proprietary technology	Total
Cost:				
At 1 January 2011	473,959,485.12	45,583,515.76	3,225,848.96	522,768,849.84
Increase during the year	78,181,584.00	24,612,475.23	10,448,488.92	113,242,548.15
At 31 December 2011	552,141,069.12	70,195,990.99	13,674,337.88	636,011,397.99
Accumulated amortization:				
At 1 January 2011	19,487,283.40	8,761,643.30	2,061,317.17	30,310,243.87
Provided during the year	11,776,657.92	6,561,912.24	510,200.26	18,848,770.42
At 31 December 2011	31,263,941.32	15,323,555.54	2,571,517.43	49,159,014.29
Net carrying amount				
At 31 December 2011	520,877,127.80	54,872,435.45	11,102,820.45	586,852,383.70
At 1 January 2011	454,472,201.72	36,821,872.46	1,164,531.79	492,458,605.97

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Deferred tax assets/liabilities

Recognized deferred tax assets:

	2012	2011
Provisions of product warranties	39,072,202.27	31,459,611.85
Provisions of technology licensing usage fees	17,259,797.55	21,941,947.97
Other accrued liabilities and accrued expenses	13,467,083.45	18,735,285.02
Government grants	4,047,894.61	4,991,045.70
Others	3,483,069.11	2,757,734.34
Total	77,330,046.99	79,885,624.88

The Group has recognized the deferred tax assets related to the above deductible temporary differences, because it is highly probable that future taxable profit will be available to be utilized.

Recognized deferred tax liabilities:

	2012	2011
Changes in fair value of financial assets held for trading	-	685,371.24

13. Assets impairment provisions

2012

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Provisions for bad debts	55,250,235.52	83,133,055.11	-	962,338.60	137,420,952.03
Provisions for inventories	39,134,899.89	51,900,576.68	158,729.49	-	90,876,747.08
	94,385,135.41	135,033,631.79	158,729.49	962,338.60	228,297,699.11

2011

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Provisions for bad debts	54,765,612.51	1,071,827.92	587,204.91	-	55,250,235.52
Provisions for inventories	17,684,139.32	21,885,965.48	435,204.91	-	39,134,899.89
	72,449,751.83	22,957,793.40	1,022,409.82	-	94,385,135.41

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Restricted ownership of assets

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance	Note
Pledged assets					
Cash and bank balances	113,079,217.99	-	62,102,647.99	50,976,570.00	Note I
Trade receivables	200,000,000.00	-	200,000,000.00	-	Note II
	313,079,217.99	-	262,102,647.99	50,976,570.00	

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance	Note
Pledged assets					
Cash and bank balances	266,816,764.99	-	153,737,547.00	113,079,217.99	Note I
Trade receivables	-	200,000,000.00	-	200,000,000.00	Note II
	266,816,764.99	200,000,000.00	153,737,547.00	313,079,217.99	

Note I: Pledged cash and bank balances were as follows:

	2012	2011
Guarantee deposit	50,976,570.00	113,079,217.99

Note II: As at 31 December 2012, there were no trade receivables being pledged (As at 31 December 2011, there were pledged trade receivables amounted to RMB200,000,000.00).

15. Short-term loans

	2012	2011
Unsecured loans	-	1,200,000,000.00
Pledged loans	-	200,000,000.00
	-	1,400,000,000.00

As at 31 December 2012, the Group had repaid short-term loans lent in last year and no new short-term loans lent in current year. As at 31 December 2011, certain bank loans of RMB1,200,000,000.00 in aggregate were lent by the Group through Unsecured loans, with terms of annual interest rates from 5.71% to 7.22%, and certain bank loans of RMB200,000,000.00 were lent by the Group through pledged loans, with terms of annual interest rates at 6.71%.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Payroll and benefits payable

2012

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	-	949,883,815.37	938,503,193.29	11,380,622.08
Employee welfare	-	59,788,090.05	59,788,090.05	-
Social insurance	1,752.65	276,126,463.68	276,124,784.61	3,431.72
Include: 1. Medical insurance	-	79,261,185.57	79,260,386.57	799.00
2. Pension insurance	-	137,444,381.65	137,442,541.65	1,840.00
3. Annuity	-	32,425,557.25	32,425,557.25	-
4. Unemployment insurance	494.42	13,277,991.71	13,278,302.12	184.01
5. Work-related injury insurance	-	7,444,462.38	7,444,370.38	92.00
6. Maternity insurance	1,258.23	6,272,885.12	6,273,626.64	516.71
Housing fund	-	98,238,773.00	98,238,773.00	-
Labour union fee and employee education fee	199,763.61	33,501,664.46	33,577,142.23	124,285.84
Others	1,920,000.00	2,169,207.31	2,589,207.31	1,500,000.00
Total	2,121,516.26	1,419,708,013.12	1,408,821,189.74	13,008,339.64

2011

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	-	950,067,039.32	950,067,039.32	-
Employee welfare	-	58,674,277.53	58,674,277.53	-
Social insurance	-	211,879,428.50	211,877,675.85	1,752.65
Include: 1. Medical insurance	-	64,190,294.74	64,190,294.74	-
2. Pension insurance	-	102,816,450.18	102,816,450.18	-
3. Annuity	-	24,869,086.18	24,869,086.18	-
4. Unemployment insurance	-	10,058,871.93	10,058,377.51	494.42
5. Work-related injury insurance	-	4,964,640.81	4,964,640.81	-
6. Maternity insurance	-	4,980,084.66	4,978,826.43	1,258.23
Housing fund	-	76,571,540.82	76,571,540.82	-
Labour union fee and employee education fee	291,507.60	28,210,151.74	28,301,895.73	199,763.61
Others	2,240,000.00	1,920,000.00	2,240,000.00	1,920,000.00
Total	2,531,507.60	1,327,322,437.91	1,327,732,429.25	2,121,516.26

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Taxes payable

	2012	2011
Value added tax	3,673,001.67	36,876,371.52
Corporate income tax	22,986,099.91	110,395,647.95
Business tax	474,848.59	164,507.00
Property tax	3,668,004.20	5,536,042.56
Individual income tax	11,322,222.16	8,730,571.21
City construction and maintenance tax	755,055.17	14,957,575.96
Educational surtax and surcharge	539,325.13	10,683,984.28
Land use tax	2,009,595.75	3,218,656.35
Stamp duty	3,737,843.18	3,767,798.55
Local water conservancy construction funds	97,281.40	2,142,181.89
Total	49,263,277.16	196,473,337.27

18. Dividends payable

	2012	2011
CSR Corporation Limited	-	14,976,000.00
Qingdao Ultimate Corporation Limited	12,480,000.00	15,678,000.00
China Railway Materials Company Limited	7,800,000.00	-
Guangzhou Zhongche Railway Sales & Leasing Co., Ltd.	3,120,000.00	3,744,000.00
Fujian Ocean Eagle Economy & Trade Co., Ltd.	2,496,000.00	2,995,200.00
Southwest Jiaotong University	312,000.00	679,281.58
China Railway Science & Technology Development Company	93,600.00	112,320.00
Total	26,301,600.00	38,184,801.58

19. Non-current liabilities due within one year

	2012	2011
Accrued liabilities due within one year	228,710,091.26	159,388,303.60
Deferred income due within one year	120,689,375.77	96,931,192.36
Total	349,399,467.03	256,319,495.96

As at 31 December 2012, deferred income due within one year was government grants, please refer to Note VI.34 for details; accrued liabilities due within one year, please refer to Note VI.21 for details.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Long-term loans

	2012	2011
Guaranteed loans	8,246,453.43	8,266,657.93

21. Accrued liabilities

	2012	2011
Accrued expenditures of high-speed train	63,149,707.63	98,670,000.00
Product warranties	260,481,348.45	209,730,745.62
	323,631,056.08	308,400,745.62
Less: Accrued liabilities due within one year	228,710,091.26	159,388,303.60
	94,920,964.82	149,012,442.02

The movement of accrued liabilities is disclosed as below:

2012	Opening balance	Increase during the year	Decrease during the year	Closing balance
Accrued expenditures of high-speed train	98,670,000.00	-	35,520,292.37	63,149,707.63
Product warranties	209,730,745.62	277,014,702.55	226,264,099.72	260,481,348.45
Total	308,400,745.62	277,014,702.55	261,784,392.09	323,631,056.08

2011	Opening balance	Increase during the year	Decrease during the year	Closing balance
Accrued expenditures of high-speed train	-	98,670,000.00	-	98,670,000.00
Product warranties	56,128,421.89	354,359,718.74	200,757,395.01	209,730,745.62
Total	56,128,421.89	453,029,718.74	200,757,395.01	308,400,745.62

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Other non-current liabilities

	2012	2011
Deferred income	238,926,180.28	251,320,479.44
Actuarial welfare	3,020,792.69	5,190,000.00
	241,946,972.97	256,510,479.44

As at 31 December 2012, deferred income related to government grants, please refer to Note VI.34 for details.

23. Share capital

The Company's share capital is RMB4,003,794,051.00.

	2012		2011	
	Carrying balance	Percentage	Carrying balance	Percentage
CSR Corporation Limited	3,916,122,051.00	97.81%	3,069,592,020.00	97.23%
Qingdao Ultimate Corporation Limited	41,600,000.00	1.04%	41,600,000.00	1.32%
China Railway Materials Company Limited	26,000,000.00	0.65%	26,000,000.00	0.82%
Guangzhou Zhongche Railway Sales & Leasing Co., Ltd.	10,400,000.00	0.25%	10,400,000.00	0.33%
Fujian Ocean Eagle Economy & Trade Co., Ltd.	8,320,000.00	0.21%	8,320,000.00	0.26%
Southwest Jiaotong University	1,040,000.00	0.03%	1,040,000.00	0.03%
China Railway Science & Technology Development Company	312,000.00	0.01%	312,000.00	0.01%
Total	4,003,794,051.00	100.00%	3,157,264,020.00	100.00%

This year, CSR Corporation Limited increase capital RMB1,171,260,000.00 to the Company, which credited to share capital RMB846,530,031.00 and credited to the share premium RMB324,729,969.00 respectively. This capital increment was verified by Shandong Huide Accounting Firm through of (2012) Hui Suo Yan Zi NO.3-011 capital verification report on 10 August 2012.

24. Capital reserve

2012	Share premium	Share-based payment	others	total
Opening balance	351,933,820.00	1,106,315.56	1,320,000.00	354,360,135.56
Increase during the year	324,729,969.00	4,877,795.63	-	329,607,764.63
Closing balance	676,663,789.00	5,984,111.19	1,320,000.00	683,967,900.19

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Capital reserve (continued)

2011	Share premium	Share-based payment	others	total
Opening balance	318,485,463.00	-	1,320,000.00	319,805,463.00
Increase during the year	33,448,357.00	1,106,315.56	-	34,554,672.56
Closing balance	351,933,820.00	1,106,315.56	1,320,000.00	354,360,135.56

25. Surplus reserves

2012	Opening balance	Increase during the year	Closing balance
Statutory surplus reserves	337,636,637.09	160,612,540.50	498,249,177.59
Discretionary surplus reserve	149,715,491.87	80,306,270.25	230,021,762.12
Total	487,352,128.96	240,918,810.75	728,270,939.71

2011	Opening balance	Increase during the year	Closing balance
Statutory surplus reserves	193,537,123.09	144,099,514.00	337,636,637.09
Discretionary surplus reserve	77,696,390.61	72,019,101.26	149,715,491.87
Total	271,233,513.70	216,118,615.26	487,352,128.96

In accordance with the Company Law of the PRC and the articles of association, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve until such reserve reaches 50% of the registered capital of these companies.

The Company is authorized to allocate discretionary surplus reserve from profit after tax after the allocation of statutory surplus reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Retained earnings

	2012	2011
Retained earnings at beginning of year	88,327,490.20	164,756,442.24
Net profit attributable to equity holders of the parent	1,608,557,862.15	1,440,832,122.14
Less: Transfer to statutory surplus reserves	160,612,540.50	144,099,514.00
Transfer to discretionary surplus reserve	80,306,270.25	72,019,101.26
Cash dividend payable	1,288,910,155.06	1,301,111,803.18
Others	-	30,655.74
Retained earnings at end of year	167,056,386.54	88,327,490.20

Profit available for distribution in respect of 2011 was allocated by RMB0.0278 (including tax) per share and a total of RMB87,771,939.76 payable to shareholders, which was approved by the Company's shareholders at the annual general meeting held on 28 June 2012. Profit available for distribution in respect of 2012 was allocated by RMB0.3 (including tax) per share and a total of RMB1,201,138,215.30 planned to pay to shareholders, which was approved by the Company's shareholders at the fourth extraordinary annual general meeting held on 16 December 2012. The Company allocated cash dividend RMB1,288,910,155.06 in aggregate in 2012.

27. Revenue

Revenue is stated as follows:

	2012	2011
Principal operating income	24,000,678,295.55	23,932,652,584.06
Other operating income	50,272,717.05	47,116,840.26
Total	24,050,951,012.60	23,979,769,424.32

	2012	2011
Sale of goods	22,551,939,966.94	21,563,175,973.51
Rendering of services	1,472,232,259.96	2,401,515,915.22
Lease income	900,338.96	845,000.00
Others	25,878,446.74	14,232,535.59
Total	24,050,951,012.60	23,979,769,424.32

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Financial expenses

	2012	2011
Interest expenses	58,453,931.31	132,647,489.31
Less: Interest income	67,603,177.47	72,379,850.62
Foreign exchange gain or loss, net	(17,344,580.96)	21,365,364.99
Others	(4,488,708.23)	3,827,053.50
Total	(30,982,535.35)	85,460,057.18

29. Assets impairment loss

	2012	2011
Provision for bad debts	83,133,055.11	484,623.01
Provision for inventories	51,741,847.19	21,450,760.57
Total	134,874,902.30	21,935,383.58

30. Investment income/ (loss)

	2012	2011
Investment income/ (loss) of associates under the equity method	(646,440.68)	3,352,814.28

31. Non-operating income

	2012	2011
Government subsidies	54,551,515.75	19,687,844.36
Import discount interest	3,313,100.00	11,622,200.32
Gains on disposal of fixed assets	1,968,910.86	4,753,707.16
Others	560,048.69	345,881.57
Total	60,393,575.30	36,409,633.41

Please refer to Note VI.34 for details of government subsidies.

32. Non-operating expenses

	2012	2011
Loss on disposal of non-current assets	4,200,551.26	-
Public relief donation	350,000.00	350,000.00
Expenditure of penalty, compensation and fine	2,050.00	1,034,010.53
Others	556,093.39	-
Total	5,108,694.65	1,384,010.53

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Income tax expense

	2012	2011
Current income tax expense	283,968,707.83	232,101,408.25
Deferred income tax expense	1,870,206.65	(22,380,077.44)
Total	285,838,914.48	209,721,330.81
Relationship between income tax and profit before tax:		
Profit before tax	1,892,133,553.25	1,650,553,452.95
Tax at the statutory tax rate	473,033,388.31	412,638,363.24
Effect of tax concessions	(179,703,250.54)	(138,847,995.49)
Profits and losses attributable to associates	161,610.17	(838,203.57)
Expenses not deductible for tax	40,135,899.52	9,443,264.25
Others (note)	(47,788,732.98)	(72,674,097.62)
Tax charge at the Group's effective rate	285,838,914.48	209,721,330.81

Note: Others were effect of additional deduction to research and development expenses that the Group developed new technology, new products and new techniques.

34. Government grants

	2012	2011
Government grants related to assets	203,689,592.96	227,305,291.72
Government grants related to income	155,925,963.09	120,946,380.08
Total	359,615,556.05	348,251,671.80
Among:		
Deferred income due within one year	120,689,375.77	96,931,192.36
Deferred income due over one year	238,926,180.28	251,320,479.44

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Government grants (continued)

Movement details during the 2012 are as follows:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Credited to profit and loss	Paid to project partner	
Government grants related to assets:					
Appropriation of state key laboratory by the Ministry of Finance	14,881,249.98	-	1,425,000.00	-	13,456,249.98
High-speed train localization project	18,392,388.06	-	4,862,673.96	-	13,529,714.10
High-speed train information system of R&D and manufacture	6,805,543.11	-	4,173,695.96	-	2,631,847.15
High-speed train subsidy of industrialization technological transformation	24,480,860.90	-	4,057,547.80	-	20,423,313.10
Appropriation of three funds of technology by Science and Technology Bureau of Chengyang District	35,557,200.00	-	2,408,674.32	-	33,148,525.68
Appropriation of three funds of technology by Science and Technology Bureau of Chengyang District-Hollow shaft	50,570,097.35	-	5,535,412.55	-	45,034,684.80
Subsidies of ten services by Beichen district, Tianjin government	76,617,952.32	-	1,563,631.68	-	75,054,320.64
Others	-	500,000.00	89,062.49	-	410,937.51
Government grants related to income:					
Common base and system integration subject	70,306,843.41	12,200,000.00	12,637,902.36	10,527,000.00	59,341,941.05
High-speed train key technology of pedigree of module Construction and integrated design for China State 863 projects	-	34,100,000.00	1,204,481.00	12,935,300.00	19,960,219.00
High-speed train key technical research	-	12,570,000.00	2,349,145.31	-	10,220,854.69
Official high-speed train key technical research	-	12,000,000.00	2,833,154.93	-	9,166,845.07
High-speed train integrated platform construction of design and manufacture and typical models development for State 863 projects	-	8,420,000.00	-	-	8,420,000.00
High-speed bogie subject	6,285,062.89	1,220,000.00	879,607.69	-	6,625,455.20
High-speed train reliability of key materials and components subject	4,953,283.88	2,130,000.00	793,719.00	2,183,700.00	4,105,864.88
High-speed body technology subject	10,362,645.09	559,500.00	2,364,959.79	-	8,557,185.30
Traction drive system of high-speed train based on permanent magnet motor for State 863 projects	6,926,834.50	17,000,000.00	2,079,733.20	14,590,000.00	7,257,101.30
Key technical research and prototype development for intelligent high-speed train	3,900,000.00	2,850,000.00	1,396,000.00	-	5,354,000.00
Key technical research of bogie and equipment development for higher-speed train	7,000,000.00	3,000,000.00	280,000.00	2,800,000.00	6,920,000.00
Local government award	3,040,000.00	940,000.00	777,346.72	-	3,202,653.28
Others	8,171,710.31	1,757,400.00	2,839,766.99	295,500.00	6,793,843.32
	348,251,671.80	109,246,900.00	54,551,515.75	43,331,500.00	359,615,556.05

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Government grants (continued)

Movement details during the 2011 are as follows:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Credited to profit and loss	Paid to project partner	
Government grants related to assets:					
Appropriation of state key laboratory by the Ministry of Finance of PRC	15,000,000.00	-	118,750.02	-	14,881,249.98
High-speed train localization project	23,255,062.01	-	4,862,673.95	-	18,392,388.06
High-speed train information system of R&D and manufacture	7,350,000.00	-	544,456.89	-	6,805,543.11
High-speed train subsidy of industrialization technological transformation	24,900,000.00	-	419,139.10	-	24,480,860.90
Appropriation of three funds of technology by Science and Technology Bureau of Chengyang District	35,557,200.00	-	-	-	35,557,200.00
Appropriation of three funds of technology by Science and Technology Bureau of Chengyang District-Hollow shaft	-	50,867,400.00	297,302.65	-	50,570,097.35
Subsidies of ten services by Beichen district, Tianjin government	-	78,181,584.00	1,563,631.68	-	76,617,952.32
Government grants related to income:					
Common base and system integration subject	81,828,299.31	29,260,000.00	8,400,455.90	32,381,000.00	70,306,843.41
High-speed bogie subject	7,942,598.00	-	1,657,535.11	-	6,285,062.89
High-speed train reliability of key materials and components subject	7,019,367.84	4,920,000.00	434,983.96	6,551,100.00	4,953,283.88
High-speed body technology subject	8,841,605.00	1,678,500.00	157,459.91	-	10,362,645.09
Traction drive system of high-speed train based on permanent magnet motor for China State 863 projects	-	63,750,000.00	73,165.50	56,750,000.00	6,926,834.50
Key technical research and prototype development for intelligent high-speed train	-	3,900,000.00	-	-	3,900,000.00
Key technical research of bogie and equipment development for higher-speed train	-	7,000,000.00	-	-	7,000,000.00
Local government award	-	3,201,000.00	161,000.00	-	3,040,000.00
Others	7,510,000.00	2,990,000.00	997,289.69	1,331,000.00	8,171,710.31
	219,204,132.16	245,748,484.00	19,687,844.36	97,013,100.00	348,251,671.80

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Cash flows from operating activities

Reconciliation of net profit to cash flows from operating activities

	2012	2011
Net profit	1,606,294,638.76	1,440,832,122.14
Add: Assets impairment loss	134,874,902.30	21,935,383.58
Depreciation of fixed assets	378,823,031.26	305,532,160.65
Amortization of intangible assets	22,049,045.38	18,848,770.42
Loss/ (income) on disposal of fixed assets, intangible assets and other long-term assets	2,231,640.40	(4,753,707.16)
Financial expenses	17,462,761.22	154,012,854.30
Investment loss/ (income)	646,440.68	(3,352,814.28)
Loss/ (income) on fair value changes	4,569,141.62	(4,569,141.62)
Decrease/ (increase) in deferred tax assets	2,555,577.89	(23,065,448.69)
Increase/ (decrease) in deferred tax liabilities	(685,371.24)	685,371.24
Increase in inventories	(521,900,450.75)	(1,743,627,178.37)
Increase in receivables from operating activities	(1,915,337,949.48)	(1,228,776,976.15)
Increase in payables from operating activities	1,685,332,392.31	2,098,612,756.20
Share-based payment	4,877,795.63	1,106,315.56
Net cash flows from operating activities	1,421,793,595.98	1,033,420,467.82

36. Cash and cash equivalents

	2012	2011
Cash	1,715,417,543.61	2,460,026,882.80
Including: Cash on hand	95,961.61	166,872.86
Bank deposit without restriction	1,715,321,582.00	2,459,860,009.94
Closing balance of cash and cash equivalents	1,715,417,543.61	2,460,026,882.80

VII. SEGMENT REPORTING

1. Operating segments

That over 85% revenue of the Group this year comes from high-speed train production, urban rail transit production and related supporting business, so operating segment information is not presented.

2. Corporate information

Product and service information

Revenue from external customers

	2012	2011
Sales of high-speed train	14,098,802,163.98	16,744,166,420.35
Sales of Aluminum ingots	2,522,826,929.71	-
Sales of urban rail transit	2,319,169,706.09	3,227,821,639.48
Repair of high-speed train	1,436,664,274.53	2,339,060,017.23
Sales of high-speed train accessories	2,580,205,561.50	877,619,182.78
Sales of passenger train	439,847,863.34	271,511,964.68
Sales of passenger train accessories	26,062,808.58	21,918,306.35
Sales of materials	395,928,066.12	280,737,339.91
Others	231,443,638.75	216,934,553.54
	24,050,951,012.60	23,979,769,424.32

Geographical information

Revenue from external customers

	2012	2011
Mainland China	23,413,687,316.76	22,360,830,274.90
Turkmenistan	-	274,796,393.27
Sri Lanka	637,263,695.84	-
Singapore	-	1,344,142,756.15
	24,050,951,012.60	23,979,769,424.32

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

Non-current assets

	2012	2011
Mainland China	4,162,691,258.88	4,213,418,615.76

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

Major customer information

Revenue RMB17,674,637,378.69 was derived from sales to Ministry of Railways of PRC including all known entities under this client control (2011: RMB20,013,871,261.00).

