CSR 中国南车

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

Stock Code: 1766

2010
Annual Report

Connecting the world
Connecting people

Key Businesses




MUs P.14
Locomotives P.16
Rapid transit P.18
New business P.26

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Important Notice:

(1) The board of directors (the "Board") and supervisory committee (the "Supervisory Committee") of the Company and its directors (the "Director(s)"), supervisors (the "Supervisor(s)") and senior management (the "Senior Management") warrant that there are no false representations, misleading statements contained in or material omissions from this report and they will assume joint and several liabilities for the truthfulness, accuracy and completeness of the contents disclosed herein.

(2) All Directors of the Company attended the Board meeting.

(3) Ernst & Young Hua Ming, Certified Public Accountants, have issued standard unqualified audit report for the Company's financial statements prepared under the PRC GAAP in accordance with PRC Auditing Standards. Ernst & Young, Certified Public Accountants, Hong Kong, have issued standard unqualified audit report for the financial statements prepared under the International Financial Reporting Standards ("IFRSs") in accordance with Hong Kong Standards on Auditing.

(4) Zhao Xiaogang, the Chairman of the Company, Zhan Yanjing, the person-in-charge of accounting affairs, and Xu Weifeng, the head of the Accounting Department, warrant the truthfulness and completeness of the financial statements in this annual report.

CSR Profile

STRONG INFLUENCE

CSR Corporation Limited is the largest rolling stock manufacturer in the PRC and one of the most influential rolling stock manufacturers and all-round solution providers in the world. The Company is principally engaged in research, development, manufacturing, refurbishment, sales and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key components, as well as other extended businesses that utilise proprietary rolling stock technologies, with a comprehensive system covering independent development, large-scale manufacturing and standardised services. CSR has 17 direct wholly-owned and controlling subsidiaries, located in 10 provinces (including municipalities directly under the central government) in Mainland China and Hong Kong Special Administrative Region, with over 80,000 employees and RMB73.6 billion of total assets. The rolling stocks and equipment manufactured by CSR provide services to China's railway and urban subways, and accounted for over 50% of the market share, reflecting the Company's strong presence in China's sophisticated railway transportation network.

RAPID GROWTH

Attributable to the rapid development of China's railway transportation and the dynamic rise of a low-carbon economy across the globe, CSR has maintained solid economic growth and profit year-on-year as evidenced by a 29.05% compound annual growth rate in revenue and a 50.02% compound annual growth rate in net profit for the past five years. As the revenue for 2010 increased by 40% year-on-year to RMB63.9 billion, the Company has become one of the three largest rolling stock manufacturers in the world. At present, the Company's orders exceeded RMB100 billion in value, among which the value of overseas orders reached approximately RMB13 billion.

INNOVATION AS THE DRIVING FORCE

As a rolling stock solution provider, CSR is dedicated to meet the specific needs of its customers, through innovation and customisation.

In the past year, not only did the MUs of CSR reach 62% of all MUs in operations in China's high-speed railway network, CSR also launched the self-designed CRH380A, the next generation of high-speed MUs which broke the world speed record twice during operation in the preliminary sections of Shanghai-Hangzhou and Beijing-Shanghai High-speed Railways, at the highest speed of 486.1 km per hour in the history of trial railway operations.

CSR is the largest rolling stock manufacturer in the PRC and one of the most influential rolling stock manufacturers and all-round solution providers in the world.

As for heavy-hauling locomotives, CSR has self-developed the most powerful heavy-haulling locomotives in the world, which have contributed remarkably to railway freight development. In 2010, the coal transportation of China's Datong-Qinhuangdao Railway exceeded 400 million tonnes per annum, which could claim to be the largest transport volume in the world. In particular, CSR's 220 HXD1 "Hercules" (9,600 kW high-powered electric locomotives) is definitely the major transportation force of the Datong-Qinhuangdao Railway Line.

With respect to urban transportation, by leveraging its technically sophisticated, high quality, energy-efficient and environmental friendly rapid transit vehicles, CSR pioneered a harmonious and green transportation mode that integrates its vehicle features with their specific surrounding environment. By the end of 2010, CSR's rapid transit vehicles had tapped into 15 central cities in China and accumulated an average market share of 61.7% for the past four years. The Company also received overseas orders from Singapore, Turkey and India for its international standard compliance rapid transit vehicles.

RESPONSIBILITY AS THE FIRST PRIORITY

The principal businesses of CSR encompass four of the seven new strategic industries in China, namely high-end equipment manufacturing, new energy, new materials and new energy-driven vehicles. It is the fundamental responsibility of CSR to provide eco-friendly, safe and reliable products and high-quality services to its customers and the society at large. CSR has always strongly upheld its responsibility by honoring its commitments to customers, shareholders, employees and society in a sincere and professional manner.

New generation of high-speed MUs CRH380A

HXD1 "Hercules" (9,600kW high-powered electric locomotives)

CSR Profile (Continued)

Results Highlights

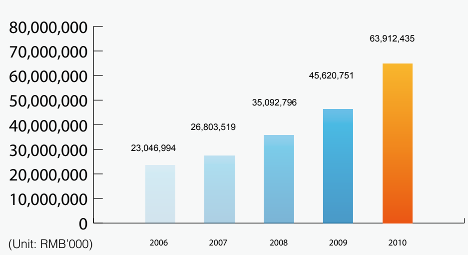
The following table sets out the major financial indicators:

Currency: RMB

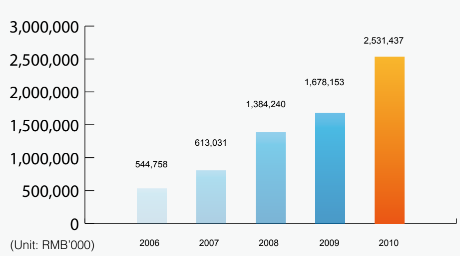
Item	**2010**	2009	Increase/Decrease %
Revenue *(RMB million)*	**63,912**	45,621	40.09
Profit after tax *(RMB million)*	**3,250**	2,116	53.59
Profit attributable to owners of the parent for the year *(RMB million)*	**2,531**	1,678	50.83
Basic earnings per share *(cent/share)*	**21.38**	14.20	

Item	**2010**	2009	Increase/Decrease %
Total assets *(RMB million)*	**73,566**	55,238	33.18
Total liabilities *(RMB million)*	**49,725**	34,917	42.41
Total equity *(RMB million)*	**23,841**	20,321	17.32
Including: equity attributable to owners of the parent *(RMB million)*	**19,244**	17,330	11.04
Shareholders' interests per share *(RMB/share)*	**1.63**	1.46	

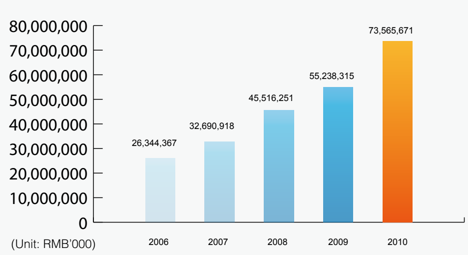
Revenue



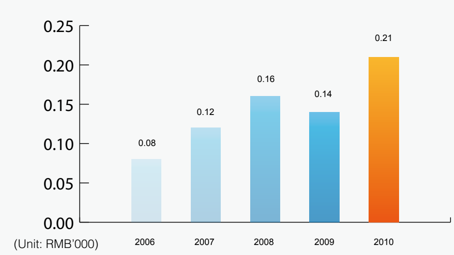
Net profit attributabe to owners of the parent



Total assets



Earnings per share