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Definition of related parties

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

Related parties do not comprise a party which have no other related party relationships but is only under controls with the state.

2. Parent company and subsidiary

Name of parent company	Registered Place	Business nature	Equity interest held	Voting rights held	Registered capital
CSR Corporation Limited	Beijing	Locomotive, rolling and accessories manufacturing	97.81%	97.81%	13,803,000,000.00

The ultimate parent company of the Company is CSR Group.

The details of the subsidiaries of the Company are stated in Note V to the financial statements.

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

3. Other related parties

	Related party relationship
CSR Corporation Limited	Parent company
CSR Sifang Co., Ltd.	Company controlled by parent company
Shijiazhuang King Transportation Equipment Co., Ltd.	Company controlled by parent company
CSR Zhuzhou Electric Co., Ltd.	Company controlled by parent company
Qingdao Sifang Rollingstock Casting & Forging Co.,Ltd.	Company controlled by parent company
CSR Luoyang Locomotive Co., Ltd.	Company controlled by parent company
CSR (Hong Kong) Co., Ltd.	Company controlled by parent company
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	Company controlled by parent company
Qingdao Siji Renewable Resources Co., Ltd.	Company controlled by parent company
Beijing Beijiufang Technology & Trade Co., Ltd.	Company controlled by parent company
Sichuan Braking technology Stock Co., Ltd.	Company controlled by parent company
Nanjing Puzhen Entien Railway Bearing Co., Ltd.	Company controlled by parent company
Ziyang CSR Transmission Co., Ltd.	Company controlled by parent company
Qingdao Sifang Stock Repairment Co., Ltd.	Company controlled by parent company
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	Company controlled by parent company
CSR Investment & Leasing Co., Ltd.	Company controlled by parent company
Zhuzhou Times New Material Technology Co., Ltd.	Company controlled by parent company
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	Company controlled by parent company
Zhuzhou Times Equipment Technology Co., Ltd.	Company controlled by parent company
Qingdao CSR Logistics Co., Ltd.	Company controlled by parent company
Ziyang Chenfeng Electric Co., Ltd.	Company controlled by parent company
CSR Zhuzhou Electric Locomotive Co., Ltd.	Company controlled by parent company
CSR Changzhou Tech-Mark Industrial Co., Ltd.	Company controlled by parent company
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	Company controlled by parent company
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.	Company controlled by parent company
Zhuzhou CSR Times Electric Co., Ltd.	Company controlled by parent company
Tianjin CSR Wind Energy Equipment Technology Co., Ltd.	Company controlled by parent company
Tianjin CSR Wind & Electricity Blade Project Co., Ltd.	Company controlled by parent company
Bombardier Sifang (Qingdao) Transportation Ltd.	Jointly-controlled entities of parent company
Changzhou Langrui Dongyang Transmission Technology Co., Ltd.	Jointly-controlled entities of parent company
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.	Associate

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4. The significant transactions carried out between the Group and its related parties

(1) Sales of products to related parties

	Note I	Amount of 2012	Amount of 2011
CSR Sifang Co., Ltd.		12,911,928.63	55,287,537.25
Qingdao CSR Logistics Co., Ltd.		502,327.51	314,234.93
Qingdao Siji Renewable Resources Co., Ltd.		2,228,437.98	1,385,874.00
Qingdao Sifang Stock Repairment Co., Ltd.		-	1,780,439.06
Shijiazhuang King Transportation Equipment Co., Ltd.		50,941.95	63,971.60
Bombardier Sifang (Qingdao) Transportation Ltd.		313,851,356.23	119,668,526.53
CSR Nanjing Puzhen Rolling Stock Co., Ltd.		9,288,712.10	1,410,423.71
Tianjin CSR Wind Energy Equipment TechnologyCo., Ltd.		347,315.70	-
Tianjin CSR Wind & Electricity Blade Project Co., Ltd.		878,963.49	-
Zhuzhou Times New Material Technology Co., Ltd.		10,701.40	-
CSR Changzhou Tech-Mark Industrial Co., Ltd.		274,486.33	-
		340,345,171.32	179,911,007.08

(2) Purchases of products from related parties

	Note II	Amount of 2012	Amount of 2011
CSR Sifang Co., Ltd.		574,554,985.51	456,226,389.99
Qingdao CSR Logistics Co., Ltd.		109,916,529.72	118,774,933.46
Zhuzhou CSR Times Electric Co., Ltd.		1,956,293,590.98	2,687,826,699.24
Zhuzhou Times New Material Technology Co., Ltd.		16,957,261.44	12,376,186.37
CSR Zhuzhou Electric Locomotive Co., Ltd.		11,239,320.56	29,700,298.72
Beijing Beijiufang Technology & Trade Co., Ltd.		-	281,196.58
CSR Zhuzhou Electric Co., Ltd.		443,338,513.01	1,035,672,447.76
Ziyang Chenfeng Electric Co., Ltd.		38,053,990.68	49,986,974.59
Sichuan Braking technology Stock Co., Ltd.		750,682.91	-
CSR Nanjing Puzhen Rolling Stock Co., Ltd.		277,739.82	-
Nanjing Puzhen Haitai Braking equipment Co., Ltd.		591,025,867.85	730,723,212.35
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.		375,546,081.81	373,106,137.10
CSR Changzhou Tech-Mark Industrial Co., Ltd.		65,868,409.90	170,291,827.22
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.		321,300,584.20	319,824,497.97
CSR Investment & Leasing Co., Ltd.		16,054,503.82	26,137,584.04
Shijiazhuang King Transportation Equipment Co., Ltd.		184,070,694.45	583,026,217.83
Ziyang CSR Transmission Co., Ltd.		2,479,500.00	522,000.00
Qingdao Sifang Stock Repairment Co., Ltd.		98,740.00	21,336,221.00
Zhuzhou Times Equipment Technology Co., Ltd.		694,718.80	-
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.		17,810,256.41	-
Qingdao Sifang Rollingstock Casting & Forging Co.,Ltd.		6,130,878.21	2,831,122.25
CSR Luoyang Locomotive Co., Ltd.		10,917,435.90	10,597,948.72
CSR (Hong Kong) Co., Ltd.		430,676.00	-
		4,743,810,961.98	6,629,241,895.19

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4. The significant transactions carried out between the Group and its related parties (continued)

(3) Other primary related parties transactions

	Note	Amount of 2012	Amount of 2011
Receiving services	(3)(a)	50,625,540.47	56,581,145.68
Providing services		6,772,756.73	4,860,338.46
Interest expenses		-	5,290,549.00
Interest income	(3)(b)	36,920,781.81	37,313,714.36
Accepting guarantees		8,246,453.43	8,266,657.93
Leasing in of fixed assets		13,860,000.00	13,860,000.00
Leasing out of fixed assets		600,000.00	600,000.00
Disposal of fixed assets		619,393.08	5,600,359.18
The key management personnel awarded the equity incentive shares	(3)(c)	1,391,400.00	1,391,400.00

Note:

(1) Sales of products to related parties

The Group sells high-speed train accessories and passenger train accessories etc. to the related parties above according to the mutually agreed price.

(2) purchase of products from related parties

The Group purchases high-speed train accessories and passenger train accessories etc. from the related parties above according to the mutually agreed price.

(3) Other primary related parties transactions

(a) During the period, CSR Corporation Limited received RMB48,000,000.00 for providing management consulting service to the Group according to the mutually agreed prices, and Qingdao CSR Logistics Co., Ltd. received RMB2,625,540.47 for providing transportation and packaging service to the Group according to the mutually agreed prices (2011: CSR Corporation Limited received RMB29,781,145.68 for providing test R&D service to the Group according to the mutually agreed prices, and CSR Corporation Limited received RMB26,800,000.00 for providing export agent service to the Group according to the mutually agreed price).

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4. The significant transactions carried out between the Group and its related parties (continued)

Note (continued):

(3) Other primary related parties transactions (continued)

(b) During the period, interest income of providing funds to CSR Corporation Limited is RMB36,920,781.81 (2011: RMB37,313,714.36) according to the mutually agreed interest rate.

(c) During the period, partial key management personnel of the Group were conferred 1,391,400 shares of CSR Corporation Limited A stock option by the parent company. The value of the stock option was RMB1,251,022.00 (2011: The value of the stock option was RMB608,093.33).

5. The commitment of the Group with related parties

As at the date of balance sheet, that the commitments already signed the contract but not necessary to be disclosed on financial statement with related parties are presented below:

Purchases of products from related parties

	2012	2011
CSR Sifang Co., Ltd.	41,137,968.52	-
Zhuzhou CSR Times Electric Co., Ltd.	186,820,039.41	1,806,760,000.00
Zhuzhou Times New Material Technology Co., Ltd.	5,057,425.05	-
CSR Zhuzhou Electric Locomotive Co., Ltd.	139,316.24	-
CSR Zhuzhou Electric Co., Ltd.	26,846,539.30	351,680,000.00
Ziyang Chenfeng Electric Co., Ltd.	4,087,381.18	42,055,000.00
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	156,717,474.97	-
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	119,034,603.27	276,108,000.00
CSR Changzhou Tech-Mark Industrial Co., Ltd.	52,562,548.01	-
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.	78,621,955.23	-
CSR Investment & Leasing Co., Ltd.	846,614.65	-
Shijiazhuang King Transportation Equipment Co., Ltd.	18,090,185.38	127,027,200.00
	689,962,051.21	2,603,630,200.00

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6. Receivable from/payable to related parties

	2012	2011
Trade receivables:		
Qingdao Sifang Stock Repairment Co., Ltd.	-	1,688,000.00
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	295,697.62	11,700.00
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.	347,891,954.81	1,640,771.26
Tianjin CSR Wind Energy Equipment Technology Co., Ltd.	181,202.08	-
CSR Sifang Co., Ltd.	370,462.00	-
Shijiazhuang King Transportation Equipment Co., Ltd.	33,600.00	-
CSR Changzhou Tech-Mark Industrial Co., Ltd.	321,149.00	-
Tianjin CSR Wind & Electricity Blade Project Co., Ltd.	1,028,387.29	-
CSR Investment Management Co., Ltd.	-	2,670,000.00
	350,122,452.80	6,010,471.26
Other receivables:		
CSR Corporation Limited	3,008,883,307.43	2,927,055,553.40
Prepayments:		
Zhuzhou CSR Times Electric Co., Ltd.	497,100.00	-
CSR (Hong Kong) Co., Ltd.	2,393,215.95	4,698,186.15
	2,890,315.95	4,698,186.15
Accounts payable:		
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.	-	2,400,000.00
CSR Sifang Co., Ltd.	211,937,721.89	70,256,576.67
Qingdao CSR Logistics Co., Ltd.	41,212,912.53	27,899,325.30
Zhuzhou CSR Times Electric Co., Ltd.	635,650,112.06	399,874,842.17
Zhuzhou Times Electric Technology Co., Ltd.	-	350,000.00
Zhuzhou Times New Material Technology Co., Ltd.	5,347,119.36	1,892,020.78
CSR Zhuzhou Electric Locomotive Co., Ltd.	12,920,668.21	18,282,760.51
Beijing Beijiufang Technology & Trade Co., Ltd.	10,036.33	330,036.33
CSR Zhuzhou Electric Co., Ltd.	231,430,235.32	228,871,223.19
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	3,323,422.95	8,422.95
Ziyang Chenfeng Electric Co., Ltd.	12,792,102.72	14,110,912.15
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	200,086,666.18	150,747,396.50
Nanjing Puzhen Entien Railway Bearing Co., Ltd.	-	38,800.00
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	102,658,801.28	93,116,601.19
CSR Changzhou Tech-Mark Industrial Co., Ltd.	76,032,681.40	55,247,847.16
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.	150,295,209.61	85,603,395.79
CSR Investment & Leasing Co., Ltd.	5,483,936.49	8,346,961.69

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6. Receivable from/payable to related parties (continued)

	2012	2011
Accounts payable (continued):		
Shijiazhuang King Transportation Equipment Co., Ltd.	120,994,136.41	119,135,852.24
Qingdao Sifang Rollingstock Casting & Forging Co., Ltd.	1,883,105.10	1,358,073.59
Sichuan Braking technology Stock Co., Ltd.	120,489.00	2,190.00
Ziyang CSR Transmission Co., Ltd.	141,755.00	610,740.00
CSR Luoyang Locomotive Co., Ltd.	1,834,500.00	5,509,600.00
	1,814,155,611.84	1,283,993,578.21
Bills payable:		
Ziyang Chenfeng Electric Co., Ltd.	3,500,000.00	1,900,000.00
Zhuzhou CSR Times Electric Co., Ltd.	318,900,000.00	380,000,000.00
CSR Zhuzhou Electric Co., Ltd.	100,000,000.00	121,500,000.00
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	58,000,000.00	35,000,000.00
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	98,700,000.00	41,700,000.00
Zhuzhou Times New Material Technology Co., Ltd.	1,100,000.00	-
Changzhou Langrui Kaierbi Damping Technology Co., Ltd.	39,600,000.00	13,550,000.00
CSR Changzhou Tech-Mark Industrial Co., Ltd.	6,700,000.00	10,300,000.00
Shijiazhuang King Transportation Equipment Co., Ltd.	25,000,000.00	75,900,000.00
CSR Investment & Leasing Co., Ltd.	15,000,000.00	3,700,000.00
CSR Luoyang Locomotive Co., Ltd.	750,000.00	540,000.00
CSR Sifang Co., Ltd.	51,060,000.00	39,170,000.00
Qingdao CSR Logistics Co., Ltd.	9,800,000.00	11,670,000.00
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	3,150,000.00	-
Qingdao Sifang Rollingstock Casting & Forging Co., Ltd.	1,300,000.00	-
Ziyang CSR Transmission Co., Ltd.	600,000.00	-
Qingdao Sifang Stock Repairment Co., Ltd.	-	3,540,000.00
	733,160,000.00	738,470,000.00

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6. Receivable from/payable to related parties (continued)

	2012	2011
Other payables:		
CSR Corporation Limited	-	101,260,000.00
CSR Sifang Co., Ltd.	4,123,530.91	7,748,280.91
Nanjing Puzhen Haitai Braking equipment Co., Ltd.	1,829,000.00	530,000.00
Qingdao CSR Logistics Co., Ltd.	459,903.92	345,331.16
Zhuzhou CSR Times Electric Co., Ltd.	8,825,000.00	7,330,550.00
Shijiazhuang King Transportation Equipment Co., Ltd.	2,423,700.00	157,000.00
Zhuzhou Times New Material Technology Co., Ltd.	1,092,000.00	-
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	44,880.00	-
CSR Changzhou Tech-Mark Industrial Co., Ltd.	1,348,200.00	-
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	100,000.00	-
CSR Zhuzhou Electric Co., Ltd.	3,700,000.00	3,800,000.00
	23,946,214.83	121,171,162.07
Advance from customers:		
Bombardier Sifang (Qingdao) Transportation Ltd.	-	13,740,997.13
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	487,442.00	-
	487,442.00	13,740,997.13

Accounts payable and receivable are non-interest bearing and unsecured, excluding other receivable from CSR Corporation Limited which annual interest rate is from 0.5% to 1.31%. The term of trade receivables and payable complies with trade clauses, otherwise have no fixed terms of payment.

IX. CONTINGENCIES

As at the balance sheet date, the Group has no contingencies that need to be disclosed.

X. LEASING ARRANGEMENT

1. As lesser

See Note VI.9 for details of the fixed assets of operating lease.

2. As lessee

Significant operating lease: According to lease contract signed with lesser, minimal payment of irrevocable lease is as follows:

	2012	2011
Within one year, inclusive	13,860,000.00	13,860,000.00
One year to two years, inclusive	13,860,000.00	13,860,000.00
Two years to three years, inclusive	-	13,860,000.00
	27,720,000.00	41,580,000.00

XI. COMMITMENTS

	2012	2011
Capital commitments:		
Contracted, but not provided for	14,540,561.00	49,728,819.50
Investment commitments:		
Contracted, but not contributed	-	104,000,000.00

XII. FINANCIAL INSTRUMENT AND RISKS

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk.

1. Classification of financial instruments

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

2012

Financial assets

	Loans and receivables
Cash and bank balances	1,766,394,113.61
Bills receivable	210,500,000.00
Trade receivables	5,153,224,324.87
Other receivables	3,185,440,111.20
	10,315,558,549.68

Financial liabilities

	Other financial liabilities
Bills payable	2,185,928,509.31
Accounts payable	10,151,965,742.20
Dividends payable	26,301,600.00
Other payables	414,482,511.17
Long-term loans	8,246,453.43
	12,786,924,816.11

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

1. Classification of financial instruments (continued)

2011

Financial assets

	Financial assets at fair value through profit and loss	Loans and receivables	Total
Cash and bank balances	-	2,573,106,100.79	2,573,106,100.79
Financial assets held for trading	4,569,141.62	-	4,569,141.62
Trade receivables	-	3,206,309,623.58	3,206,309,623.58
Other receivables	-	3,218,766,897.56	3,218,766,897.56
	4,569,141.62	8,998,182,621.93	9,002,751,763.55

Financial liabilities

	Other financial liabilities
Short-term loans	1,400,000,000.00
Bills payable	1,909,595,829.00
Account payable	7,000,868,084.44
Dividends payable	38,184,801.58
Other payables	529,084,450.86
Long-term loans	8,266,657.93
	10,885,999,823.81

2. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group trades only with recognized 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, trade receivables and bills receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other major financial assets of the Group, which comprise cash and bank balances, other receivables and some derivative instruments, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

2. Credit risk (continued)

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customers. As at 31 December 2012, the Group has certain concentrations of credit risk as 64.28% (31 December 2011: 73.16%) and 79.90% (31 December 2011: 83.46%) of the Group's trade receivables were due from the Group's largest customer and five largest customers. The Group has no collateral for balance of trade receivables or other credit enhancement.

Further quantitative data in respect of the Group's exposure to credit risk arising from bills receivable, trade receivables and other receivables are disclosed in Notes VI.2 and VI.3 and VI.5 to the financial statement.

As at 31 December, the ageing analysis of the Group's financial assets that are not considered to be impaired is as follows:

2012

			Over due		
	Total	Not overdue and not impaired	Within six months	Six months to one year	Over one year
Bills receivable	210,500,000.00	210,500,000.00	-	-	-
Trade receivables	4,715,520,030.60	4,171,976,700.49	189,943,330.11	353,600,000.00	-
Other receivables	3,176,692,904.15	3,174,974,279.62	1,718,624.53	-	-
	8,102,712,934.75	7,557,450,980.11	191,661,954.64	353,600,000.00	-

2011

			Over due		
	Total	Not overdue and not impaired	Within six months	Six months to one year	Over one year
Trade receivables	3,109,820,591.61	2,702,743,800.23	404,406,791.38	-	2,670,000.00
Other receivables	3,217,543,097.56	2,937,383,299.43	72,858,138.86	207,301,659.27	-
Financial assets held for trading	4,569,141.62	4,569,141.62	-	-	-
	6,331,932,830.79	5,644,696,241.28	477,264,930.24	207,301,659.27	2,670,000.00

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

2. Credit risk (continued)

As at 31 December 2012, the Group's trade receivables that are not overdue and considered to be impaired were mainly related to Ministry of Railways of PRC, which is the largest client of the Group. This client is Government department and has no default in history. Other receivables that are not overdue and considered to be impaired are mainly related to CSR Corporation Limited, which is the parent company of the Company.

As at 31 December 2012, the Group's trade receivables that are overdue but not considered to be impaired were mainly related to time delay between some separate subordinate units of Ministry of Railways of PRC paid first to Ministry of Railways and then paid to the Group by the way of unified settlement. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group's other receivables that are overdue but not considered to be impaired were mainly related to CSR Corporation Limited, which is the parent of the Company.

3. Liquidity risk

Liquidity risk is the risk of fund shortage that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group applies a planning tool of liquidity circulation to manage liquidity risk of fund shortage, which takes both maternity of financial instruments and estimated operating cash flow of the Group into consideration.

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.

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

2012

Financial assets

	One to three months	Three months to one year	One year to five years	Over five years	Total
Cash and bank balances	1,715,417,543.61	50,976,570.00	-	-	1,766,394,113.61
Bills receivable	90,500,000.00	120,000,000.00	-	-	210,500,000.00
Trade receivables	5,153,224,324.87	-	-	-	5,153,224,324.87
Other receivables	3,185,440,111.20	-	-	-	3,185,440,111.20
	10,144,581,979.68	170,976,570.00	-	-	10,315,558,549.68

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

3. Liquidity risk (continued)

2012 (continued)

Financial liabilities

	One to three months	Three months to one year	One year to five years	Over five years	Total
Bills payable	2,145,928,509.31	40,000,000.00	-	-	2,185,928,509.31
Account payable	10,151,965,742.20	-	-	-	10,151,965,742.20
Other payable	414,482,511.17	-	-	-	414,482,511.17
Dividends payable	26,301,600.00	-	-	-	26,301,600.00
Long-term loans	-	16,492.91	66,302.15	8,534,224.62	8,617,019.68
	12,738,678,362.68	40,016,492.91	66,302.15	8,534,224.62	12,787,295,382.36

2011

Financial assets

	One to three months	Three months to one year	One year to five years	Over five years	Total
Cash and bank balances	2,460,026,882.80	113,079,217.99	-	-	2,573,106,100.79
Financial assets held for trading	-	4,569,141.62	-	-	4,569,141.62
Trade receivables	3,206,309,623.58	-	-	-	3,206,309,623.58
Other receivables	3,218,766,897.56	-	-	-	3,218,766,897.56
	8,885,103,403.94	117,648,359.61	-	-	9,002,751,763.55

Financial liabilities

	One to three months	Three months to one year	One year to five years	Over five years	Total
Short-term loans	213,420,000.00	1,285,280,000.00	-	-	1,498,700,000.00
Bills payable	1,628,527,279.00	281,068,550.00	-	-	1,909,595,829.00
Account payable	7,000,868,084.44	-	-	-	7,000,868,084.44
Other payable	529,084,450.86	-	-	-	529,084,450.86
Dividends payable	38,184,801.58	-	-	-	38,184,801.58
Long-term loans	-	16,533.32	66,464.59	8,589,721.27	8,672,719.18
	9,410,084,615.88	1,566,365,083.32	66,464.59	8,589,721.27	10,985,105,885.06

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

4. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The main market risk mainly include interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the shareholder's equity.

	basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in shareholder's equity*
2012			
RMB	100	-	-
RMB	(100)	-	-

	basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in shareholder's equity*
2011			
RMB	100	(14,000,000.00)	-
RMB	(100)	14,000,000.00	-

*Excluding retained profit.

Foreign currency risk

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The foreign currency risk of the Group was mainly derived from its operating activities (when the currencies of receipt and payment were different from the Group's functional currency).

The Group faces transactional foreign currency risk. This risk was derived from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies. The Group has 2.65% (2011: 6.75%) of the sales amount which were generated from sales of the operating units which transacted in currencies other than their functional currencies. The Group has 100% (2011: 99.49%) of the cost amount which transacted in functional currencies.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and shareholder's equity (due to forward foreign exchange contracts).

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

4. Market risk (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in shareholder's equity*
2012			
Depreciation of RMB to USD	1.05%	2,697,829.42	-
Appreciation of RMB to USD	(1.05%)	(2,697,829.42)	-
Depreciation of RMB to Euro	9.24%	0.15	-
Appreciation of RMB to Euro	(9.24%)	(0.15)	-
Depreciation of RMB to Japanese Yen	12.31%	(9,954,582.48)	-
Appreciation of RMB to Japanese Yen	(12.31%)	9,954,582.48	-
Depreciation of RMB to Singapore Dollar	4.06%	304,401.07	-
Appreciation of RMB to Singapore Dollar	(4.06%)	(304,401.07)	-

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in shareholder's equity*
2011			
Depreciation of RMB to USD	4.57%	699,219.90	-
Appreciation of RMB to USD	(4.57%)	(699,219.90)	-
Depreciation of RMB to Euro	18.04%	1,128,899.16	-
Appreciation of RMB to Euro	(18.04%)	(1,128,899.16)	-
Depreciation of RMB to Japanese Yen	5.88%	(8,598,401.96)	-
Appreciation of RMB to Japanese Yen	(5.88%)	8,598,401.96	-
Depreciation of RMB to Singapore Dollar	9.89%	2,663,593.69	-
Appreciation of RMB to Singapore Dollar	(9.89%)	(2,663,593.69)	-

*Excluding retained profit.

XII. FINANCIAL INSTRUMENT AND RISKS (CONTINUED)

5. Fair value

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

	Carrying value		Fair value	
	2012	2011	2012	2011
Financial assets				
Cash and bank balances	1,766,394,113.61	2,573,106,100.79	1,766,394,113.61	2,573,106,100.79
Financial assets held for trading	-	4,569,141.62	-	4,569,141.62
Bills receivable	210,500,000.00	-	210,500,000.00	-
Trade receivables	5,153,224,324.87	3,206,309,623.58	5,153,224,324.87	3,206,309,623.58
Other receivables	3,185,440,111.20	3,218,766,897.56	3,185,440,111.20	3,218,766,897.56
	10,315,558,549.68	9,002,751,763.55	10,315,558,549.68	9,002,751,763.55
Financial liabilities				
Short-term loans	-	1,400,000,000.00	-	1,399,957,395.45
Bills payable	2,185,928,509.31	1,909,595,829.00	2,185,928,509.31	1,909,595,829.00
Account payable	10,151,965,742.20	7,000,868,084.44	10,151,965,742.20	7,000,868,084.44
Dividends payable	26,301,600.00	38,184,801.58	26,301,600.00	38,184,801.58
Other payable	414,482,511.17	529,084,450.86	414,482,511.17	529,084,450.86
Long-term loans	8,246,453.43	8,266,657.93	4,627,087.82	4,165,368.64
	12,786,924,816.11	10,885,999,823.81	12,783,305,450.50	10,881,855,929.97

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

The fair value of cash and bank balances, bills receivable, trade receivables, other receivables, bills payable, accounts payable, other payables and dividends payable approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the long-term and short-term loans have been calculated by discounting the expected future cash flows using market return rates currently available for instruments on similar terms and characteristics.

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. Cash and bank balances

	2012	2011
Cash on hand	23,605.61	113,602.70
Bank deposit	1,546,139,356.40	2,420,740,670.23
Others	50,976,570.00	113,079,217.99
Total	1,597,139,532.01	2,533,933,490.92

As at 31 December 2012, the ownership of the Company's cash and bank balances amounting to RMB50,976,570.00 has been restricted (31 December 2011: RMB113,079,217.99), see Note XIII.14.

2. Bills receivable

	2012	2011
Commercial acceptance bills	195,500,000.00	-

As at 31 December 2012, no bills receivable of the Company are not restricted.

3. Trade receivables

The Company's trade receivables were interest-free with normal credit terms of 180 days.

The ageing of trade receivables is analyzed below:

	2012	2011
Within one year	4,801,799,813.12	3,106,402,910.39
One to two years	489,945,104.56	83,033,834.09
Two to three years	14,028,159.71	49,192,866.50
Over three years	60,727,809.55	21,965,366.90
	5,366,500,886.94	3,260,594,977.88
Less: Provisions for bad debts	131,488,022.79	55,033,035.52
Total	5,235,012,864.15	3,205,561,942.36

The movement of provision for bad debts against trade receivables is disclosed below:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Reversal	Write-off	
2012	55,033,035.52	78,699,081.46	1,281,755.59	962,338.60	131,488,022.79
2011	53,961,207.60	1,071,827.92	-	-	55,033,035.52

As at 31 December 2012, no trade receivables' ownership of the Company are not restricted (31 December 2011: RMB200,000,000.00), see Note XIII.14.

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. Prepayments

The ageing of prepayments is analyzed below:

	2012	2011
Within one year	26,603,204.48	67,953,231.67
One to two years	5,778,905.31	-
Total	32,382,109.79	67,953,231.67

5. Other receivables

The ageing of other receivables is analyzed below:

	2012	2011
Within one year	3,259,405,403.95	3,008,456,201.74
One to two years	7,655,677.68	208,739,659.27
Two to three years	4,479,762.07	3,000.00
	3,271,540,843.70	3,217,198,861.01
Less: Provisions for bad debts	3,388,232.70	217,200.00
Total	3,268,152,611.00	3,216,981,661.01

The movement of provision for bad debts against other receivables for the year is disclosed below:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
2012	217,200.00	3,171,032.70	-	-	3,388,232.70
2011	804,404.91	-	587,204.91	-	217,200.00

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

6. Inventories

	2012	2011
Raw materials	2,098,006,350.47	2,580,467,260.12
Work in progress	2,910,289,170.10	1,986,480,567.76
Finished goods	-	39,819,487.94
Goods in transit	46,554,960.53	147,297,429.24
	5,054,850,481.10	4,754,064,745.06
Less: Provisions for bad debts	85,386,800.69	39,134,899.89
Total	4,969,463,680.41	4,714,929,845.17

The movement of provision for inventories is disclosed below:

2012

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Other reversal	
Raw materials	35,365,721.58	49,812,588.99	-	-	85,178,310.57
Work in progress	208,490.12	-	-	-	208,490.12
Finished goods	261,385.50	1,060,073.91	-	1,321,459.41	-
Goods in transit	3,299,302.69	-	158,729.49	3,140,573.20	-
	39,134,899.89	50,872,662.90	158,729.49	4,462,032.61	85,386,800.69

2011

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Other reversal	
Raw materials	16,779,058.79	18,586,662.79	-	-	35,365,721.58
Work in progress	208,490.12	-	-	-	208,490.12
Finished goods	696,590.41	-	435,204.91	-	261,385.50
Goods in transit	-	3,299,302.69	-	-	3,299,302.69
	17,684,139.32	21,885,965.48	435,204.91	-	39,134,899.89

As at 31 December 2012 and 31 December 2011, no inventories' ownership of the Group is restricted.

7. Other current assets

	2012	2011
Value-added tax retained	335,865,015.56	-

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

8. Long-term equity investments

	2012	2011
Equity method		
Associates		
Qingdao Sifang Kawasaki Rolling Technology Co., Ltd.	7,098,042.69	13,594,483.37
Cost method		
CSR (Tianjin) Subway Rolling Stock Co., Ltd.	300,000,000.00	300,000,000.00
Wuhan CSR Sifang Reparement & Maintenance Center Co., Ltd.	50,000,000.00	50,000,000.00
Chengdu CSR Rail Vehicle Co., Ltd.	104,000,000.00	-
Qingdao CSR Distribution & Service Co.,Ltd.	50,000,000.00	-
Beijing CSR Huasheng Chuangye Investment Fund	6,000,000.00	-
CSR America Incorporated	13,067,800.00	13,067,800.00
Total	530,165,842.69	376,662,283.37

9. Fixed assets

2012

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Other equipment	Total
Cost:					
At 1 January 2012	1,698,231,254.40	2,218,508,294.03	16,382,032.36	120,175,829.83	4,053,297,410.62
Transfer from construction in progress	23,588,796.98	344,605,008.69	788,082.22	62,438,187.25	431,420,075.14
Disposal	(5,220,441.38)	(21,045,465.27)	(1,035,816.40)	(12,198,973.18)	(39,500,696.23)
At 31 December 2012	1,716,599,610.00	2,542,067,837.45	16,134,298.18	170,415,043.90	4,445,216,789.53
Accumulated depreciation:					
At 1 January 2012	225,855,208.38	661,469,759.78	11,283,962.11	57,149,039.74	955,757,970.01
Provided during the year	68,671,905.19	257,393,967.41	1,620,058.20	39,160,923.12	366,846,853.92
Write-off	(1,665,172.03)	(19,527,718.44)	(1,006,129.64)	(11,875,775.82)	(34,074,795.93)
At 31 December 2012	292,861,941.54	899,336,008.75	11,897,890.67	84,434,187.04	1,288,530,028.00
Net carrying amount:					
At 31 December 2012	1,423,737,668.46	1,642,731,828.70	4,236,407.51	85,980,856.86	3,156,686,761.53
At 1 January 2012	1,472,376,046.02	1,557,038,534.25	5,098,070.25	63,026,790.09	3,097,539,440.61

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

9. Fixed assets (continued)

2011

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Other equipment	Total
Cost:					
At 1 January 2011	1,325,513,754.85	1,703,780,006.02	15,287,308.03	99,472,765.00	3,144,053,833.90
Transfer from construction in progress	375,167,241.21	547,425,102.21	1,334,695.49	32,209,608.89	956,136,647.80
Disposal	(2,449,741.66)	(32,696,814.20)	(239,971.16)	(11,506,544.06)	(46,893,071.08)
At 31 December 2011	1,698,231,254.40	2,218,508,294.03	16,382,032.36	120,175,829.83	4,053,297,410.62
Accumulated depreciation:					
At 1 January 2011	136,828,939.31	495,469,553.66	10,053,132.85	57,100,286.24	699,451,912.06
Provided during the year	90,475,505.21	193,441,449.25	1,467,385.68	11,517,741.17	296,902,081.31
Write-off	(1,449,236.14)	(27,441,243.13)	(236,556.42)	(11,468,987.67)	(40,596,023.36)
At 31 December 2011	225,855,208.38	661,469,759.78	11,283,962.11	57,149,039.74	955,757,970.01
Net carrying amount:					
At 31 December 2011	1,472,376,046.02	1,557,038,534.25	5,098,070.25	63,026,790.09	3,097,539,440.61
At 1 January 2011	1,188,684,815.54	1,208,310,452.36	5,234,175.18	42,372,478.76	2,444,601,921.84

Preparing for disposal of fixed assets are as follows:

	Carrying value	Fare value	Estimated disposal expense	Estimated disposal date
At 31 December 2012	33,628.34	211,000.00	-	February 2013
At 31 December 2011	-	-	-	-

The fixed assets of operating lease's carrying value of are as follows:

	Buildings and structures	Plant machinery and equipment	Total
At 31 December 2012	5,980,157.82	78,455.95	6,058,613.77
At 31 December 2011	6,321,110.69	232,400.22	6,553,510.91

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

10. Construction in progress

2012

	Opening Balance	Increase during the year	Decrease during the year: Transferred to fixed assets	Decrease during the year: Transferred to intangible assets	Total
High-speed train production project	252,706,223.22	4,688,977.22	225,307,174.59	-	32,088,025.85
High-speed train repair project	1,317,334.18	9,234,847.12	-	-	10,552,181.30
Other projects	93,679,585.36	162,953,724.64	206,112,900.55	-	50,520,409.45
	347,703,142.76	176,877,548.98	431,420,075.14	-	93,160,616.60

2011

	Opening Balance	Increase during the year	Decrease during the year: Transferred to fixed assets	Decrease during the year: Transferred to intangible assets	Total
High-speed train production project	312,269,730.84	685,579,972.12	745,143,479.74	-	252,706,223.22
High-speed train repair project	4,783,831.28	1,015,020.55	4,481,517.65	-	1,317,334.18
Urban rail transit production project	623,709.57	-	623,709.57	-	-
Other projects	107,089,499.89	213,216,826.33	205,887,940.84	20,738,800.02	93,679,585.36
	424,766,771.58	899,811,819.00	956,136,647.80	20,738,800.02	347,703,142.76

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

11. Intangible assets

2012

	Land use rights	Software	Proprietary technology	Total
Cost:				
At 1 January 2012	368,277,301.12	70,195,990.99	13,674,337.88	452,147,629.99
Increase during the year	-	30,885,727.29	620,563.77	31,506,291.06
At 31 December 2012	368,277,301.12	101,081,718.28	14,294,901.65	483,653,921.05
Accumulated amortization:				
At 1 January 2012	27,586,666.00	15,323,555.54	2,571,517.43	45,481,738.97
Provided during the year	8,099,382.60	7,607,270.52	2,156,271.52	17,862,924.64
At 31 December 2012	35,686,048.60	22,930,826.06	4,727,788.95	63,344,663.61
Net carrying amount				
At 31 December 2012	332,591,252.52	78,150,892.22	9,567,112.70	420,309,257.44
At 1 January 2012	340,690,635.12	54,872,435.45	11,102,820.45	406,665,891.02

2011

	Land use rights	Software	Proprietary technology	Total
Cost:				
At 1 January 2011	368,277,301.12	45,583,515.76	3,225,848.96	417,086,665.84
Increase during the year	-	24,612,475.23	10,448,488.92	35,060,964.15
At 31 December 2011	368,277,301.12	70,195,990.99	13,674,337.88	452,147,629.99
Accumulated amortization:				
At 1 January 2011	19,487,283.40	8,761,643.30	2,061,317.17	30,310,243.87
Provided during the year	8,099,382.60	6,561,912.24	510,200.26	15,171,495.10
At 31 December 2011	27,586,666.00	15,323,555.54	2,571,517.43	45,481,738.97
Net carrying amount				
At 31 December 2011	340,690,635.12	54,872,435.45	11,102,820.45	406,665,891.02
At 1 January 2011	348,790,017.72	36,821,872.46	1,164,531.79	386,776,421.97

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

12. Deferred tax assets

Recognized deferred tax assets:

	2012	2011
Provisions of product warranties	39,072,202.27	31,459,611.85
Provisions of technology licensing usage fees	17,259,797.55	21,941,947.97
Other accrued liabilities and accrued expenses	13,467,083.45	18,735,285.02
Government grants	4,047,894.61	4,991,045.70
Others	3,483,069.11	2,757,734.34
Total	77,330,046.99	79,885,624.88

The Company has recognized the deferred tax assets related to the above deductible temporary differences, because it is highly probable that future taxable profit will be available to be utilized.

Deferred tax liabilities

Recognized deferred tax liabilities:

	2012	2011
Changes in fair value of financial assets held for trading	-	685,371.24

13. Assets impairment provisions

2012

	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Write-back	Reversal	Write-off	
Provisions for bad debts	55,250,235.52	81,870,114.16	-	1,281,755.59	962,338.60	134,876,255.49
Provisions for inventories	39,134,899.89	50,872,662.90	158,729.49	4,462,032.61	-	85,386,800.69
	94,385,135.41	132,742,777.06	158,729.49	5,743,788.20	962,338.60	220,263,056.18

2011

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Provisions for bad debts	54,765,612.51	1,071,827.92	587,204.91	-	55,250,235.52
Provisions for inventories	17,684,139.32	21,885,965.48	435,204.91	-	39,134,899.89
	72,449,751.83	22,957,793.40	1,022,409.82	-	94,385,135.41

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

14. Restricted ownership of assets

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance	Note
Pledged assets					
Cash and bank balances	113,079,217.99	-	62,102,647.99	50,976,570.00	Note I
Trade receivables	200,000,000.00	-	200,000,000.00	-	Note II
	313,079,217.99	-	262,102,647.99	50,976,570.00	

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance	Note
Pledged assets					
Cash and bank balances	260,830,530.99	-	147,751,313.00	113,079,217.99	Note I
Trade receivables	-	200,000,000.00	-	200,000,000.00	Note II
	260,830,530.99	200,000,000.00	147,751,313.00	313,079,217.99	

Note I: Pledged cash and bank balances were as follows:

	2012	2011
The guarantee deposit	50,976,570.00	113,079,217.99

Note II: The Company has repaid the borrowing RMB200,000,000.00 from Sifang Sub-branch, Qingdao Branch, Bank of Communications this year, which the pledged trade receivables amounted to RMB200,000,000.00 is relieved.

15. Short-term loans

	2012	2011
Unsecured loans	-	1,200,000,000.00
Pledged loans	-	200,000,000.00
	-	1,400,000,000.00

As at 31 December 2012, the Company had repaid short-term loans lent last year and no new short-term loans lent in this year. As at 31 December 2011, certain bank loans of RMB1,200,000,000.00 in aggregate were lent by the Company through Unsecured loans, with terms of annual interest rates from 5.71% to 7.22%, and certain bank loans of RMB200,000,000.00 were lent by the Company through pledged loans, with terms of annual interest rates at 6.71%.

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

16. Payroll and benefits payable

2012

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	-	933,863,568.00	922,525,406.64	11,338,161.36
Employee welfare	-	57,673,041.10	57,673,041.10	-
Social insurance	-	272,426,803.31	272,426,803.31	-
Include: 1. Medical insurance	-	78,268,557.31	78,268,557.31	-
2. Pension insurance	-	135,308,417.16	135,308,417.16	-
3. Annuity	-	32,232,044.51	32,232,044.51	-
4. Unemployment insurance	-	13,072,321.99	13,072,321.99	-
5. Work-related injury insurance	-	7,354,365.59	7,354,365.59	-
6. Maternity insurance	-	6,191,096.75	6,191,096.75	-
Housing fund	-	96,989,626.00	96,989,626.00	-
Labour union fee and employee education fee	199,763.61	32,919,190.97	32,994,668.74	124,285.84
Others	1,920,000.00	2,169,207.31	2,589,207.31	1,500,000.00
Total	2,119,763.61	1,396,041,436.69	1,385,198,753.10	12,962,447.20

2011

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	-	940,640,866.34	940,640,866.34	-
Employee welfare	-	57,985,931.41	57,985,931.41	-
Social insurance	-	210,311,783.75	210,311,783.75	-
Include: 1. Medical insurance	-	63,769,776.64	63,769,776.64	-
2. Pension insurance	-	101,921,730.72	101,921,730.72	-
3. Annuity	-	24,777,312.64	24,777,312.64	-
4. Unemployment insurance	-	9,976,863.88	9,976,863.88	-
5. Work-related injury insurance	-	4,922,760.64	4,922,760.64	-
6. Maternity insurance	-	4,943,339.23	4,943,339.23	-
Housing fund	-	76,024,960.00	76,024,960.00	-
Labour union fee and employee education fee	291,507.60	27,877,592.25	27,969,336.24	199,763.61
Others	2,240,000.00	1,920,000.00	2,240,000.00	1,920,000.00
Total	2,531,507.60	1,314,761,133.75	1,315,172,877.74	2,119,763.61

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

17. Taxes payable

	2012	2011
Value added tax	-	36,876,724.44
Corporate income tax	10,707,099.02	111,122,348.62
Business tax	474,848.59	164,507.00
Property tax	3,668,004.20	5,536,042.56
Individual income tax	11,228,584.63	8,704,710.09
City construction and maintenance tax	153,821.62	14,919,868.49
Educational surtax and surcharge	109,872.58	10,657,048.93
Land use tax	2,009,595.75	3,218,656.35
Stamp duty	1,481,378.18	3,767,798.55
Local water conservancy construction funds	4,175.97	2,131,409.78
Total	29,837,380.54	197,099,114.81

18. Dividends payable

	2012	2011
CSR Corporation Limited	-	14,976,000.00
Qingdao Ultimate Corporation Limited	12,480,000.00	15,678,000.00
China Railway Materials Company Limited	7,800,000.00	-
Guangzhou Zhongche Railway Sales & Leasing Co., Ltd.	3,120,000.00	3,744,000.00
Fujian Ocean Eagle Economy & Trade Co., Ltd.	2,496,000.00	2,995,200.00
Southwest Jiaotong University	312,000.00	679,281.58
China Railway Science & Technology Development Company	93,600.00	112,320.00
Total	26,301,600.00	38,184,801.58

19. Non-current liabilities due within one year

	2012	2011
Accrued liabilities due within one year	228,710,091.26	159,388,303.60
Deferred income due within one year	119,125,744.09	95,367,561.09
Total	347,835,835.35	254,755,864.69

As at 31 December 2012, deferred income due within one year was government grants, please refer to Note XIII.34 for details; accrued liabilities due within one year, please refer to Note XIII.21 for details.

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

20. Long-term loans

	2012	2011
Guaranteed loans	8,246,453.43	8,266,657.93

21. Accrued liabilities

	2012	2011
Expenditures of high-speed train plane transformation	63,149,707.63	98,670,000.00
Product warranties	260,481,348.45	209,730,745.62
Total	323,631,056.08	308,400,745.62
Less: Accrued liabilities due within one year	228,710,091.26	159,388,303.60
	94,920,964.82	149,012,442.02

The movement of accrued liabilities is disclosed as below:

2012	Opening balance	Increase during the year	Decrease during the year	Closing balance
Accrued expenditures of high-speed train	98,670,000.00	-	35,520,292.37	63,149,707.63
Product warranties	209,730,745.62	310,028,041.00	259,277,438.17	260,481,348.45
Total	308,400,745.62	310,028,041.00	294,797,730.54	323,631,056.08

2011	Opening balance	Increase during the year	Decrease during the year	Closing balance
Accrued expenditures of high-speed train	-	98,670,000.00	-	98,670,000.00
Product warranties	56,128,421.89	354,359,718.74	200,757,395.01	209,730,745.62
Total	56,128,421.89	453,029,718.74	200,757,395.01	308,400,745.62

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

22. Other non-current liabilities

	2012	2011
Deferred income over one year	163,935,491.32	173,866,158.39
Actuarial welfare	3,020,792.69	5,190,000.00
Total	166,956,284.01	179,056,158.39

As at 31 December 2012 and 31 December 2011, deferred income related to government grants, please refer to Note XIII.34 for details.

23. Share capital

The Company's share capital is RMB4,003,794,051.00.

	2012		2011	
	Carrying balance	Percentage	Carrying balance	Percentage
CSR Corporation Limited	3,916,122,051.00	97.81%	3,069,592,020.00	97.23%
Qingdao Ultimate Corporation Limited	41,600,000.00	1.04%	41,600,000.00	1.32%
China Railway Materials Company Limited	26,000,000.00	0.65%	26,000,000.00	0.82%
Guangzhou Zhongche Railway Sales & Leasing Co., Ltd.	10,400,000.00	0.25%	10,400,000.00	0.33%
Fujian Ocean Eagle Economy & Trade Co., Ltd.	8,320,000.00	0.21%	8,320,000.00	0.26%
Southwest Jiaotong University	1,040,000.00	0.03%	1,040,000.00	0.03%
China Railway Science & Technology Development Company	312,000.00	0.01%	312,000.00	0.01%
Total	4,003,794,051.00	100.00%	3,157,264,020.00	100.00%

This year, CSR Corporation Limited increase capital RMB1,171,260,000.00 to the Company, which credited to share capital RMB846,530,031.00 and credited to the share premium RMB324,729,969.00 respectively. This capital increment was verified by Shandong Huide Accounting Firm through of (2012) Hui Suo Yan Zi NO.3-011 capital verification report on 10 August 2012.

24. Capital reserve

2012	Share premium	Share-based payment	others	total
Opening balance	351,933,820.00	1,106,315.56	1,320,000.00	354,360,135.56
Increase during the year	324,729,969.00	4,877,795.63	-	329,607,764.63
Closing balance	676,663,789.00	5,984,111.19	1,320,000.00	683,967,900.19

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

24. Capital reserve (continued)

2011	Share premium	Share-based payment	others	total
Opening balance	318,485,463.00	-	1,320,000.00	319,805,463.00
Increase during the year	33,448,357.00	1,106,315.56	-	34,554,672.56
Closing balance	351,933,820.00	1,106,315.56	1,320,000.00	354,360,135.56

25. Surplus reserves

2012	Opening balance	Increase during the year	Closing balance
Statutory surplus reserves	337,605,981.35	160,612,540.50	498,218,521.85
Discretionary surplus reserve	149,746,147.61	80,306,270.25	230,052,417.86
Total	487,352,128.96	240,918,810.75	728,270,939.71

2011	Opening balance	Increase during the year	Closing balance
Statutory surplus reserves	193,506,467.35	144,099,514.00	337,605,981.35
Discretionary surplus reserve	77,696,390.61	72,049,757.00	149,746,147.61
Total	271,202,857.96	216,149,271.00	487,352,128.96

In accordance with the Company Law of the PRC and the articles of association, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve until such reserve reaches 50% of the registered capital of these companies.

The Company is authorized to allocate discretionary surplus reserve from profit after tax after the allocation of statutory surplus reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

26. Retained earnings

	2012	2011
Retained earnings at beginning of year	88,490,508.03	164,756,442.24
Net profit attributable to equity holders of the parent	1,606,125,404.95	1,440,995,139.97
Less: Transfer to statutory surplus reserves	160,612,540.50	144,099,514.00
Transfer to discretionary surplus reserve	80,306,270.25	72,049,757.00
Cash dividend payable	1,288,910,155.06	1,301,111,803.18
Retained earnings at end of year	164,786,947.17	88,490,508.03

Profit available for distribution in respect of 2011 was allocated by RMB0.0278 (including tax) per share and a total of RMB87,771,939.76 payable to shareholders, which was approved by the Company's shareholders at the annual general meeting held on 28 June 2012. Profit available for distribution in respect of 2012 was allocated by RMB0.3 (including tax) per share and a total of RMB1,201,138,215.30 planned to pay to shareholders, which was approved by the Company's shareholders at the fourth extraordinary annual general meeting held on 16 December 2012. The Company allocated cash dividend RMB1,288,910,155.06 in aggregate in 2012.

27. Revenue

Revenue is stated as follows:

	2012	2011
Principal operating income	21,456,518,322.52	24,080,552,584.06
Other operating income	47,695,258.13	46,081,514.99
Total	21,504,213,580.65	24,126,634,099.05

	2012	2011
Sale of goods	20,009,486,613.53	21,711,029,398.51
Rendering of services	1,467,582,259.96	2,401,515,915.22
Lease income	900,338.96	845,000.00
Others	26,244,368.20	13,243,785.32
Total	21,504,213,580.65	24,126,634,099.05

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

28. Financial expenses

Financial expenses are stated as follows:

	2012	2011
Interest expenses	58,690,631.75	133,428,700.43
Less: Interest income	67,049,207.92	71,881,147.65
Foreign exchange gain or loss	(17,344,580.96)	21,365,364.99
Others	(4,512,721.34)	3,805,365.31
Total	(30,215,878.47)	86,718,283.08

29. Assets impairment loss

	2012	2011
Provision for bad debts	81,870,114.16	484,623.01
Provision for inventories	50,713,933.41	21,450,760.57
Total	132,584,047.57	21,935,383.58

30. Investment income

	2012	2011
Long-term equity investment income under the cost method	34,234,487.50	2,879,526.66
Investment income/ (loss) of associates under the equity method	(646,440.68)	3,352,814.28
Total	33,588,046.82	6,232,340.94

31. Non-operating income

	2012	2011
Government subsidies	52,087,884.07	17,724,212.68
Import discount interest	3,313,100.00	11,622,200.32
Gains on disposal of fixed assets	1,968,910.86	4,753,707.16
Others	506,898.69	342,481.57
Total	57,876,793.62	34,442,601.73

Please refer to Note XIII.34 for details of government subsidies.

32. Non-operating expenses

	2012	2011
Loss on disposal of non-current assets	4,200,551.26	-
Public relief donation	350,000.00	350,000.00
Expenditure of penalty, compensation and fine	-	1,034,010.53
Others	555,241.02	-
Total	5,105,792.28	1,384,010.53

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

33. Income tax expense

	2012	2011
Current income tax expense	269,490,249.95	230,744,474.39
Deferred income tax expense	1,870,206.65	(22,380,077.44)
Total	271,360,456.60	208,364,396.95
Relationship between income tax and profit before tax:		
Profit before tax	1,877,485,861.55	1,649,359,536.92
Tax at the statutory tax rate of 25%	469,371,465.39	412,339,884.23
Effect of tax concessions	(179,875,682.47)	(138,909,547.95)
Profits and losses attributable to associates	161,610.17	(838,203.57)
Income not subject to tax	(8,558,621.88)	(719,931.67)
Expenses not deductible for tax	38,050,418.37	9,166,293.53
Others (note)	(47,788,732.98)	(72,674,097.62)
Tax charge at the Group's effective rate	271,360,456.60	208,364,396.95

Note: Others were effect of additional deduction to research and development expenses that the Company developed new technology, new products and new techniques.

34. Government subsidies

	2012	2011
Government subsidies related to assets	128,635,272.32	150,687,339.40
Government subsidies related to income	154,425,963.09	118,546,380.08
Total	283,061,235.41	269,233,719.48
Among:		
Deferred income due within one year	119,125,744.09	95,367,561.09
Deferred income due over one year	163,935,491.32	173,866,158.39

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

34. Government subsidies (continued)

Movement details during the 2012 are as follows:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Credited to profit and loss	Paid to project partner	
Government subsidies related to assets:					
Appropriation of state key laboratory by the Ministry of Finance of PRC	14,881,249.98	-	1,425,000.00	-	13,456,249.98
High-speed train localization project	18,392,388.06	-	4,862,673.96	-	13,529,714.10
High-speed train information system of R&D and manufacture	6,805,543.11	-	4,173,695.96	-	2,631,847.15
High-speed train subsidy of industrialization technological transformation	24,480,860.90	-	4,057,547.80	-	20,423,313.10
Appropriation of three funds of technology by Science and Technology Bureau of Chengyang District	35,557,200.00	-	2,408,674.32	-	33,148,525.68
Appropriation of three funds of technology by Science and Technology Bureau of Chengyang District-Hollow shaft	50,570,097.35	-	5,535,412.55	-	45,034,684.80
Others	-	500,000.00	89,062.49	-	410,937.51
Government subsidies related to income:					
Common base and system integration subject	70,306,843.41	12,200,000.00	12,637,902.36	10,527,000.00	59,341,941.05
High-speed train key technology of pedigree of module Construction and integrated design for China State 863 projects	-	34,100,000.00	1,204,481.00	12,935,300.00	19,960,219.00
High-speed train key technical research	-	12,570,000.00	2,349,145.31	-	10,220,854.69
Official high-speed train key technical research	-	12,000,000.00	2,833,154.93	-	9,166,845.07
High-speed train integrated platform construction of design and manufacture and typical models development for China State 863 projects	-	8,420,000.00	-	-	8,420,000.00
High-speed bogie subject	6,285,062.89	1,220,000.00	879,607.69	-	6,625,455.20
High-speed train reliability of key materials and components subject	4,953,283.88	2,130,000.00	793,719.00	2,183,700.00	4,105,864.88
High-speed body technology subject	10,362,645.09	559,500.00	2,364,959.79	-	8,557,185.30
Traction drive system of high-speed train based on permanent magnet motor for China State 863 projects	6,926,834.50	17,000,000.00	2,079,733.20	14,590,000.00	7,257,101.30
Key technical research and prototype development for intelligent high-speed train	3,900,000.00	2,850,000.00	1,396,000.00	-	5,354,000.00
Key technical research of bogie and equipment development for higher-speed train	7,000,000.00	3,000,000.00	280,000.00	2,800,000.00	6,920,000.00
Local government award	3,040,000.00	940,000.00	777,346.72	-	3,202,653.28
Others	5,771,710.31	1,757,400.00	1,939,766.99	295,500.00	5,293,843.32
	269,233,719.48	109,246,900.00	52,087,884.07	43,331,500.00	283,061,235.41

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

34. Government subsidies (continued)

Movement details during the 2011 are as follows:

	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Credited to profit and loss	Paid to project partner	
Government subsidies related to assets:					
Appropriation of state key laboratory by the Ministry of Finance of PRC	15,000,000.00	-	118,750.02	-	14,881,249.98
High-speed train localization project	23,255,062.01	-	4,862,673.95	-	18,392,388.06
High-speed train information system of R&D and manufacture	7,350,000.00	-	544,456.89	-	6,805,543.11
High-speed train subsidy of industrialization technological transformation	24,900,000.00	-	419,139.10	-	24,480,860.90
Appropriation of three funds of technology by Science and Technology Bureau of Chengyang District	35,557,200.00	-	-	-	35,557,200.00
Appropriation of three funds of technology by Science and Technology Bureau of Chengyang District-Hollow shaft	-	50,867,400.00	297,302.65	-	50,570,097.35
Government subsidies related to income:					
Common base and system integration subject	81,828,299.31	29,260,000.00	8,400,455.90	32,381,000.00	70,306,843.41
High-speed bogie subject	7,942,598.00	-	1,657,535.11	-	6,285,062.89
High-speed train reliability of key materials and components subject	7,019,367.84	4,920,000.00	434,983.96	6,551,100.00	4,953,283.88
High-speed body technology subject	8,841,605.00	1,678,500.00	157,459.91	-	10,362,645.09
Traction drive system of high-speed train based on permanent magnet motor for China State 863 projects	-	63,750,000.00	73,165.50	56,750,000.00	6,926,834.50
Key technical research and prototype development for intelligent high-speed train	-	3,900,000.00	-	-	3,900,000.00
Key technical research of bogie and equipment development for higher-speed train	-	7,000,000.00	-	-	7,000,000.00
Local government award	-	3,201,000.00	161,000.00	-	3,040,000.00
Others	5,510,000.00	2,190,000.00	597,289.69	1,331,000.00	5,771,710.31
	217,204,132.16	166,766,900.00	17,724,212.68	97,013,100.00	269,233,719.48

XIII. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

35. Cash flows from operating activities

Reconciliation of net profit to cash flows from operating activities

	2012	2011
Net profit	1,606,125,404.95	1,440,995,139.97
Add: Assets impairment loss	132,584,047.57	21,935,383.58
Depreciation of fixed assets	366,846,853.92	296,902,081.31
Amortization of intangible assets	17,862,924.64	15,171,495.10
Loss/ (income) on disposal of fixed assets, intangible assets and other long-term assets	2,231,640.40	(4,753,707.16)
Financial expenses	17,504,117.18	154,794,065.42
Investment income	(33,588,046.82)	(6,232,340.94)
Loss/ (income) on fair value changes	4,569,141.62	(4,569,141.62)
Decrease/ (increase) in deferred tax assets	2,555,577.89	(23,065,448.69)
Increase/ (decrease) in deferred tax liabilities	(685,371.24)	685,371.24
Increase in inventories	(300,785,736.04)	(1,744,098,243.33)
Increase in receivables from operating activities	(2,130,206,334.19)	(1,306,004,470.01)
Increase in payables from operating activities	1,734,891,611.42	2,081,216,502.10
Share-based payment	4,877,795.63	1,106,315.56
Net cash flows from operating activities	1,424,783,626.93	924,083,002.53

36. Cash and cash equivalents

	2012	2011
Cash	1,546,162,962.01	2,420,854,272.93
Including: Cash on hand	23,605.61	113,602.70
Bank deposit without restriction	1,546,139,356.40	2,420,740,670.23
Closing balance of cash and cash equivalents	1,546,162,962.01	2,420,854,272.93

XIV. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 28 March 2013.

编号：№ 0001953

外商投资合伙企业
营 业 执 照

(副 本)(8-8)

注册号 110000450212606

名　　称： 安永华明会计师事务所（特殊普通合伙）

主要经营场所： 北京市东城区东长安街1号东方广场安永大楼17层01-12室

执行事务合伙人： Ng Albert Kong Ping 吴港平

经 营 范 围： 许可经营项目：审查企业会计报表，出具审计报告；验证企业资本，出具验资报告；办理企业合并、分立、清算事宜中的审计业务，出具有关报告；基本建设年度财务决算审计；代理记账；会计咨询、税务咨询、管理咨询、会计培训；法律、法规规定的其他业务。
一般经营项目：无

合　伙　人： 杨淑娟,张炯,WONG, Man Kit黄文杰,LEE, Mee Kwan Helena 李美群,LEUNG, Kwok Ki Alden 梁国基

合伙期限 自 2012年08月01日 **至** 长期

须　知

1. 外商投资合伙企业营业执照是外商投资合伙企业从事生产经营活动的法定凭证。
2. 外商投资合伙企业营业执照分为正本和副本，正本和副本具有同等法律效力。外商投资合伙企业根据业务需要，可以向企业登记机关申请核发若干营业执照副本。
3. 外商投资合伙企业应当将营业执照正本置放在营业场所的醒目位置。
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5. 外商投资合伙企业应当在企业登记机关核准的登记事项内依法从事经营活动。
6. 外商投资合伙企业登记事项发生变更时，应当向原企业登记机关申请变更登记。
7. 每年3月1日至6月30日企业登记机关对外商投资合伙企业进行年度检验。外商投资合伙企业应于6月15日前向企业登记机关报送年检材料。
8. 外商投资合伙企业办理注销登记时，应当缴回营业执照的正本和副本。
9. 外商投资合伙企业营业执照的正本和副本，由中华人民共和国国家工商行政管理总局印制，任何单位和个人不得伪造、变造、涂改、出售、出租、出借或以其他方式转让营业执照。

年 度 检 验

2012年度 00001-2副 年3检				

成 立 日 期 2012年08月01日

登 记 机 关

2013年03月04日

中华人民共和国国家工商行政管理总局制

本复印件，仅供 南车时代四方机车车辆股份有限公司 审计报告 使用

CSR Qingdao Sifang Co., Ltd.

Audited Financial Statements

31 December 2011

Important Notice

Ernst & Young

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安 永

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Auditors' report

Ernst & Young Hua Ming (2012) Shen Zi No. 60626562_J01

To the board of directors of CSR Qingdao Sifang Co., Ltd.
(致：南车青岛四方机车车辆股份有限公司董事会)

We have audited the accompanying financial statements of CSR Qingdao Sifang Co., Ltd. (the "Company"), which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, statements of changes in equity and the statements of cash flows for the year then ended.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Standards on Auditing. Those standards require that we comply with Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

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

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

A member firm of Ernst & Young Global Limited

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Auditors' report (continued)

Ernst & Young Hua Ming (2012) Shen Zi No. 60626562_J01

Opinion

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

Ernst & Young Hua Ming

Beijing, the People's Republic of China

16 April 2012

A member firm of Ernst & Young Global Limited

CSR Qingdao Sifang Co., Ltd.
Consolidated balance sheet
31 December 2011
(Expressed in Renminbi Yuan)

ASSETS	2011	2010
Current assets		
Cash and cash equivalents	2,573,106,100.79	1,503,584,747.12
Financial assets at fair value through profit or loss	4,569,141.62	-
Bills receivable	-	7,500,000.00
Accounts receivable	3,206,309,623.58	1,455,142,147.15
Prepayment	67,953,231.67	389,139,183.96
Other receivables	3,218,766,897.56	4,113,788,106.12
Inventories	4,714,947,260.43	2,992,770,842.63
Other current assets	-	50,000,000.00
Total current assets	13,785,652,255.65	10,511,925,026.98
Non-current assets		
Long-term equity investments	13,594,483.37	10,241,669.09
Fixed assets	3,259,984,483.58	2,543,111,779.64
Construction in progress	352,987,265.11	433,328,850.28
Intangible assets	586,852,383.70	492,458,605.97
Deferred tax assets	79,885,624.88	56,820,176.19
Total non-current assets	4,293,304,240.64	3,535,961,081.17
TOTAL ASSETS	18,078,956,496.29	14,047,886,108.15

LIABILITIES AND OWNERS' EQUITY	2011	2010
Current liabilities		
Short-term loans	1,400,000,000.00	71,637,865.37
Bills payable	1,909,595,829.00	1,446,475,271.72
Accounts payable	7,000,868,084.44	3,953,245,497.53
Advances from customers	2,244,530,255.57	3,828,684,625.60
Payroll payable	2,121,516.26	2,531,507.60
Taxes payable	196,473,337.27	129,837,181.54
Dividends payable	38,184,801.58	21,746,381.04
Other payables	529,084,450.86	441,890,515.20
Non-current liabilities due within one year	256,319,495.96	60,646,481.20
Total current liabilities	13,577,177,770.94	9,956,695,326.80
Non-current liabilities		
Long-term loans	8,266,657.93	8,688,853.25
Accrued liabilities	149,012,442.02	-
Deferred tax liabilities	685,371.24	-
Other non-current liabilities	256,510,479.44	222,994,132.16
Total non-current liabilities	414,474,950.63	231,682,985.41
Total liabilities	13,991,652,721.57	10,188,378,312.21

LIABILITIES AND OWNERS' EQUITY (continued)	2011	2010
Equity attributable to shareholders of the parent		
Paid-in capital	3,157,264,020.00	3,103,712,377.00
Capital reserves	354,360,135.56	319,805,463.00
Surplus reserves	487,352,128.96	271,233,513.70
Retained earnings	88,327,490.20	164,756,442.24
Non-controlling interests	-	-
Total equity	4,087,303,774.72	3,859,507,795.94
TOTAL LIABILITIES AND OWNERS' EQUITY	18,078,956,496.29	14,047,886,108.15

The financial statements on pages 3 to 17 have been signed by:

Legal Representative: Chief Financial Officer: Financial Manager:

CSR Qingdao Sifang Co., Ltd.
Consolidated income statement
For the Year Ended 31 December 2011
(Expressed in Renminbi Yuan)

	2011	2010
Revenue	23,979,769,424.32	16,584,634,648.12
Less: Cost of sales	20,109,262,335.29	14,419,583,639.53
Taxes and surcharges	98,843,362.50	56,997,919.21
Selling and distribution expenses	535,289,676.49	315,290,015.95
Adminstrative expenses	1,521,372,735.11	1,039,736,536.76
Finance expenses	85,460,057.18	(29,137,761.32)
Loss on asset impairment	21,935,383.58	7,919,052.02
Add: Fair value gain	4,569,141.62	-
Investment income	3,352,814.28	4,479,634.71
Including: Investment income of associates	3,352,814.28	4,479,634.71
Operating profit	1,615,527,830.07	778,724,880.68
Add: Non-operating income	36,409,633.41	65,827,301.18
Less: Non-operating expenses	1,384,010.53	4,327,284.39
Including: Loss on disposal of non-current assets	-	3,533,193.86
Total profit	1,650,553,452.95	840,224,897.47
Less: Income tax	209,721,330.81	104,486,908.97
Net profit	1,440,832,122.14	735,737,988.50
Total comprehensive income for the year	1,440,832,122.14	735,737,988.50
Total net profit/comprehensive income attributable to:		
Owners of the parent	1,440,832,122.14	735,737,988.50

CSR Qingdao Sifang Co., Ltd.
Consolidated statement of changes in equity
For the Year Ended 31 December 2011
(Expressed in Renminbi Yuan)

	Attributable to owners of the parent					Non-controlling interests	Total Equity
	Paid-in capital	Capital reserves	Surplus reserves	Retained earnings	Total		
At 1 January 2011	3,103,712,377.00	319,805,463.00	271,233,513.70	164,756,442.24	3,859,507,795.94	-	3,859,507,795.94
Increase/(decrease) for the year							
Net profit for the year	-	-	-	1,440,832,122.14	1,440,832,122.14	-	1,440,832,122.14
Total comprehensive income for the year	-	-	-	1,440,832,122.14	1,440,832,122.14	-	1,440,832,122.14
Capital contribution from the parent							
Capital contribution from the parent	53,551,643.00	33,448,357.00	-	-	87,000,000.00	-	87,000,000.00
Equity-settled share option arrangements	-	1,106,315.56	-		1,106,315.56	-	1,106,315.56
Profit distribution							
Transfer from retained earnings	-	-	216,118,615.26	(216,118,615.26)	-	-	-
Dividends paid to the shareholders	-	-	-	(1,301,111,803.18)-	(1,301,111,803.18)	-	(1,301,111,803.18)
Other	-	-	-	(30,655.74)	(30,655.74)	-	(30,655.74)
At 31 December 2011	3,157,264,020.00	354,360,135.56	487,352,128.96	88,327,490.20	4,087,303,774.72	-	4,087,303,774.72

CSR Qingdao Sifang Co., Ltd.
Consolidated statement of changes in equity (continued)
For the Year Ended 31 December 2010
(Expressed in Renminbi Yuan)

	Attributable to owners of the parent					Non-controlling	Total
	Paid-in capital	Capital reserves	Surplus reserves	Retained earnings	Total	Interests	Equity
At 1 January 2010	3,103,712,377.00	319,805,463.00	160,888,143.30	129,069,175.77	3,713,475,159.07	-	3,713,475,159.07
Increase/(decrease) for the year							
Net profit for the year	-	-	-	735,737,988.50	735,737,988.50	-	735,737,988.50
Total comprehensive income for the year	-	-	-	735,737,988.50	735,737,988.50	-	735,737,988.50
Profit distribution							
Transfer from retained earnings	-	-	110,345,370.40	(110,345,370.40)	-	-	-
Dividends paid to the shareholders	-	-	-	(589,705,351.63)	(589,705,351.63)	-	(589,705,351.63)
At 31 December 2010	3,103,712,377.00	319,805,463.00	271,233,513.70	164,756,442.24	3,859,507,795.94	-	3,859,507,795.94

CSR Qingdao Sifang Co., Ltd.
Consolidated statement of cash flows
For the Year Ended 31 December 2011
(Expressed in Renminbi Yuan)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sale of goods and service rendered	24,574,544,947.35	19,342,572,902.51
Cash received from tax refund	-	81,847.66
Cash received relating to other operating activities	367,852,600.34	385,818,146.34
Sub-total of cash inflows	24,942,397,547.69	19,728,472,896.51
Cash paid for goods and services	20,694,870,066.22	15,497,310,404.54
Cash paid to and on behalf of employees	1,327,412,429.25	939,828,004.26
Cash paid for all types of taxes	937,307,733.20	667,277,814.87
Cash paid relating to other operating activities	949,386,851.20	784,726,211.02
Sub-total of cash outflows	23,908,977,079.87	17,889,142,434.69
Net cash flows from operating activities	1,033,420,467.82	1,839,330,461.82
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from sale of investments	50,000,000.00	210,000,000.00
Net Cash received from disposal of fixed assets, intangible assets and other long-term assets	10,113,801.38	296,404.00
Cash received relating to other investing activities	878,254,211.34	-
Sub-total of cash inflows	938,368,012.72	210,296,404.00
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	637,975,923.34	879,498,581.17
Cash paid for other investments	-	1,015,147,732.66
Sub-total of cash outflows	637,975,923.34	1,894,646,313.83
Net cash flows from/(used in) investing activities	300,392,089.38	(1,684,349,909.83)

CSR Qingdao Sifang Co., Ltd.
Consolidated statement of cash flows (continued)
For the Year Ended 31 December 2011
(Expressed in Renminbi Yuan)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received from capital contributions	210,700.00	139,469,300.00
Cash received from borrowings	5,305,000,000.00	71,637,865.37
Sub-total of cash inflows	5,305,210,700.00	211,107,165.37
Cash repayments of borrowings	3,976,655,597.45	1,236,399.15
Cash paid for distribution of dividends and for interest expenses	1,417,320,871.54	831,094,773.88
Sub-total of cash outflows	5,393,976,468.99	832,331,173.03
Net cash flows used in financing activities	(88,765,768.99)	(621,224,007.66)
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(21,787,887.54)	(341,009.11)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,223,258,900.67	(466,584,464.78)
ADD: BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,236,767,982.13	1,703,352,446.91
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	2,460,026,882.80	1,236,767,982.13

CSR Qingdao Sifang Co., Ltd.
Company balance sheet
31 December 2011
(Expressed in Renminbi Yuan)

ASSETS	2011	2010
Current assets		
Cash and cash equivalents	2,533,933,490.92	1,467,380,358.56
Financial assets at fair value through profit or loss	4,569,141.62	-
Bills receivable	-	7,500,000.00
Accounts receivable	3,205,561,942.36	1,454,842,906.17
Prepayment	67,953,231.67	388,739,759.76
Other receivables	3,216,981,661.01	4,064,397,220.45
Inventories	4,714,929,845.17	2,992,282,362.41
Other current assets	-	50,000,000.00
Total current assets	13,743,929,312.75	10,425,142,607.35
Non-current assets		
Long-term equity investments	376,662,283.37	310,241,669.09
Fixed assets	3,097,539,440.61	2,444,601,921.84
Construction in progress	347,703,142.76	424,766,771.58
Intangible assets	406,665,891.02	386,776,421.97
Deferred tax assets	79,885,624.88	56,820,176.19
Total non-current assets	4,308,456,382.64	3,623,206,960.67
TOTAL ASSETS	18,052,385,695.39	14,048,349,568.02

CSR Qingdao Sifang Co., Ltd.
Company balance sheet (continued)
31 December 2011
(Expressed in Renminbi Yuan)

LIABILITIES AND OWNERS' EQUITY	2011	2010
Current liabilities		
Short-term loans	1,400,000,000.00	71,637,865.37
Bills payable	1,909,595,829.00	1,446,475,271.72
Accounts payable	7,020,462,333.77	3,918,752,311.63
Advances from customers	2,244,526,426.75	3,828,684,625.60
Payroll payable	2,119,763.61	2,531,507.60
Taxes payable	197,099,114.81	132,144,466.88
Dividends payable	38,184,801.58	21,746,381.04
Other payables	561,154,139.05	476,570,531.37
Non-current liabilities due within one year	254,755,864.69	60,646,481.20
Total current liabilities	13,627,898,273.26	9,959,189,442.41
Non-current liabilities		
Long-term loans	8,266,657.93	8,688,853.25
Deferred tax liabilities	685,371.24	-
Accrued liabilities	149,012,442.02	-
Other non-current liabilities	179,056,158.39	220,994,132.16
Total non-current liabilities	337,020,629.58	229,682,985.41
Total liabilities	13,964,918,902.84	10,188,872,427.82
Owners' equity		
Paid-in capital	3,157,264,020.00	3,103,712,377.00
Captial reserves	354,360,135.56	319,805,463.00
Surplus reserves	487,352,128.96	271,202,857.96
Retained earnings	88,490,508.03	164,756,442.24
Total equity	4,087,466,792.55	3,859,477,140.20
TOTAL LIABILITIES AND OWNERS' QUITY	18,052,385,695.39	14,048,349,568.02

CSR Qingdao Sifang Co., Ltd.
Company income statement
For the Year Ended 31 December 2011
(Expressed in Renminbi Yuan)

	2011	2010
Revenue	24,126,634,099.05	16,584,223,239.93
Less: Cost of sales	20,280,642,255.29	14,419,207,661.04
Taxes and surcharges	98,723,631.57	56,924,168.00
Selling and distribution expenses	535,249,676.49	314,858,705.11
Adminstrative expenses	1,497,865,405.88	1,035,974,568.63
Finance expenses	86,718,283.08	(27,311,717.55)
Loss on asset impairment	21,935,383.58	7,919,052.02
Add: Fair value gain	4,569,141.62	-
Investment income	6,232,340.94	4,755,536.32
Including: Investment income of associates	3,352,814.28	4,479,634.71
Operating profit	1,616,300,945.72	781,406,339.00
Add: Non-operating income	34,442,601.73	62,827,301.18
Less: Non-operating expenses	1,384,010.53	4,327,284.39
Including: Loss on disposal of non-current assets	-	3,533,193.86
Total profit	1,649,359,536.92	839,906,355.79
Less: Income tax	208,364,396.95	104,199,023.03
Net profit	1,440,995,139.97	735,707,332.76
Total comprehensive income for the year	1,440,995,139.97	735,707,332.76

CSR Qingdao Sifang Co., Ltd.
Company statement of changes in equity
For the Year Ended 31 December 2011
(Expressed in Renminbi Yuan)

	Paid-in capital	Capital reserves	Surplus reserves	Retained earnings	Total equity
At 1 January 2011	3,103,712,377.00	319,805,463.00	271,202,857.96	164,756,442.24	3,859,477,140.20
Increase/(decrease) for the year					
Net profit for the year	-	-	-	1,440,995,139.97	1,440,995,139.97
Total comprehensive income for the year	-	-	-	1,440,995,139.97	1,440,995,139.97
Capital contribution from the parent					
Capital contribution from the parent	53,551,643.00	33,448,357.00	-	-	87,000,000.00
Equity settled share option arrangement	-	1,106,315.56	-	-	1,106,315.56
Profit distribution					
Transfer from retained earnings	-	-	216,149,271.00	(216,149,271.00)	-
Dividends paid to the shareholders	-	-	-	(1,301,111,803.18)	(1,301,111,803.18)
At 31 December 2011	3,157,264,020.00	354,360,135.56	487,352,128.96	88,490,508.03	4,087,466,792.55

CSR Qingdao Sifang Co., Ltd.
Company statement of changes in equity (continued)
For the Year Ended 31 December 2010
(Expressed in Renminbi Yuan)

	Paid-in capital	Capital reserves	Surplus reserves	Retained earnings	Total equity
At 1 January 2010	3,103,712,377.00	319,805,463.00	160,888,143.30	129,069,175.77	3,713,475,159.07
Increase/(decrease) for the year					
Net profit for the year	-	-	-	735,707,332.76	735,707,332.76
Total comprehensive income for the year	-	-	-	735,707,332.76	735,707,332.76
Profit distribution					
Transfer from retained earnings	-	-	110,314,714.66	(110,314,714.66)	-
Dividends paid to the shareholders	-	-	-	(589,705,351.63)	(589,705,351.63)
At 31 December 2010	3,103,712,377.00	319,805,463.00	271,202,857.96	164,756,442.24	3,859,477,140.20

CSR Qingdao Sifang Co., Ltd.
Company statement of cash flows
For the Year Ended 31 December 2011
(Expressed in Renminbi Yuan)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sale of goods and service rendered	24,687,840,098.44	19,342,398,856.56
Cash received from tax refund	-	81,847.66
Cash received relating to other operating activities	277,909,798.65	379,688,968.26
Sub-total of cash inflows	24,965,749,897.09	19,722,169,672.48
Cash paid for goods and services	20,808,321,799.29	15,495,157,010.60
Cash paid to and on behalf of employees	1,311,713,166.89	938,570,164.67
Cash paid for all types of taxes	933,531,764.04	667,007,863.87
Cash paid relating to other operating activities	988,100,164.34	725,622,738.59
Sub-total of cash outflows	24,041,666,894.56	17,826,357,777.73
Net cash flows from operating activities	924,083,002.53	1,895,811,894.75
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from sale of investments	50,000,000.00	210,000,000.00
Cash received from return on investments	2,879,526.66	-
Cash received from disposal of fixed assets, intangible assets and other long-term assets	10,113,801.38	296,404.00
Cash received relating to other investing activities	878,254,211.34	34,000,000.00
Sub-total of cash inflows	941,247,539.38	244,296,404.00
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	476,623,428.49	700,198,168.66
Cash paid for other investments	63,067,800.00	1,315,147,732.66
Sub-total of cash outflows	539,691,228.49	2,015,345,901.32
Net cash flows from/(used in) investing activities	401,556,310.89	(1,771,049,497.32)

CSR Qingdao Sifang Co., Ltd.
Company statement of cash flows (continued)
For the Year Ended 31 December 2011
(Expressed in Renminbi Yuan)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received from capital contributions	210,700.00	139,469,300.00
Cash received from borrowings	5,305,000,000.00	71,637,865.37
Sub-total of cash inflows	5,305,210,700.00	211,107,165.37
Cash repayments of borrowings	3,976,655,597.45	1,236,399.15
Cash paid for distribution of dividends and for interest expenses	1,418,102,083.07	831,094,773.88
Sub-total of cash outflows	5,394,757,680.52	832,331,173.03
Net cash flows used in financing activities	(89,546,980.52)	(621,224,007.66)
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(21,787,887.54)	(341,009.11)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,214,304,445.36	(496,802,619.34)
ADD: BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,206,549,827.57	1,703,352,446.91
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	2,420,854,272.93	1,206,549,827.57

Enterprise’s Code of Business Ethics

CSR Qingdao Sifang Co., Ltd. (hereinafter referred to as “CSR Sifang”), a first-level core subsidiary of CSR Corporation Limited, is China’s industrialization base for high-speed trains, leading company in the design and manufacture of high-class railway passenger coaches, as well as China’s designated manufacturer of urban rail transit and metro vehicles and important export base for rail transit equipment. We treat the Pursing Excellence and Being Honest to All as the enterprise’s spirit, confirm the product quality and operation safety as the core. Adhere to independent innovation, improve the management level and operation efficiency constantly. Persist in the manufacturing concept of detail orienting, process focusing, operation standardizing and lean manufacturing. Dedicate to the rail transportation equipment manufacturing industry of high speed, safety, environmental protection and ride comfort. Create success for personnel, create value for customers, create fortune for shareholders and create civilization for society.

Document of
CSR Qingdao Sifang Co., Ltd.

NCSFR [2007] No. 4

Notice on Issuing of *Code of Professional Conduct for Employees*

All Functional Departments:

As approved by the President Affairs Meeting, we have issued the *Code of Professional Conduct for Employees*, hoping all units to convey company requirements seriously, organize staff (including the labor dispatch) learning, keep records of learning, carry out discussion and strengthen publicity of typical cases as well as enhancing staff quality comprehensively to meet the requirements of the company's rapid developing situation with this opportunity.

Attachment: Code of Professional Conduct for Employees

January 10, 2007

Attachment:

Code of Professional Conduct for Employees

Chapter 1 General principle

Article 1 This code is formulated for the purposes of further improving the civilized behavior and comprehensive quality of company staff, establishing a good corporate image, building a staff troop that “are proficient in the system, business, process and skills and stick to the core principles of high efficiency, orderliness, bearing in mind the overall interests, collaboration, entrepreneurial spirit and creating first class products”, normalizing the professional behaviors of all employees including the professional ethics, appearance and manners and operating discipline etc. and constructing harmonious company.

Article 2 This code applies to all the regular employees, labor dispatch as well as other staff who work in the company.

Chapter 2 General Code of Professional Conduct for Employees

Article 3 Be poised and graceful, neatly dressed. Put on overalls (work clothes) during working hours, wear the name tag and keep it clean.

Article 4 Use standard languages and keep good manners. Speak Mandarin in the work, use the language of civilized norms during business talk and making phone calls, and keep the pitch of voice natural and clear. No loud noise in the workplace.

Article 5 Maintain correct posture and presentable appearance. Decent standing, sitting and walking postures, straight in standing, elegant in sitting and sedate in walking. It is strictly prohibited to wear slippers in the company. When walking on the sidewalk, form in rows for two people, and form in lines for three and more people.

Article 6 Passionate in work and devoted to duty. Love the job and build an occupational sense of honor, sense of responsibility and enterprising spirit based on the post. Be proficient in business, technically skilled, conscientious and meticulous, highly efficient and highly beneficial and complete all tasks successfully according to the business process.

Article 7 Observe regulations and discipline, and be self-disciplined. Learn articles of corporation carefully and hew to company’s management regulations and systems to work and handle matters according to regulations. Work selflessly for the public interest, be diligent and honest.

Article 8 Be early for duty and make adequate preparation. Be 10 minutes earlier for work to do the cleaning and make preparations. Do not be late for work or leave early from work. Ask for a leave in advance in case of private affairs.

Article 9 Respect and promote science, and stay realistic and pragmatic. Do not be superstitious, and keep out of evil cult gangs and all cult activities. No cliques, promote justice and conscientiously resist various kinds of undesirable impacts.

Article 10 Be organized and devoted to enterprising. Firmly establish the idea of “global game”, bring the team spirit into full play and work with one mind with mutual support. Endeavor to complete one’s own work and give others a helping hand, creating first-rate working performance.

Article 11 Be brave to explore, and struggling to develop. Contribute ideas and exert efforts for company development and management effect, including rational proposals, technical innovation, management innovation and frugal innovation etc.

Article 12 Love the company and seek for common development. Appreciate enterprise culture, especially the enterprise spirit of “Pursuit of excellence, CSR in good faith”. Have a collective sense of honor and do not release negative affirmations or other information that has nothing to do with the work on the Intranet.

Article 13 Be loyal to our motherland and do not insult national dignity. Maintain good image when going abroad or meeting foreign guests. Strictly observe the disciplines related to foreign affairs, pay attention to diplomatic etiquette and be decent without insulting national dignity. When taking activities in foreign countries, you should abide by local laws and regulations, customs and religious belief to maintain the benefit and reputation of the country and company.

Chapter 3 Code of Professional Conduct for Management Personnel

Article 14 Keep the office clean and tidy with facilities and equipments organized neatly in good order.

Article 15 Perform work designedly and systematically according to the order of priority. Complete the work plan and seek for work quality and work efficiency.

Article 16 Be strict and conscientious for work without giving orders in violation of regulations. During working hours, do not engage in things that are irrelevant with the job on the internet. No dropping around, hanging about and chatting during working hours. Improper pictures are not allowed to be set for computer screen savers. No smoking in public places, maintaining good working order and working environment.

Article 17 Provide service to the clients and grassroots units with full enthusiasm, and reply the questions raised by the clients and grassroots units promptly in a

controlled time without buck passing and delay. For general questions, the reply shall be provided in three days; for major issues, solutions or results shall be provided in one month.

Article 18 When attending meetings convoked by the company, enter the meeting house 5 minutes earlier. It is not allowed to receive and make calls or whisper to each other during the meeting. Turn the cell phone off or keep it in silent mode. When the meeting is over, let the leaders and guests to go first, and then leave the meeting house orderly after putting the seats back into place.

Article 19 When going out for official businesses, be strict with yourself and place the company benefit at the first. Never give promises for the problems that can not be solved within the limits of your powers and out of jurisdiction. On the premise of corporate interest, the various kinds of contracts and agreements signed on behalf of the company must be handled according to the business process within the scope of authority. Prohibit power corruption and damaging of corporate interest and management effectiveness.

Article 20 For system execution, ensure proper implementation and regular inspection. On discovery of improper behaviors of others, stop them or provide feedback on site or promptly.

Article 21 After work, turn the lights off and lock the door to ensure safety, leaving no hidden trouble.

Chapter 4 Code of Professional Conduct for Professional Technical Staff

Article 22 Keep pace with the times, dare to be innovative, be diligent in study, be rigorous and careful, be self-dependent and scale new heights.

Article 23 Strictly observe the Confidentiality and Non-Compete Agreement, keep business and technology secret of the company and fulfill the commitment of noncompetition. Say what you should say and do what you should do without asking about what you should not ask.

Article 24 Complete the tasks assigned by the department (unit) in a high-quality way, avoid stupid mistakes and quality errors that are not supposed to happen and do not repeat working errors.

Article 25 Technical agreements that are signed on behalf of the company shall place the company benefit at the first. Prohibit power corruption and damaging of corporate interest. Handle affairs in strict compliance with the procedures and rules.

Article 26 Be generous in providing grass-root technical services and solve the technical issues from grass roots in an earnest and rapid way.

Chapter 5 Code of Professional Conduct for Skill Operating Staff

Article 27 During working hours, wear labor protection articles, observe the safe operating procedures and strictly prohibit commands and operations that are against job regulations. Bear in mind the work safety guideline “Safety first, precaution crucial”.

Article 28 Develop good work habits, perform work in strict accordance with the drawings and process documents, follow close to the line of self-checking system and comply with process disciplines. Do not produce nonconforming products, do not accept nonconforming products and do not deliver nonconforming products. Pile up various kinds of accessories and products according to provisions (quantitation and identification) to ensure that the tasks are completed, materials are cleared and the site is clean with regular machines in good maintenance state.

Article 29 Attend slogan shouting in queues on time before morning shift. Follow directions and attach importance to cooperation. Bear in mind the collective consciousness and sense of honor. Complete the production task of the day on time with guaranteed quality and quantity, keep record of various kinds of source documents and sort them out.

Article 30 Strictly abide by labor disciplines. It is strictly forbidden to carry water cups when working on the procedure line and in the vehicle or do things that are irrelevant with the job during working hours. Do not take operational tools or instruments from other teams and groups or other colleagues.

Article 31 Keep the rest room and changing room clean, tidy and in order.

Chapter 6 Code of Professional Conduct for Staff Providing Supporting Service

Article 32 Perform work with chariness and responsibility. No loud noise in the working place. It is not allowed to intrude upon the operation service of others, leave work without authorization, read books and magazines that are irrelevant with the work or handle private affairs in the company.

Article 33 Do not make phone calls that have nothing to do with the business during working hours. Keep the conversation time as short as possible when answering phone calls that have nothing to do with the business.

Article 34 Place the company benefit at the first. It is forbidden to take company information, equipments, accessories (spare parts), apparatus and consumable materials for own use or sell off. These things can not be carried out without prior approval.

Article 35 Personal belongings that are irrelevant with the work shall not be brought into the company. Entertainment activities are not allowed to be held in the work place, unless otherwise approved.

Article 36 Tools and articles borrowed for personal use of the staff shall be kept properly without dismounting or retrofitting at discretion.

Article 37 Personnel without operation qualification are not allowed to operate related equipments or apparatus of the company.

Article 38 The area that is held responsible shall be kept clean and tidy at all times. The auxiliary equipments and supplies in the work place shall be kept in good condition.

Article 39 Save water, electrical energy and office supplies. Attach importance to electrical safety and take good care of the lamp tubes, sockets, switches and other electric facilities. It is forbidden to dismantle, remove or pull pipelines disorderly.

Article 40 Maintenance shall be carried out for all the equipments and apparatus according to regulations to ensure safe and smooth operation.

Chapter 7 Penalty Provision

Article 41 All units shall appoint special personnel to be in charge of the management of professional behaviors of the staff and establish a database for the professional behavior record of the staff. If the employee violates the corporate code of conduct, when the circumstances are rather serious, appropriate punishment shall be given to the employee according to the penalty clauses in the management

standards Administrative Provisions on Labor Discipline and Rewards and Punishments of Labor Management of the company, and it will be credited to the bad behavior records for one time (Key Behavior Index of Performance Appraisal) with the job competence level of the operating personnel down a level; when the circumstances are relatively minor, the employee will be given a prompting notification. If there are more than 3 times (incl.) of prompting notifications in a year, the employee will be given the wages for level 1 post, and it will be credited to the bad behavior records for one time with the job competence level of the operating personnel down a level. Employees who have bad behavior records for three times (incl.) shall enter the training of the internal labor market in the company. For employees in this case who are not self-disciplined and again have bad behavior record for one time within half year on working position after the training, the labor contract will be terminated. Employees who have no bad behavior record within the half year after degradation punishment may propose the application on his own to recover the wages level after approved by the company and reported to the HR Department.

Chapter 8 Supplementary Articles

Article 42 The human resources department shall be held responsible for the interpretation of this Code.

Article 43 This Code shall come into force as of the issuing date.

Key words: Professional, behavior, code, notice

General Manager Office of CSR Sifang Co., Ltd. Issued on January 11, 2007

中国南车

南车青岛四方机车车辆股份有限公司

CSR QINGDAO SIFANG CO.,LTD.

Probity and Mutual Protection Agreement

Party A: CSR Qingdao Sifang Co., Ltd.

Party B:

Legal representative:

Zhang Zaizhong

Legal representative:

Address: No.88, Jinhong East Road, Chengyang District, Qiangdao City

Address:

-

Both parties sign this agreement according to relevant laws and regulations as well as regulations on construction of a clean and honest administration to standardize the business contact between both parties related to procurement of materials, accessories and procurement of equipment and tools etc., to prevent various illegal acts and disciplinary offences for seeking improper benefits, and to protect lawful rights and interests for both parties.

Article 1 Responsibilities of both parties

(1) Strictly abide by laws, regulations and polices related to market access, project tendering and bidding, as well as various regulations on construction of a clean and honest administration.

(2) Strictly enforce the procurement contract documents, and consciously abide by the contract.

(3) Business activities must adhere to open, fair, equal, honest and transparent principles, and shall not damage the interests of both parties for obtaining improper interests and shall not breach relevant industry regulations.

(4) If one party find that the other party violated rules, disciplines and laws, they should timely remind the other and resist consciously; it should be reported to its supervision department or superior department to correct if the dissuasion is invalid; in serious cases, it should be reported to discipline inspection and supervision, judicial authorities.

Article 2 Responsibilities of Party B

Party B shall keep the normal business contact with Party A and promote business work according to the relevant laws and regulations. Party B shall strictly enforce the relevant regulations and policies related to materials and accessories procurement, equipment and tools procurement, and obey the following rules:

(1) It is forbidden to give Party A, representatives of Party A, relevant units or any individual cash, retail vouchers, securities, membership card, valuables and commission, benefits and thanks fee etc. for any reason.

(2) It is forbidden to pay any expense bills which shall be paid by the other party or the individual, for Party A and representatives of Party A and relevant units for any reason.

(3) It is forbidden to provide convenience for personal housing decoration, wedding and funerals, spouses and children work arrangements and going abroad (boundary), tourism for Party A, representatives of Party A, relevant units or the individual.

(4) It is forbidden to arrange feast, fitness, entertainment etc., which may affect the fair execution of business, for Party A, representatives of Party A, the relevant units or the individual for any reason.

Article 3 Responsibilities of Party A

Party A shall keep the normal business contact with Party B and promote business work according to the relevant laws and regulations. Party B shall strictly enforce the relevant regulations and policies related to materials and accessories procurement, equipment and tools procurement, and obey the following rules:

(1) It is forbidden to claim or accept commission, cash, securities, valuables and benefits, thanks fee etc. from Party B and relevant units.

(2) It is forbidden to submit any expense bills, which shall be paid by Party A or individual, to Party B and relevant units.

(3) It is forbidden to ask, imply or accept that Party B and relevant units provide convenience for personal housing decoration, weddings and funerals, spouses and children work arrangements and going abroad (boundary), tourism etc.

(4) It is forbidden to participate in feast, fitness, entertainment and other activities which may affect the fair execution of business, held by Party B and relevant units.

(5) It is forbidden to ask Party B to make spouse, children, relatives participate in business activities of related equipment, materials, sub-contract, labor activities. It is forbidden to recommend sub-contract list to Party B and relevant units or ask Party B and relevant units to use purchase some kind of materials and equipment etc. not specified in the project contract for any reason.

Article 4 Default liability

(1) If any representative staff of Party A violate the Article 1 and 3 in this Letter of Responsibility, give them the Party and government discipline or organization punishment according to administration authority and the relevant laws and regulations; if they are suspected criminal, hand over them to the judicial authority; if they cause Party B economic losses, they shall make indemnification or compensation.

(2) If any staff of Party B violate the Article 1 and 2 in this Letter of Responsibility, give them the Party and government discipline or organization punishment according to

administration authority and the relevant laws and regulations; if they are suspected criminal, hand over them to the judicial authority; if they cause Party A economic losses, they shall make indemnification or compensation; and the supplier qualification of Party B shall be cancelled.

Article 5 This agreement has the equal legal effect as the Project Contract, and shall take effect after being signed by both parties.

Article 6 This agreement shall be effective until the end of cooperation of both parties.

Article 7 This agreement shall be made in 4 copies. Both parties each hold 1 copy, and the supervision units of both parties each hold 1 copy.

Party A (Stamp):	Party B (Stamp):
Authorized representative (Signature):	Legal representative (Signature):
Tel:	Tel:
Date:	Date:
Supervision unit of Party A (Stamp):	Supervision unit of Party B (Stamp):
Supervision Tel:	Supervision Tel:
Date:	Date:

CSR AMERICA, INC.

SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.
   Please refer to the attachment.
2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.
   CSR America Inc. is the wholly-owned subsidiaries of CSR Qingdao Sifang Co., Ltd. The Chairman of CSR Qingdao Sifang Co., Ltd is Mr. Zhang Zaizhong, Tel: +86-532-87801316
3. Provide the names, title and telephone numbers of all officers.

Title	Name	Telephone Number
CEO &President	Ni Shengyi	+86-10-68953721
CFO&Vice President	Li Yongle	+86-10-87805720

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.
   No.
5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.
   No.
6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.
   No.
7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.
   No.
8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.
   Contact person: Sarah Leet, AU | Client Representative
   Marsh | National Brokerage

SECTION B

PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

Address: 411 E. Wisconsin Ave., Ste. 1600, Milwaukee, WI 53202, USA
Contacting information: Tel 414 290 4728 | Fax 414 290 4960 |
sarah.e.leet@marsh.com
www.marsh.com | Marsh USA, Inc.

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

1. **Name: Bank of China, Los Angeles**

   Address: 444 S. Flower Street, 39th Floor, Los Angeles, CA 90071

   Contact person: Liu Xiaofeng

   Contact information: Tel: 213-688-8700 ext. 279

   Fax: 213-688-7720

   Email: XFLU@BOCUSA.COM

2. **Name: Property**

   Address: 300 North LaSalle | Suite 1825 | Chicago, IL 60654

   Contact person: Liz Westcott
   Assistant Property Manager
   Hines

   Contact information: P 312.379.6403 | F 312.467.9580 | M 312-379-6400

   Liz.Westcott@hines.com

3. **Name: Insurance Company**

   Address: 411 E. Wisconsin Ave., Ste. 1600, Milwaukee, WI 53202, USA
   Contact person: Sarah Leet, AU | Client Representative
   Marsh | National Brokerage

   Contact information: 414 290 4728 | Fax 414 290 4960 | sarah.e.leet@marsh.com
   www.marsh.com | Marsh USA, Inc.

4. **Name: Law Office**

   Address: 225 W. Washington, Suite 2600
   Chicago, Illinois 60606 (USA)

   Contact person: Amber Liu | Attorney and Counselor at Law

   Miller Canfield

   Contact information: T +1.312.460.4226 | F +1.312.460.4201 | Mobile +1.312.731.8924

   liu@millercanfield.com

SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?
No.

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.

Please refer to the attachment.

12. Provide the business's current code of business ethics or equivalent.
Please refer to the attachment. As being a wholly owned corporation of CSR Qingdao Sifang Co., Ltd, CSR America does adhere to CSR Qingdao Sifang's business code of ethics as corporate policy.

13. Provide the responses to Questions Nos. 1 through 12 for all proposed suppliers of major subsystems identified in response to Tab I.1 – Technical Approach.
Done

The Commonwealth of Massachusetts

Secretary of the Commonwealth

State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the Commonwealth

April 25, 2014

To Whom It May Concern:

I hereby certify that the records of this office show that

CSR AMERICA, INCORPORATED

a corporation organized under the laws of **Illinois** on **September 10, 2010** was qualified to do business in this Commonwealth on **April 10, 2014** under the provisions of the General Laws, and I further certify that said corporation is still qualified to do business in this Commonwealth.

I also certify that said corporation is not delinquent in the filing of any annual reports required to date.

In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin

Secretary of the Commonwealth

Processed By nem

CSR America, Incorporated

Financial Statement Audited

December 31, 2013

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Fax 传真:+86 10 8518 8298
ey.com

Audit Report

Ernst & Young (2014) Audit No. 60626562_J10

CSR Qingdao Sifang Co., Ltd.:

We have audited the attached financial statements of CSR America, Incorporated prepared according to the preparation basics described in note 2, which comprise the balance sheet as of 31 Dec. 2013, the profit statement of 2013, statement of changes in shareholders' equity, cash flow statement and the notes to the financial statements.

I. Management's Responsibility for the Financial Statements

The management of CSR America, Incorporated is responsible for the preparation of these financial statements and fair presentation. These responsibilities include: (1) preparing financial statements according to the preparation basics described in note 2 and make them a fair presentation; and (2) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

II. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing for Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

A member firm of Ernst & Young Global Limited

Ernst & Young (2014) Audit No. 60626562_J10

III. Audit Opinion

In our opinion, the financial statements of CSR America, Incorporated have been prepared, in all material aspects, according to the preparation basics described in note 2, which give a fair view of the Company's financial position as of 31 Dec. 2013 and the Company's operating results and cash flows for 2013.

This report is used within CSR Qingdao Sifang Co., Ltd. only. Without prior written consent, this report shall not be used for other purposes or by other parties, or referenced or distributed for other purposes. If an unauthorized individual or other third party insists on depending on the content of this report by any methods, he shall solely bear all risks caused by this and we assume no responsibility. This paragraph does not affect the published audit opinion.

Ernst & Young (special general partnership)

Chinese Certified Public Accountant: Yang Shujuan

Chinese Certified Public Accountant: Li Huihua

Beijing, China

March 12, 2014

A member firm of Ernst & Young Global Limited

CSR America, Incorporated

Balance Sheet

December 31, 2013

Yuan RMB

Assets	**Note 5**	**2013**
Current assets		
Monetary assets	1	12,511,573.72
Prepayment	2	105,903.24
Other receivables	3	121,938.00
Total of current assets		12,739,414.96
Total assets		12,739,414.96
Liabilities and owners' equity		
Current liabilities		
Accrued tax	5	134,420.79
Total of current liabilities		134,420.79
Total liabilities		134,420.79
Owners' equity		13,067,800.00
Paid-in capital	6	383,922.00
Retained earnings	7	(846,727.83)
Translation reserve		
Total of owners' equity		12,604,994.17
Total of liabilities and owners' equity		12,739,414.96

Notes on page 7 through page 29 are part of this financial statement

Financial statements on page 3 through page 29 are signed by:

Legal representative: Chief accountant: Head of accounting department:

CSR America, Incorporated

Profit Statement

Year 2013

Yuan RMB

	Note 5	2013
Operation revenue	8	1,711,024.00
Minus: Management fee		1,141,684.34
Financing expenses	9	3,720.37
Operating profit and total profit		565,619.29
Minus: Income tax expense	10	182,198.01
Net profit		383,421.28
Other comprehensive loss		(362,539.35)
Total comprehensive income		20,881.93

Notes on page 7 through page 29 are part of this financial statement

CSR America, Incorporated

Statement of Changes in Shareholders' Equity

Year 2013

Yuan RMB

	Paid-in capital	Retained earnings	Translation reserve	Total of owners' equity
I. Balance at the start of this year (unaudited)	13,067,800.00	500.72	(484,188.48)	12,584,112.24
II. Increased or decreased amount of this period				
(1) Net profit	-	383,421.28	-	383,421.28
(2) Profit and gains and losses recognized directly in owners' equity				
1. Translation reserve	-	-	(362,539.35)	(362,539.35)
Total comprehensive income	-	383,421.28	(362,539.35)	20,881.93
III. Balance at the end of this year	13,067,800.00	383,922.00	(846,727.83)	12,604,994.17

Notes on page 7 through page 29 are part of this financial statement

CSR America, Incorporated

Statement of Cash Flow

December 31, 2013

Yuan RMB

	Note 5	2013
I. Cash flow from operations		
Cash from selling commodities or offering labor		1,711,024.00
Other cash received relating to operating activities		23,579.01
Subtotal of cash inflows from operating activities		1,734,603.01
Cash paid to and for employees		254,479.77
Cash paid for taxes and surcharges		80,375.50
Cash paid for office rent		664,835.14
Cash paid for insurance expenses		122,519.09
Cash paid for service charge to intermediary agency		85,781.92
Cash paid for other operating activities		214,366.38
Subtotal of cash outflows from operating activities		1,422,357.80
Net amount of cash flow generated from operating activities	11	312,245.21
II. Net amount of cash flow generated from investing activities		-
III. Net amount of cash flow generated from financing activities		-
VI. Impacts of change in exchange rate on cash and cash equivalents		(362,539.35)
V. Net decrease of cash and cash equivalents		(50,294.14)
Plus: beginning balance of cash and cash equivalents		12,561,867.86
IV. Closing balance of cash and cash equivalents	12	12,511,573.72

Notes on page 7 through page 29 are part of this financial statement

I. General Information

CSR America, Incorporated ("the Company") is a limited liability company established in Chicago, Illinois US on September 17, 2010 (Enterprise registration number: EIN33-1218972) with the legal representative being Ni Shengyi and the registered capital being 2 million US dollars. The place of registration of this company is LASALLE Street, Chicago, Illinois US.

Business scope of the company: marketing and after-sales service of EMU, urban rail transit vehicles and accessories.

The holding parent company of the company is CSR Qingdao Sifang Co., Ltd. established in China and the ultimate holding company is CSR founded in China.

II. Preparation Basics of Financial Statement

The Company adopted Accounting Standards for Business Enterprises - Basic Accounting Standard issued by the Ministry of Finance in February 2006 and 38 detailed accounting rules as well as subsequently issued application guides, interpretation and other relevant regulations (collectively referred to "Accounting Standards for Business Enterprises").

According to the requirements from the user of the statement, comparative figures for 2012 are not listed in this statement.

In addition to the above, the financial statements present fairly and fully, the financial position of the company as of December 31, 2013 and the financial results and the cash flows for 2013 in accordance with Accounting Standards for Business Enterprises.

The financial statements are presented on a going concern basis.

Except for certain financial instruments the Company's accounts have been prepared on an accrual basis using the historical cost as the basis of measurement. If the assets are impaired, depreciation reserves should be made according to relevant provisions.

Statement for complying with accounting standards for business enterprises

The financial statements present fairly and fully, the financial position of the company as of December 31, 2013 and the financial results and the cash flows for 2013 in accordance with Accounting Standards for Business Enterprises.

III. Significant Accounting Policy and Accounting Estimate

Financial information presented in the 2013 accounting statement of our company is prepared according to the following significant accounting policy and accounting estimate, which is prepared according to the enterprise accounting rule.

1. Accounting period

The fiscal year of the Company runs from 1 January to 31 December of each calendar year.

2. Bookkeeping currency

The company's recording and presentation currency is Renminbi ("RMB"). Unless otherwise stated, the unit of the currency is Yuan.

3. Cash and cash equivalents

Cash refers to cash on hand and cash in bank that can be readily used for payment at any time; cash equivalents are short-term, highly liquid investments held by the company, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4. Foreign currency transaction and translation of foreign currency statements

For overseas businesses, the company translates its functional currency into RMB when preparing financial statement: the asset and liability items in the balance sheets shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except the ones as "undistributed profits", others shall be translated at the spot exchange rate at the time when they are incurred; the income and expense items in the profit statements shall be translated at the current average exchange rate of the transaction date. The balance arisen from the translation of foreign currency financial statements in compliance with the aforesaid items shall be recognized as other comprehensive incomes and presented separately under the owner's equity item of the balance sheets. When disposing overseas businesses, other comprehensive incomes related with those overseas businesses are transferred into disposal profits and losses and those that are partly disposed are calculated according to the disposal proportion.

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

III. Significant Accounting Policy and Accounting Estimate (Continued)

5. Financial instruments

Financial instruments refer to the contracts under which the financial assets of an enterprise are formed and the financial liability or right instruments of any other entity are formed.

Recognition and termination of recognition

When the company becomes a party to a financial instrument, it shall recognize a financial asset or financial liability.

Where a financial asset satisfies any of the following requirements, the recognition of it (or part of it, or part of similar financial assets) shall be terminated, which means writing off the financial asset or financial liability from the account or balance sheet of the company:

(1) The rights to receive cash flows from the financial assets have expired;

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

If the responsibility of the financial liability is performed, canceled or expires, the financial liability is derecognized. 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 recognized in the income statement.

Financial assets purchased and sold in the regular course are recognized and derecognized on the trade date. The regular course of purchases and sales of financial assets means transactions that require delivery of assets within the period agreed in the contract or generally established by regulations or conventions in the marketplace. The trade date is the date the company commits to purchase or sell the assets.

III. Significant Accounting Policy and Accounting Estimate (Continued)

5. Financial instruments

Classification and measurement of financial assets

Financial assets of the company are classified at initial recognition as follows: financial assets measured by fair value and whose fluctuations are included in current profit and loss, held-to-maturity investment, loan or receivables, available-for-sale financial assets, derivative instruments designated as effective hedging instruments. Financial assets are measured by fair value at initial recognition. For financial assets measured by fair value and whose fluctuations are included in current profit and loss, related transaction costs are recognized as profits and losses of the current period; related transaction costs incurred by other types of financial assets are recognized as initial recognition costs.

Subsequent measurement of financial assets depending on their classifications:

Financial assets measured by fair value and whose fluctuations are included in current profit and loss

Financial assets measured by fair value and whose fluctuations are included in current profit and loss consist trading financial assets and financial assets measured at initial recognition by fair value and whose fluctuations are included in current profit and loss. Trading financial assets are financial assets satisfying one of the following conditions: the purpose to obtain the financial assets is to sold off in a short period; they are belonged to a part of a combination of centralized and identifiable financial instruments, and objective evidence shows that the corporation recently manages the combination to obtain short-term profit; they are belonged to derivative instruments, but except for derivative instruments designated as and being the effective hedging tools, derivative instruments belonged to financial guarantee contract, derivative instruments linked up with equity instrument investment that is not quoted on an active market and whose fair value cannot be measured reliably and settled by delivering this equity instrument. For this type of financial assets, they are subsequently measured by fair value, and realized and unrealized profits and losses are recognized as profits and losses of the current period. Dividends or interest income related to financial assets measured by fair value and whose fluctuations are included in current profit and loss are recognized as profits and losses of the current period.

Held-for-maturity investment

Held-for-maturity investment is the non-derivative financial asset that the company has a clear intention and ability to hold for maturity with fixed or determinable maturity date and recoverable amount. For this type of financial assets, they are subsequently measured by effective interest method according to amortized costs, whose amortization or impairment and gains or losses produced at final recognition are recognized as profits and losses of the current period.

III. Significant Accounting Policy and Accounting Estimate (Continued)

5. Financial instruments (Continued)

Classification and measurement of financial assets (continued)

Loans or receivables
Loans or receivables are the non-derivative financial assets with fixed or determinable recoverable amount, which are not quoted on an active market. For this type of financial assets, they are subsequently measured by effective interest method according to amortized costs, and gains or losses produced by amortization or impairment are recognized as profits and losses of the current period.

Available-for-sale financial assets
Available-for-sale financial assets are the non-derivative financial assets designated as available-for-sale assets at initial recognition and financial assets besides the above types. For this type of financial assets, they are subsequently measured by fair value. Their discount or premium is amortized by an effective interest method and recognized as interest income or expenses. Except that impairment loss and exchanging balance of foreign currency financial assets are recognized as profits and losses of the current period, changes in the fair value of available-for-sale financial assets are recognized into capital reserves as comprehensive income; when the recognition of these financial assets terminates or impairment occurs, accumulated gains or losses are transferred into profits and losses of the current period. Dividends or interest income related to available-for-sale financial assets are recognized as profits and losses of the current period.

For equity instrument investment that is not quoted on an active market and whose fair value cannot be measured reliably, it is measured by costs.

Classification and measurement of financial liabilities

Financial liabilities of the company are classified at initial recognition as follows: financial liabilities measured by fair value and whose fluctuations are included in current profit and loss, other financial liabilities and derivative instruments designated as effective hedging instruments. For financial liabilities measured by fair value and whose fluctuations are included in current profit and loss, related transaction costs are recognized as profits and losses of the current period; related transaction costs incurred by other financial liabilities are recognized as initial recognition costs.

III. Significant Accounting Policy and Accounting Estimate (Continued)

5. Financial instruments (Continued)

Classification and measurement of financial liability (continued)

Subsequent measurement of financial liabilities depending on their classifications:

Financial liabilities measured by fair value and whose fluctuations are included in current profit and loss

Financial liabilities measured by fair value and whose fluctuations are included in current profit and loss consist trading financial liabilities and financial liabilities measured at initial recognition by fair value and whose fluctuations are included in current profit and loss. Trading financial liabilities are financial liabilities satisfying one of the following conditions: the purpose to assume the financial assets is to repurchase them in the near future; they are belonged to a part of a combination of centralized and identifiable financial instruments, and objective evidence shows that the corporation recently manages the combination to obtain short-term profit; they are belonged to derivative instruments, but except for derivative instruments designated as and being the effective hedging tools, derivative instruments belonged to financial guarantee contract, derivative instruments linked up with equity instrument investment that is not quoted on an active market and whose fair value cannot be measured reliably and settled by delivering this equity instrument. For this type of financial liabilities, they are subsequently measured by fair value, and realized and unrealized profits and losses are recognized as profits and losses of the current period.

Other financial liabilities

For this type of financial liabilities, they are subsequently measured by effective interest method according to amortized costs.

Fair value of financial instrument

For financial assets and liabilities in an active market, their fair value is determined by the quotation of the active market. Where there is no active market for a financial instrument, the company determines its fair value by adopting value appraisal techniques, which include referring to prices adopted in recent market transactions between parties familiar with current situation and made voluntary transactions, referring to current fair value of other financial instruments that are virtually identical, the discount cash flow method, option pricing models and etc.

III. Significant Accounting Policy and Accounting Estimate (Continued)

5. Financial instruments (Continued)

Impairment of financial asset

The company checks the carrying amount of financial assets on the date of balance sheet. If objective evidence shows impairment occurs, impairment reserves are allotted for the financial assets. Objective evidences showing impairment of financial assets are items actually occurred after initial recognition of financial assets, having an impact that can be reliably measured by the corporation on the predicted future cash flow of financial assets.

Financial assets measured by amortized cost

When impairment occurs, the carrying amount of these financial assets writes down to the present value of predicted future cash flow (excluding future credit losses not yet incurred), and write-downs should be recognized as profits and losses of the current period. The present value of predicted future cash flow is discounted and determined according to the original actual interest rate (i.e., actual interest rate calculated and determined at initial recognition) of these financial assets, taking into account the value of relevant collateral.

An impairment test shall be made on the financial assets with significant single amounts. If any objective evidence shows that it has been impaired, the impairment-related losses shall be recognized and shall be recorded into the profits and losses of the current period. With regard to the financial assets with insignificant single amounts, an impairment test may be carried out in a combination of financial assets with similar credit risk features. Where, upon an independent test, the financial asset (including those financial assets with significant single amounts and those with insignificant amounts) has not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another impairment test. The financial assets which have suffered from an impairment loss in any single amount shall not be included in any combination of financial assets with similar risk features for any impairment test.

Where any financial asset measured on the basis of post-amortization costs is recognized by the company as having suffered from any impairment loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period. However, the reversed carrying amount shall not be any more than the post-amortization costs of the said financial asset on the day of reverse under the assumption that no provision is made for the impairment.

III. Significant Accounting Policy and Accounting Estimate (Continued)

5. Financial instruments (Continued)

Impairment of financial asset (continued)

Available-for-sale financial assets

If any objective evidence shows that the financial asset is impaired, the accumulative losses arising from the decrease of the fair value which was originally included in other comprehensive incomes shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses that are transferred out shall be the balance obtained from the initially obtained costs of the available-for-sale financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

The impairment-related losses incurred to a sellable equity instrument investment shall not be reversed through profits and losses. The increase of fair value after impairment occurs is directly recognized in other comprehensive incomes.

As for the sellable debt instruments whose impairment-related losses have been recognized, if, within the accounting period thereafter, the fair value has risen and are objectively related to the subsequent events that occur after the originally impairment-related losses were recognized, the originally recognized impairment-related losses shall be reversed and be recorded into the profits and losses of the current period.

Financial assets measured by cost

If any objective evidence shows that the financial asset is impaired, the gap between the carrying amount of the financial assets and the current value of the future cash flow of similar financial assets capitalized according to the returns ratio of the market at the same time shall be recognized as impairment-related losses and be recorded into the profits and losses of the current period. Once impairment-related losses are recognized, they may not be reversed.

Transferring financial assets

If the company has transferred almost all risks and rewards related to the ownership of the financial asset to the transferee and stop recognizing the financial asset; if it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not stop recognizing the financial asset.

Where the company has neither transfer or retain nearly all of the risks and rewards related to the ownership of the financial asset, it should be handled in accordance with the following situations respectively: if it waives its control over the financial asset, it shall stop recognizing the financial asset and recognize the assets and liabilities generated; if it does not waive its control over the financial asset, it shall, within the extent of its continuous involvement in the transferred financial asset, recognize relevant financial assets and recognize the relevant liabilities correspondingly.

III. Significant Accounting Policy and Accounting Estimate (Continued)

6. Asset impairment

Except for stocks and financial assets, other asset impairment of the company is determined by the following methods:

The company, on the day of balance sheet, makes a judgment on whether there is any sign of possible asset impairment. If there is a sign of impairment, the company will evaluate its recoverable amount and take impairment test. Intangible assets should be given an impairment test each year before being eligible for use.

The recoverable amount of an asset is defined as the higher of the net amount of the fair value minus disposal expenses and its present value of predicted future cash flow. The company evaluates its recoverable amount based on single asset; if it is impossible to evaluate recoverable amount of a single asset, the recoverable amount of the asset group is determined based on the asset group that the asset is included. The asset group is identified based on whether the main cash flow of the asset group flows is independent on that of other assets or asset group.

When the recoverable amount of an asset or asset group is less than its carrying amount, the company writes down its carrying amount to the recoverable amount; the write-downs are recognized as profits and losses of the current period and an impairment provision shall be made correspondingly.

Once the said impairment-related losses are recognized, they may not be reversed in the future accounting periods.

III. Significant Accounting Policy and Accounting Estimate (Continued)

7. Income

No income may be recognized, unless economic benefits pertinent to the income will probably flow into the company, the amount can be measured in a reliable way and the following conditions are satisfied.

Revenue from providing labor services

If the company can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the income from providing services employing the percentage-of-completion method; otherwise, it shall recognize the income according to the labor cost that has incurred and expected to be compensated. The outcome of a transaction concerning the providing of labor services can be measured in a reliable way, which means that the following conditions shall be met simultaneously: the amount of income can be measured in a reliable way; the relevant economic benefits are likely to flow into the company; the schedule of completion under the transaction can be confirmed in a reliable way; and the costs incurred or to be incurred in the transaction can be measured in a reliable way. The company ascertains the schedule of completion under the transaction concerning the providing of labor services according to the proportion of the labor services provided against the total labor services to be provided. The total income from the providing of labor services is determined in accordance with the received or to-be-received price of the party that receives the labor services as stipulated in the contract or agreement, unless the received or to-be-received price as stipulated in the contract or agreement is unfair.

8. Lease

The "finance lease" shall refer to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset, and others are the operating leases.

As a lessee of operating lease

The rents from operating leases shall be recorded in the profits and losses of the current period by using the straight-line method over each period of the lease term, or the rents are recorded in the profits and losses of the current period when actually incurred.

III. Significant Accounting Policy and Accounting Estimate (Continued)

9. Employee compensation

Employee compensation refers to all forms of compensations and other relevant expenses, in addition to the share-based payment, for the purpose of obtaining services provided by employees. In the accounting period for obtaining employees' services, the payable employee compensation is recognized as liability. For liability due above 1 year since the date of balance sheet, if the discount amount is significant, it shall be presented by the present value.

When employees of the company participate in the social insurance and housing fund program managed by local government, such as endowment insurance, medical insurance, unemployment insurance, corresponding expenses should be recorded in relevant asset costs and asset costs of the current period when incurred.

10. Income tax

Income tax consists of the current income tax and deferred income tax. Except that the adjusting goodwill resulting from business combination and amounts related to transactions and matters directly recorded in the owner's rights and interests are recorded in owners' equity, all amounts are directly recognized in profits and losses as income tax or gains.

Due and previously produced due income tax liabilities or assets are measured by the expected payable or returned income tax calculated according to tax laws.

Provision for deferred income tax is made by the company applying the balance sheet liability approach, in accordance with the temporary difference between the carrying amount of asset and liability and their tax base on the date of balance sheet and the temporary difference between the carrying amount of items (not recognized as asset and liability, but whose tax base can be determined according to tax laws) and tax base.

III. Significant Accounting Policy and Accounting Estimate (Continued)

10. Income tax (continued)

Except for the following taxable temporary differences, the deferred tax liabilities are recognized for all taxable temporary differences.

(1) Taxable temporary differences arise from the following transactions (a) the initial recognition of goodwill; and (b) the initial recognition of an asset or liability in a transaction which is either a business combination or affects accounting profit or taxable profit (or deductible loss) at the time of the transaction.

(2) For taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, the timing of the reversal of the temporary difference is able to be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Except for the following, the Company recognizes deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, deductible losses and tax credits can be utilized.

(1) Deductible temporary differences arise from a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction.

(2) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, if it is probable that the temporary difference will reverse in the foreseeable future and it is probable that taxable profits will be available in the future, against which the temporary difference can be utilized, the Company recognizes the corresponding deferred tax asset.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws, and reflect the tax effect of the expected realization of asset and settlement of liability.

III. Significant Accounting Policy and Accounting Estimate (Continued)

10. Income tax (continued)

At the balance sheet date, the Company reviews the carrying amount of any deferred tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilized, the carrying amount of the deferred tax asset is reduced. At the balance sheet date, the Company reevaluates the deferred tax assets to be confirmed. The deferred tax assets are recognized to the extent that it is probable that taxable profits will be available to allow all and part of deferred tax assets to reverse.

If there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets relate to the same taxable entity and the same taxation authority, deferred tax assets and deferred tax liabilities are offset.

11. Significant accounting estimates

The preparation of financial statements requires the Management to make estimates, which will affect the reported amounts of income, expenses, assets and liabilities and their closures, as well as the balance sheet date or the disclosure of contingent liabilities. However, the uncertainty of these estimates may result in the significant adjustment to the carrying amount of assets and liabilities to be affected in the future.

Except the uncertainty stated in the above significant accounting policies, the Company does not have other key sources of critical assumptions and estimates uncertainty about the future till the balance sheet date.

IV. Taxation

The principal taxes and tax rates of the Company this year are listed below:

Federal corporate Income Tax	—	Levied according to the range of taxable income and applicable tax rates.
Illinois corporate income tax	—	Levied as at the 9.5% of the taxable income.

V. Notes to Main Items of Financial Statements

1. Monetary assets

	2013
Bank deposits	12,511,573.72

2. Prepayment

The aging analysis of prepayment is as follows:

	2013
Within 1 year	105,903.24

3. Other receivables

The aging analysis of other receivables is as follows:

	2013
2-3 years	121,938.00

V. Notes to Main Items of Financial Statements (Continued)

4. Accrued payroll

2013

	Figure at the start of the year	Increase during the year	Payment during the year	Figure at the end of the year
Wages, bonuses, allowances and subsidies	-	254,479.77	254,479.77	-

5. Accrued tax

	2013
Corporate income tax	134,420.79

6. Paid-in capital

The registered and paid-in capital of the Company amounts to $ 2,000,000.00.

	2013	
	Registration Currency (Dollar)	RMB equivalent
CSR Qingdao Sifang Co., Ltd.	2,000,000.00	13,067,800.00

V. Notes to Main Items of Financial Statements (Continued)

7. Retained earnings

	2013
Retained earnings at the start of the year	500.72
Net Profit	383,421.28
Retained earnings at the end of the year	383,922.00

8. Operation revenue

	2013
Revenue from main business: Consulting services	1,711,024.00

9. Financing expenses

	2013
Handling fees of financial institutions	3,720.37

V. Notes to Main Items of Financial Statements (Continued)

10. Income tax expense

	2013
Current income tax expense	182,198.01

The relationship between income tax expenses and total profit is as follows:

	2013
Total profits	565,619.29
Income tax expenses calculated according to the statutory tax rate	174,405.77
Adjustments to the current income tax during the prior periods	7,792.24
The income tax expenses calculated according to the Company's applicable tax rate	182,198.01

The income tax expenses of the Company are calculated at the applicable tax rate according to the existing law, interpretations and conventions of the countries where we operate.

11. Cash flow of operating activities

Adjust the net profits to the cash flow of operating activities:

		2013
Net profit		383,421.28
Plus:	The decrease of operating receivables	(102,131.2
The increase of operating receivables		30,955.17
Net amount of cash flow generated from operating activities		312,245.21

V. Notes to Main Items of Financial Statements (Continued)

12. Cash and cash equivalents

	2013
Cash	12,511,573.72
where: bank deposits that can pay at any time	12,511,573.72

VI. Segmental Reporting

1. Operating segments

For the purpose of management, the Company is divided into business units according to products and services. The company mainly provides the marketing counseling services about EMU this year. Thus, the Company only has one single reporting segment.

2. Other information

Product Information

Foreign trade income

	2013
Counseling services income	1,711,024.00

Geographic Information

Foreign trade income

	2013
USA	1,711,024.00

Foreign trade income belongs to the customer area.

VI. Segmental Reporting (Continued)

2. Other information (continued)

Main Customer Information

The year 2013 operating revenue RMB 1,711,024.00 was from the revenue of the parent company CSR Qingdao Sifang Co., Ltd.

VII. Related Party Relationships and Transactions

1. Pleading standards of related parties

If a party has the power to, directly or indirectly, control, jointly control or exercise significant influence over another party, or if two or more parties are subject to control, joint control or significant influence from a same party, the related party relationships are constituted.

Enterprises shall not be regarded as affiliated parties simply because they are all under the control of the state.

2. Parent company

Parent name	Company	Domicile	Nature of Business	Shareholding Ratio to the Company	Proportion of the voting rights to the Company	Registered Capital
CSR Sifang Co., Ltd.		Qingdao, Shandong	Manufacture	100.00%	100.00%	4,003,794,051.00

The ultimate holding company is CSR.

VII. Related Party Relationships and Transactions (Continued)

3. Major transactions between the company and related parties

(1) Providing labor services to the related parties

	Comments	2013 Amount of Money
CSR Qingdao Sifang Co., Ltd.	(1)	1,711,024.00

This year the Company provided CSR Qingdao Sifang Co., Ltd. with counseling services worth of RMB 1,711,024.00 which was negotiated by the two sides.

VIII. Contingency

Up to the balance sheet date, the Company does not have to disclose these contingencies.

IX. Financial Instruments and Their Risks

The major financial instruments of the Company include monetary assets, etc. These financial instruments mainly target at the financing for the operating of the Company. The company owns various other financial assets and liabilities directly arising from operating, such as prepayment, other receivables and payables, etc.

The major risks caused by the Company's financial instruments are credit risk and liquidity risk.

IX. Financial Instruments and Their Risks (Continued)

1. Classification of financial instruments

The book values of various financial instruments in the balance sheet date are as follows:

2013

Financial Assets

	Loans or Receivables
Monetary Assets	12,511,573.72
Other Receivables	121,938.00
	12.633.511.72

2. Credit risk

Credit risk refers to the risk of financial losses of one party caused by the incapability of the other party of the financial instruments to perform the liability.

The company mainly carries on transactions with the parent company, which will not result in the risk of huge bad debts.

The other financial assets of the Company includes monetary assets and other receivables, whose credit risks are arising from the counterparty's breach of the contract, and the highest risk exposure is equal to the carrying amounts of these instruments.

For the quantitative data of the credit risk exposure resulting from the Company's other receivables, see Notes 5 and 3.

IX. Financial Instruments and Their Risks (Continued)

2. Credit risk (continued)

Up to 31st, December, the deadline analysis of the financial assets which is not considered to be impaired is as follows:

2013

	More than 1 year delay
Other receivables	121,938.00

Up to December 31st, 2013, other receivables which are delayed without impairment mainly relates to the employee borrowing reserve fund. According to the previous experience, the Company thinks that there is no need to make impairment provisions because the credit quality has not underwent a great change and it is considered that they can be back in full amounts.

3. Liquidity risk

Liquidity risk refers to the risk of capital shortage the enterprises encounter when fulfilling their obligations concerned with financial liabilities.

The Company takes advantage of revolving liquidity planning instrument to manage the risk of capital shortage. This instrument takes both the deadline of its financial instruments and the predicted cash flow arising from the Company's operating into account. The following table sums up the deadline analysis of the financial assets and liabilities according to the undiscounted contract cash flow.

2013

Financial Assets

	Within six months
Monetary Assets	12,511,573.72
Other Receivables	121,938.00
	12,633,511.72

IX. Financial Instruments and Their Risks (Continued)

4. Fair value

Fair value refers to the amount, at which both parties to a transaction who are familiar with the condition exchange their assets or clear off their debts under fair conditions. The methods and assumptions below is used for the estimate of fair value.

Due to the residual maturity of monetary assets, other receivables and others is not long, the fair value is similar to the book value.

X. Approval of Financial Statements

This Financial Statements is approved by the Company's executive director on March 12nd, 2014.

中国南车美国有限责任公司

已审财务报表

2013年12月31日

中国南车美国有限责任公司

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审计报告

安永华明(2014)审字第60626562_J10号

南车青岛四方机车车辆股份有限公司：

我们审计了后附的按照附注二所述编制基础编制的中国南车美国有限责任公司的财务报表，包括2013年12月31日的资产负债表，2013年度的利润表、所有者权益变动表和现金流量表以及财务报表附注。

一、管理层对财务报表的责任

编制和公允列报财务报表是中国南车美国有限责任公司管理层的责任。这种责任包括：(1)按照附注二所述编制基础编制财务报表，并使其实现公允反映；(2)设计、执行和维护必要的内部控制，以使财务报表不存在由于舞弊或错误而导致的重大错报。

二、注册会计师的责任

我们的责任是在执行审计工作的基础上对财务报表发表审计意见。我们按照中国注册会计师审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道德守则，计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。

审计工作涉及实施审计程序，以获取有关财务报表金额和披露的审计证据。选择的审计程序取决于注册会计师的判断，包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行风险评估时，注册会计师考虑与财务报表编制和公允列报相关的内部控制，以设计恰当的审计程序，但目的并非对内部控制的有效性发表意见。审计工作还包括评价管理层选用会计政策的恰当性和作出会计估计的合理性，以及评价财务报表的总体列报。

我们相信，我们获取的审计证据是充分、适当的，为发表审计意见提供了基础。

EY 安永

审计报告(续)

安永华明(2014)审字第60626562_J10号

三、审计意见

我们认为，上述财务报表在所有重大方面按照附注二所述之编制基础编制，公允反映了中国南车美国有限责任公司2013年12月31日的财务状况以及2013年度的经营成果和现金流量。

本报告仅供南车青岛四方机车车辆股份有限公司内部使用。在未得到预先书面许可的情况下，本报告不得被用于其他用途或其他方使用，且不得用于为实现其他目的而被参阅和被分发。若未经授权之个人或其他第三方执意以任何方式依赖于本报告内容，需自行承担由此导致的全部风险，我们对其不承担任何责任。本段不影响已发表的审计意见。

安永华明会计师事务所(特殊普通合伙)

中国注册会计师：杨淑娟

中国注册会计师：李辉华

中国 北京

2014年3月12日

中国南车美国有限责任公司

资产负债表

2013年12月31日

人民币元

资产	附注五	2013 年
流动资产		
货币资金	1	12,511,573.72
预付账款	2	105,903.24
其他应收款	3	121,938.00
流动资产合计		12,739,414.96
资产总计		12,739,414.96
负债和所有者权益		
流动负债		
应交税费	5	134,420.79
流动负债合计		134,420.79
负债合计		134,420.79
所有者权益		
实收资本	6	13,067,800.00
未分配利润	7	383,922.00
外币报表折算差额		(846,727.83)
所有者权益合计		12,604,994.17
负债和所有者权益总计		12,739,414.96

载于第 7 页至第 29 页的附注为本财务报表的组成部分

第3页至第29页的财务报表由以下人士签署：

法定代表人：　　主管会计工作负责人　　会计机构负责人：

中国南车美国有限责任公司

利润表

2013年度

人民币元

	附注五	2013 年
营业收入	8	1,711,024.00
减：管理费用		1,141,684.34
财务费用	9	3,720.37
营业利润及利润总额		565,619.29
减：所得税费用	10	182,198.01
净利润		383,421.28
其他综合损失		(362,539.35)
综合收益总额		20,881.93

载于第7页至第29页的附注为本财务报表的组成部分

中国南车美国有限责任公司

所有者权益变动表

2013年度

人民币元

	实收资本	未分配利润	外币报表折算差额	所有者权益合计
一、本年年初余额(未经审计)	13,067,800.00	500.72	(484,188.48)	12,584,112.24
二、本年增减变动金额				
(一) 净利润	-	383,421.28	-	383,421.28
(二) 直接计入所有者权益的利得和损失				
1. 外币报表折算差额	-	-	(362,539.35)	(362,539.35)
综合收益总额	-	383,421.28	(362,539.35)	20,881.93
三、本年年末余额	13,067,800.00	383,922.00	(846,727.83)	12,604,994.17

载于第7页至第29页的附注为本财务报表的组成部分

中国南车美国有限责任公司

现金流量表

2013年12月31日

人民币元

	附注五	2013年
一、经营活动产生的现金流量		
销售商品、提供劳务收到的现金		1,711,024.00
收到的其他与经营活动有关的现金		23,579.01
经营活动现金流入小计		1,734,603.01
支付给职工以及为职工支付的现金		254,479.77
支付的各项税费		80,375.50
支付的办公场所租金		664,835.14
支付的保险费用		122,519.09
支付的中介机构服务费		85,781.92
支付的其他与经营活动有关的现金		214,366.38
经营活动现金流出小计		1,422,357.80
经营活动产生的现金流量净额	11	312,245.21
二、投资活动产生的现金流量净额		-
三、筹资活动产生的现金流量净额		-
四、汇率变动对现金及现金等价物影响		(362,539.35)
五、现金及现金等价物净减少额		(50,294.14)
加：年初现金及现金等价物余额		12,561,867.86
六、年末现金及现金等价物余额	12	12,511,573.72

载于第7页至第29页的附注为本财务报表的组成部分

中国南车美国有限责任公司

财务报表附注

2013年12月31日

人民币元

一、 基本情况

中国南车美国有限责任公司(“本公司”)是一家在美国伊利诺伊州芝加哥市注册的有限责任公司，于2010年9月17日成立，企业注册号：EIN33-1218972，法定代表人：倪胜义，注册资本：美元200万元整。本公司注册地位于美国伊利诺伊州芝加哥市LASALLE大街。

本公司经营范围为：电动车组、城市轨道交通车辆及配件的市场营销、售后服务。

本公司的控股母公司为于中国成立的南车青岛四方机车车辆股份有限公司，最终控股公司为于中国成立的中国南车集团公司。

二、 财务报表的编制基础

本公司执行财政部2006年2月颁布的《企业会计准则—基本准则》和38项具体会计准则、以及其后颁布的应用指南、解释以及其他相关规定（统称“企业会计准则”）。

根据报表使用者的要求，本财务报表未列示2012年度比较数字。

除上述事项外，本财务报表符合企业会计准则的要求，真实、完整地反映了本公司2013年12月31日财务状况，以及2013年度经营成果和现金流量。

本财务报表以持续经营为基础列报。

编制本财务报表时，除某些金融工具外，均以历史成本为计价原则。资产如果发生减值，则按照相关规定计提相应的减值准备。

遵循企业会计准则的声明

本财务报表符合企业会计准则的要求，真实、完整地反映了本公司于2013年12月31日的财务状况以及2013年度的经营成果和现金流量。

三、 重要会计政策和会计估计

本公司2013年度财务报表所载财务信息根据下列依照企业会计准则所制定的重要会计政策和会计估计编制。

1. 会计期间

本公司会计年度采用公历年度，即每年自1月1日起至12月31日止。

2. 记账本位币

本公司记账本位币和编制本财务报表所采用的货币均为人民币。除有特别说明外，均以人民币元为单位表示。

3. 现金及现金等价物

现金，是指本公司的库存现金以及可以随时用于支付的存款；现金等价物，是指本公司持有的期限短、流动性强、易于转换为已知金额的现金、价值变动风险很小的投资。

4. 外币业务和外币报表折算

对于境外经营，本公司在编制财务报表时将其记账本位币折算为人民币：对资产负债表中的资产和负债项目，采用资产负债表日的即期汇率折算，所有者权益项目除“未分配利润”项目外，其他项目采用发生时的即期汇率折算；利润表中的收入和费用项目，采用交易发生当期平均汇率折算。按照上述折算产生的外币财务报表折算差额，确认为其他综合收益并在资产负债表中所有者权益项目下单独列示。处置境外经营时，将与该境外经营相关的其他综合收益转入处置当期损益，部分处置的按处置比例计算。

外币现金流量以及境外子公司的现金流量，采用现金流量发生当期平均汇率折算。汇率变动对现金的影响额作为调节项目，在现金流量表中单独列报。

三、 重要会计政策和会计估计(续)

5. 金融工具

金融工具，是指形成一个企业的金融资产，并形成其他单位的金融负债或权益工具的合同。

金融工具的确认和终止确认

本公司于成为金融工具合同的一方时确认一项金融资产或金融负债。

满足下列条件的，终止确认金融资产(或金融资产的一部分，或一组类似金融资产的一部分)，即从其账户和资产负债表内予以转销：

(1) 收取金融资产现金流量的权利届满；
(2) 转移了收取金融资产现金流量的权利，或在“过手”协议下承担了及时将收取的现金流量全额支付给第三方的义务；并且(a)实质上转让了金融资产所有权上几乎所有的风险和报酬，或(b)虽然实质上既没有转移也没有保留金融资产所有权上几乎所有的风险和报酬，但放弃了对该金融资产的控制。

如果金融负债的责任已履行、撤销或届满，则对金融负债进行终止确认。如果现有金融负债被同一债权人以实质上几乎完全不同条款的另一金融负债所取代，或现有负债的条款几乎全部被实质性修改，则此类替换或修改作为终止确认原负债和确认新负债处理，差额计入当期损益。

以常规方式买卖金融资产，按交易日会计进行确认和终止确认。常规方式买卖金融资产，是指按照合同条款的约定，在法规或通行惯例规定的期限内收取或交付金融资产。交易日，是指本公司承诺买入或卖出金融资产的日期。

三、 重要会计政策和会计估计(续)

5. 金融工具

金融资产分类和计量

本公司的金融资产于初始确认时分类为：以公允价值计量且其变动计入当期损益的金融资产、持有至到期投资、贷款和应收款项、可供出售金融资产、被指定为有效套期工具的衍生工具。金融资产在初始确认时以公允价值计量。对于以公允价值计量且其变动计入当期损益的金融资产，相关交易费用直接计入当期损益，其他类别的金融资产相关交易费用计入其初始确认金额。

金融资产的后续计量取决于其分类：

以公允价值计量且其变动计入当期损益的金融资产
以公允价值计量且其变动计入当期损益的金融资产，包括交易性金融资产和初始确认时指定为以公允价值计量且其变动计入当期损益的金融资产。交易性金融资产，是指满足下列条件之一的金融资产：取得该金融资产的目的是为了在短期内出售；属于进行集中管理的可辨认金融工具组合的一部分，且有客观证据表明企业近期采用短期获利方式对该组合进行管理；属于衍生工具，但是，被指定且为有效套期工具的衍生工具、属于财务担保合同的衍生工具、与在活跃市场中没有报价且其公允价值不能可靠计量的权益工具投资挂钩并须通过交付该权益工具结算的衍生工具除外。对于此类金融资产，采用公允价值进行后续计量，所有已实现和未实现的损益均计入当期损益。与以公允价值计量且其变动计入当期损益的金融资产相关的股利或利息收入，计入当期损益。

持有至到期投资
持有至到期投资，是指到期日固定、回收金额固定或可确定，且本公司有明确意图和能力持有至到期的非衍生金融资产。对于此类金融资产，采用实际利率法，按照摊余成本进行后续计量，其摊销或减值以及终止确认产生的利得或损失，均计入当期损益。

三、 重要会计政策和会计估计(续)

5. 金融工具(续)

金融资产分类和计量(续)

贷款和应收款项
贷款和应收款项，是指在活跃市场中没有报价、回收金额固定或可确定的非衍生金融资产。对于此类金融资产，采用实际利率法，按照摊余成本进行后续计量，其摊销或减值产生的利得或损失，均计入当期损益。

可供出售金融资产
可供出售金融资产，是指初始确认时即指定为可供出售的非衍生金融资产，以及除上述金融资产类别以外的金融资产。对于此类金融资产，采用公允价值进行后续计量。其折价或溢价采用实际利率法进行摊销并确认为利息收入或费用。除减值损失及外币货币性金融资产的汇兑差额确认为当期损益外，可供出售金融资产的公允价值变动作为其他综合收益于资本公积确认，直到该金融资产终止确认或发生减值时，累计利得或损失转入当期损益。与可供出售金融资产相关的股利或利息收入，计入当期损益。

对于在活跃市场中没有报价且其公允价值不能可靠计量的权益工具投资，按成本计量。

金融负债分类和计量

本公司的金融负债于初始确认时分类为：以公允价值计量且其变动计入当期损益的金融负债、其他金融负债、被指定为有效套期工具的衍生工具。对于以公允价值计量且其变动计入当期损益的金融负债，相关交易费用直接计入当期损益，其他金融负债的相关交易费用计入其初始确认金额。

三、 重要会计政策和会计估计(续)

5. 金融工具(续)

金融负债分类和计量(续)

金融负债的后续计量取决于其分类：

以公允价值计量且其变动计入当期损益的金融负债
以公允价值计量且其变动计入当期损益的金融负债，包括交易性金融负债和初始确认时指定为以公允价值计量且其变动计入当期损益的金融负债。交易性金融负债，是指满足下列条件之一的金融负债：承担该金融负债的目的是为了在近期内回购；属于进行集中管理的可辨认金融工具组合的一部分，且有客观证据表明企业近期采用短期获利方式对该组合进行管理；属于衍生工具，但是，被指定且为有效套期工具的衍生工具、属于财务担保合同的衍生工具、与在活跃市场中没有报价且其公允价值不能可靠计量的权益工具投资挂钩并须通过交付该权益工具结算的衍生工具除外。对于此类金融负债，按照公允价值进行后续计量，所有已实现和未实现的损益均计入当期损益。

其他金融负债
对于此类金融负债，采用实际利率法，按照摊余成本进行后续计量。

金融工具的公允价值

存在活跃市场的金融资产或金融负债，采用活跃市场中的报价确定其公允价值。金融工具不存在活跃市场的，本公司采用估值技术确定其公允价值，估值技术包括参考熟悉情况并自愿交易的各方最近进行的市场交易中使用的价格、参照实质上相同的其他金融工具的当前公允价值、现金流量折现法和期权定价模型等。

三、 重要会计政策和会计估计(续)

5. 金融工具(续)

金融资产减值

本公司于资产负债表日对金融资产的账面价值进行检查，有客观证据表明该金融资产发生减值的，计提减值准备。表明金融资产发生减值的客观证据，是指金融资产初始确认后实际发生的、对该金融资产的预计未来现金流量有影响，且企业能够对该影响进行可靠计量的事项。

以摊余成本计量的金融资产
发生减值时，将该金融资产的账面价值减记至预计未来现金流量(不包括尚未发生的未来信用损失)现值，减记金额计入当期损益。预计未来现金流量现值，按照该金融资产原实际利率(即初始确认时计算确定的实际利率)折现确定，并考虑相关担保物的价值。

对单项金额重大的金融资产单独进行减值测试，如有客观证据表明其已发生减值，确认减值损失，计入当期损益。对单项金额不重大的金融资产，包括在具有类似信用风险特征的金融资产组合中进行减值测试。单独测试未发生减值的金融资产(包括单项金额重大和不重大的金融资产)，包括在具有类似信用风险特征的金融资产组合中再进行减值测试。已单项确认减值损失的金融资产，不包括在具有类似信用风险特征的金融资产组合中进行减值测试。

本公司对以摊余成本计量的金融资产确认减值损失后，如有客观证据表明该金融资产价值已恢复，且客观上与确认该损失后发生的事项有关，原确认的减值损失予以转回，计入当期损益。但是，该转回后的账面价值不超过假定不计提减值准备情况下该金融资产在转回日的摊余成本。

三、 重要会计政策和会计估计(续)

5. 金融工具(续)

金融资产减值(续)

可供出售金融资产

如果有客观证据表明该金融资产发生减值，原计入其他综合收益的因公允价值下降形成的累计损失，予以转出，计入当期损益。该转出的累计损失，为可供出售金融资产的初始取得成本扣除已收回本金和已摊销金额、当前公允价值和原已计入损益的减值损失后的余额。

可供出售权益工具投资发生的减值损失，不通过损益转回，减值之后发生的公允价值增加直接在其他综合收益中确认。

对于已确认减值损失的可供出售债务工具，在随后的会计期间公允价值已上升且客观上与确认原减值损失确认后发生的事项有关的，原确认的减值损失予以转回，计入当期损益。

以成本计量的金融资产

如果有客观证据表明该金融资产发生减值，将该金融资产的账面价值，与按照类似金融资产当时市场收益率对未来现金流量折现确定的现值之间的差额，确认为减值损失，计入当期损益。发生的减值损失一经确认，不再转回。

金融资产转移

本公司已将金融资产所有权上几乎所有的风险和报酬转移给转入方的，终止确认该金融资产；保留了金融资产所有权上几乎所有的风险和报酬的，不终止确认该金融资产。

本公司既没有转移也没有保留金融资产所有权上几乎所有的风险和报酬的，分别下列情况处理：放弃了对该金融资产控制的，终止确认该金融资产并确认产生的资产和负债；未放弃对该金融资产控制的，按照其继续涉入所转移金融资产的程度确认有关金融资产，并相应确认有关负债。

三、 重要会计政策和会计估计(续)

6. 资产减值

本公司对除存货、金融资产外的资产减值，按以下方法确定：

本公司于资产负债表日判断资产是否存在可能发生减值的迹象，存在减值迹象的，本公司将估计其可收回金额，进行减值测试。对于尚未达到可使用状态的无形资产，也每年进行减值测试。

可收回金额根据资产的公允价值减去处置费用后的净额与资产预计未来现金流量的现值两者之间较高者确定。本公司以单项资产为基础估计其可收回金额；难以对单项资产的可收回金额进行估计的，以该资产所属的资产组为基础确定资产组的可收回金额。资产组的认定，以资产组产生的主要现金流入是否独立于其他资产或者资产组的现金流入为依据。

当资产或者资产组的可收回金额低于其账面价值的，本公司将其账面价值减记至可收回金额，减记的金额计入当期损益，同时计提相应的资产减值准备。

上述资产减值损失一经确认，在以后会计期间不再转回。

三、 重要会计政策和会计估计(续)

7. 收入

收入在经济利益很可能流入本公司、且金额能够可靠计量，并同时满足下列条件时予以确认。

提供劳务收入

于资产负债表日，在提供劳务交易的结果能够可靠估计的情况下，按完工百分比法确认提供劳务收入；否则按已经发生并预计能够得到补偿的劳务成本金额确认收入。提供劳务交易的结果能够可靠估计，是指同时满足下列条件：收入的金额能够可靠地计量，相关的经济利益很可能流入本公司，交易的完工进度能够可靠地确定，交易中已发生和将发生的成本能够可靠地计量。本公司以已经提供的劳务占应提供劳务总量的比例确定提供劳务交易的完工进度。提供劳务收入总额，按照从接受劳务方已收或应收的合同或协议价款确定，但已收或应收的合同或协议价款不公允的除外。

8. 租赁

实质上转移了与资产所有权有关的全部风险和报酬的租赁为融资租赁，除此之外的均为经营租赁。

作为经营租赁承租人

经营租赁的租金收入在租赁期内各个期间按直线法确认为当期损益，或有租金在实际发生时计入当期损益。

三、 重要会计政策和会计估计(续)

9. 职工薪酬

职工薪酬，是指本公司为获得职工提供的服务而给予除股份支付以外各种形式的报酬以及其他相关支出。在职工提供服务的会计期间，将应付的职工薪酬确认为负债。对于资产负债表日后1年以上到期的，如果折现的影响金额重大，则以其现值列示。

本公司的职工参加由当地政府管理的养老保险、医疗保险、失业保险等社会保险费和住房公积金，相应支出在发生时计入相关资产成本或当期损益。

10. 所得税

所得税包括当期所得税和递延所得税。除由于企业合并产生的调整商誉，或与直接计入所有者权益的交易或者事项相关的计入所有者权益外，均作为所得税费用或收益计入当期损益。

本公司对于当期和以前期间形成的当期所得税负债或资产，按照税法规定计算的预期应交纳或返还的所得税金额计量。

本公司根据资产与负债于资产负债表日的账面价值与计税基础之间的暂时性差异，以及未作为资产和负债确认但按照税法规定可以确定其计税基础的项目的账面价值与计税基础之间的差额产生的暂时性差异，采用资产负债表债务法计提递延所得税。

三、 重要会计政策和会计估计(续)

10. 所得税(续)

各种应纳税暂时性差异均据以确认递延所得税负债，除非：

(1) 应纳税暂时性差异是在以下交易中产生的：商誉的初始确认，或者具有以下特征的交易中产生的资产或负债的初始确认：该交易不是企业合并，并且交易发生时既不影响会计利润也不影响应纳税所得额或可抵扣亏损。
(2) 对于与子公司、合营企业及联营企业投资相关的应纳税暂时性差异，该暂时性差异转回的时间能够控制并且该暂时性差异在可预见的未来很可能不会转回。

对于可抵扣暂时性差异、能够结转以后年度的可抵扣亏损和税款抵减，本公司以很可能取得用来抵扣可抵扣暂时性差异、可抵扣亏损和税款抵减的未来应纳税所得额为限，确认由此产生的递延所得税资产，除非：

(1) 可抵扣暂时性差异是在以下交易中产生的：该交易不是企业合并，并且交易发生时既不影响会计利润也不影响应纳税所得额或可抵扣亏损。
(2) 对于与子公司、合营企业及联营企业投资相关的可抵扣暂时性差异，同时满足下列条件的，确认相应的递延所得税资产：暂时性差异在可预见的未来很可能转回，且未来很可能获得用来抵扣可抵扣暂时性差异的应纳税所得额。

本公司于资产负债表日，对于递延所得税资产和递延所得税负债，依据税法规定，按照预期收回该资产或清偿该负债期间的适用税率计量，并反映资产负债表日预期收回资产或清偿负债方式的所得税影响。

三、 重要会计政策和会计估计(续)

10. 所得税(续)

于资产负债表日，本公司对递延所得税资产的账面价值进行复核，如果未来期间很可能无法获得足够的应纳税所得额用以抵扣递延所得税资产的利益，减记递延所得税资产的账面价值。于资产负债表日，本公司重新评估未确认的递延所得税资产，在很可能获得足够的应纳税所得额可供所有或部分递延所得税资产转回的限度内，确认递延所得税资产。

如果拥有以净额结算当期所得税资产及当期所得税负债的法定权利，且递延所得税与同一应纳税主体和同一税收征管部门相关，则将递延所得税资产和递延所得税负债以抵销后的净额列示。

11. 重大会计估计

编制财务报表要求管理层作出估计，这些估计会影响收入、费用、资产和负债的报告金额及其披露，以及资产负债表日或有负债的披露。然而，这些估计的不确定性所导致的结果可能造成对未来受影响的资产或负债的账面金额进行重大调整。

除前述重大会计政策所述之不确定性外，于资产负债表日本公司并无有关未来的关键假设以及估计不确定性的其他关键来源。

四、 税项

本公司本年度主要税项及其税率列示如下：

联邦企业所得税	–	按应纳税所得额的区间及适用税率计缴。
伊利诺伊州企业所得税	–	按应纳税所得额的9.5%计缴。

五、 财务报表主要项目注释

1. 货币资金

	2013 年
银行存款	12,511,573.72

2. 预付账款

预付账款账龄分析如下：

	2013 年
1 年以内	105,903.24

3. 其他应收款

其他应收款账龄分析如下：

	2013 年
2-3 年	121,938.00

五、 财务报表主要项目注释(续)

4. 应付职工薪酬

2013年

	年初数	本年增加	本年支付	年末数
工资、奖金、津贴和补贴	-	254,479.77	254,479.77	-

5. 应交税费

	2013年
企业所得税	134,420.79

6. 实收资本

本公司注册及实收资本计美元2,000,000.00元。

	2013年	
	注册币种(美元)	折合人民币
南车青岛四方机车车辆股份有限公司	2,000,000.00	13,067,800.00

五、 财务报表主要项目注释(续)

7. 未分配利润

	2013 年
年初未分配利润	500.72
净利润	383,421.28
年末未分配利润	383,922.00

8. 营业收入

	2013 年
主营业务收入-咨询服务	1,711,024.00

9. 财务费用

	2013 年
金融机构手续费	3,720.37

五、 财务报表主要项目注释(续)

10. 所得税费用

	2013 年
当期所得税费用	182,198.01

所得税费用与利润总额的关系列示如下：

	2013 年
利润总额	565,619.29
按法定税率计算的所得税费用	174,405.77
对以前期间当期所得税的调整	7,792.24
按本公司适用税率计算的所得税费用	182,198.01

本公司所得税费用根据经营所在国家的现行法律、解释公告和惯例，按照适用税率计算。

11. 经营活动现金流量

将净利润调节为经营活动现金流量：

	2013 年
净利润	383,421.28
加：经营性应收项目的减少	(102,131.24)
经营性应付项目的增加	30,955.17
经营活动产生的现金流量净额	312,245.21

五、 财务报表主要项目注释(续)

12. 现金及现金等价物

	2013 年
现金	12,511,573.72
其中：可随时用于支付的银行存款	12,511,573.72

六、 分部报告

1. 经营分部

出于管理目的，本公司根据产品和服务划分成业务单元。本公司本年主要提供电动车组市场营销咨询服务。因此，本公司只有单一报告分部。

2. 其他信息

产品信息

对外交易收入

	2013 年
咨询服务收入	1,711,024.00

地理信息

对外交易收入

	2013 年
美国	1,711,024.00

对外交易收入归属于客户所处区域。

六、 分部报告(续)

2. 其他信息(续)

主要客户信息

2013年营业收入人民币1,711,024.00元来自于对母公司南车青岛四方机车车辆股份有限公司的收入。

七、 关联方关系及其交易

1. 关联方的认定标准

一方控制、共同控制另一方或对另一方施加重大影响，以及两方或两方以上同受一方控制、共同控制或重大影响的，构成关联方。

仅仅同受国家控制而不存在其他关联方关系的企业，不构成关联方。

2. 母公司

母公司名称	注册地	业务性质	对本公司持股比例	对本公司表决权比例	注册资本
南车青岛四方机车车辆股份有限公司	山东青岛	制造业	100.00%	100.00%	4,003,794,051.00

本公司的最终控股公司为中国南车集团公司。

七、 关联方关系及其交易(续)

3. 本公司与关联方的主要交易

(1) 向关联方提供劳务

	注释	2013 年 金额
南车青岛四方机车车辆 股份有限公司	(1)	1,711,024.00

本年度，本公司以双方协议价向南车青岛四方机车车辆股份有限公司提供咨询服务计人民币1,711,024.00元。

八、 或有事项

截至资产负债表日，本公司并无须作披露的或有事项。

九、 金融工具及其风险

本公司的主要金融工具，包括货币资金等。这些金融工具的主要目的在于为本公司的运营融资。本公司具有多种因经营而直接产生的其他金融资产和负债，如预付账款、其他应收款和其他应付款等。

本公司的金融工具导致的主要风险是信用风险和流动风险。

九、 金融工具及其风险(续)

1. 金融工具分类

资产负债表日的各类金融工具的账面价值如下：

2013年

金融资产

	贷款和应收款项
货币资金	12,511,573.72
其他应收款	121,938.00
	12,633,511.72

2. 信用风险

信用风险，是指金融工具的一方不能履行义务，造成另一方发生财务损失的风险。

本公司主要与母公司进行交易，不致面临重大坏账风险。

本公司其他金融资产包括货币资金、其他应收款，这些金融资产的信用风险源自交易对手违约，最大风险敞口等于这些工具的账面金额。

本公司因其他应收款产生的信用风险敞口的量化数据，参见附注五、3。

九、 金融工具及其风险(续)

2. 信用风险(续)

于12月31日，认为没有发生减值的金融资产的期限分析如下：

2013年

	逾期 1年以上
其他应收款	121,938.00

于2013年12月31日，已逾期但未减值的其他应收款主要与职工借用备用金有关。根据以往经验，由于信用质量未发生重大变化且仍被认为可全额收回，本公司认为无需对其计提减值准备。

3. 流动风险

流动风险，是指企业在履行与金融负债有关的义务时遇到资金短缺的风险。

本公司采用循环流动性计划工具管理资金短缺风险。该工具既考虑其金融工具的到期日，也考虑本公司运营产生的预计现金流量。下表概括了金融资产和金融负债按未折现的合同现金流量所作的到期期限分析：

2013年

金融资产

	6个月以内
货币资金	12,511,573.72
其他应收款	121,938.00
	12,633,511.72

九、 金融工具及其风险(续)

4. 公允价值

公允价值，是指在公平交易中，熟悉情况的交易双方自愿进行资产交换或者债务清偿的金额。以下方法和假设用于估计公允价值。

货币资金、其他应收款等，因剩余期限不长，公允价值与账面价值相若。

十、 财务报表的批准

本财务报表业经本公司执行董事于2014年3月12日决议批准。

CSR America Inc.

Financial Statements for the Year Ended
December 31, 2012

{ Financial Statements }

plante moran

CSR America Inc.

Year Ended December 31, 2012

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Independent Accountants' Compilation Report

Board of Directors
CSR America Inc.
Chicago, Illinois

We have compiled the accompanying balance sheet of **CSR America Inc.** as of December 31, 2012, and the related statements of income and retained earnings and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Plante & Moran, PLLC

January 22, 2013

CSR America Inc.

Year Ended December 31, 2012

Financial Statements

CSR America Inc.

Balance Sheet
December 31, 2012

Assets	**资产**	
Current Assets	**流动资产**	
Cash	现金	$ 1,998,547
Employee receivable	员工应收账款	20,000
Total Current Assets	流动资产合计	2,018,547
		$ 2,018,547
Liabilities and Stockholders' Equity	**负债 和 股东权益**	
Accrued Expenses	预提费用	$ 16,461
Stockholders' Equity	**股东权益**	
Common stock	**普通股**	1,000
Additional paid-in capital	额外实收资本	1,999,000
Retained earnings	**保留盈余**	2,086
Total Stockholders' Equity	总股东权益	2,002,086
		$ 2,018,547

CSR America Inc.

Statement of Income and Retained Earnings
Year Ended December 31, 2012

Consulting Income	**咨询顾问费收入**	$ 290,000
Operating Expenses	营运开支	
Office rent	办公室租金	95,948
Travel	差旅费	29,556
Legal fees	法律费	3,767
Accounting fees	会计费用	5,330
Insurance	保险	11,261
Office expense	办公室开支	10,266
Taxes and other	营业税金及其他	16,935
Total Operating Expenses	总营运开支	173,063
Income from Operations	营业利润	116,937
Income Taxes	所得税	5,200
Net Income	净收益	111,737
Accumulated Deficit, Beginning of Year	累积赤字，年初	(109,651)
Retained Earnings, End of Year	留存收益，年底	$ 2,086

See independent accountants' compilation report.

CSR America Inc.

Statement of Cash Flows
Year Ended December 31, 2012

Cash Flows from Operating Activities	经营活动产生的现金流量	
Net income	净收益	$ 111,737
Increase in accrued expenses	预提费用的增加	16,461
Net Cash Provided by Operating Activities	在经营活动中使用的现金净额	128,198
Net Increase in Cash	现金净增加	128,198
Cash, Beginning of Year	现金，年初	1,870,349
Cash, End of Year	现金，年底	**$ 1,998,547**

CSR America Inc.

Financial Statements for the Year Ended December 31, 2011

Financial Statements

Blackman Kallick

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CSR America Inc.

Year Ended December 31, 2011

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Blackman Kallick

Blackman Kallick, LLP
10 South Riverside Plaza, 9th Floor
Chicago, IL 60606

Phone: 312-207-1040

Independent Accountants' Compilation Report

Board of Directors
CSR America Inc.
Chicago, Illinois

We have compiled the accompanying balance sheet of **CSR America Inc.** as of December 31, 2011, and the related statements of loss and accumulated deficit and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

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Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Blackman Kallick, LLP

February 22, 2012

CSR America Inc.

Year Ended December 31, 2011

Financial Statements

CSR America Inc.

Balance Sheet
December 31, 2011

Assets	**资产**	
Current Assets	**流动资产**	
Cash	现金	$ 1,870,349
Employee receivable	员工应收账款	20,000
Total Current Assets	流动资产合计	1,890,349
		$ 1,890,349
Stockholders' Equity	**股东权益**	
Stockholders' Equity	**股东权益**	
Common stock	**普通股**	$ 1,000
Additional paid-in capital	额外实收资本	1,999,000
Accumulated deficit	累积赤字	(109,651)
Total Stockholders' Equity	总股东权益	1,890,349
		$ 1,890,349

See independent accountants' compilation report.

CSR America Inc.

Statement of Loss and Accumulated Deficit
Year Ended December 31, 2011

Operating Expenses	营运开支	
Office rent	办公室租金	$ 62,500
Travel	差旅费	26,243
Legal fees	法律费	6,619
Accounting fees	会计费用	500
Insurance	保险	11,813
Telephone expense	电话办公费	1,576
Bank fees	银行手续费	400
Total Operating Expenses	总营运开支	109,651
Loss from Operations	经营损失	(109,651)
Net Loss	净损失	(109,651)
Accumulated Deficit, Beginning of Year	累积赤字，年初	-
Accumulated Deficit, End of Year	累积赤字，年底	$ (109,651)

CSR America Inc.

Statement of Cash Flows
Year Ended December 31, 2011

Cash Flows from Operating Activities	经营活动产生的现金流量	
Net loss	净损失	$ (109,651)
Increase in employee receivables	增加员工应收账款	(20,000)
Net Cash Used in Operating Activities	在经营活动中使用的现金净额	(129,651)
Cash Flows from Financing Activities	筹资活动产生的现金流量	
Capital contribution	资本投入	2,000,000
Net Cash Provided by Financing Activities	筹资活动提供的现金净额	2,000,000
Net Increase in Cash	现金净增加	1,870,349
Cash, Beginning of Year	现金，年初	-
Cash, End of Year	现金，年底	**$ 1,870,349**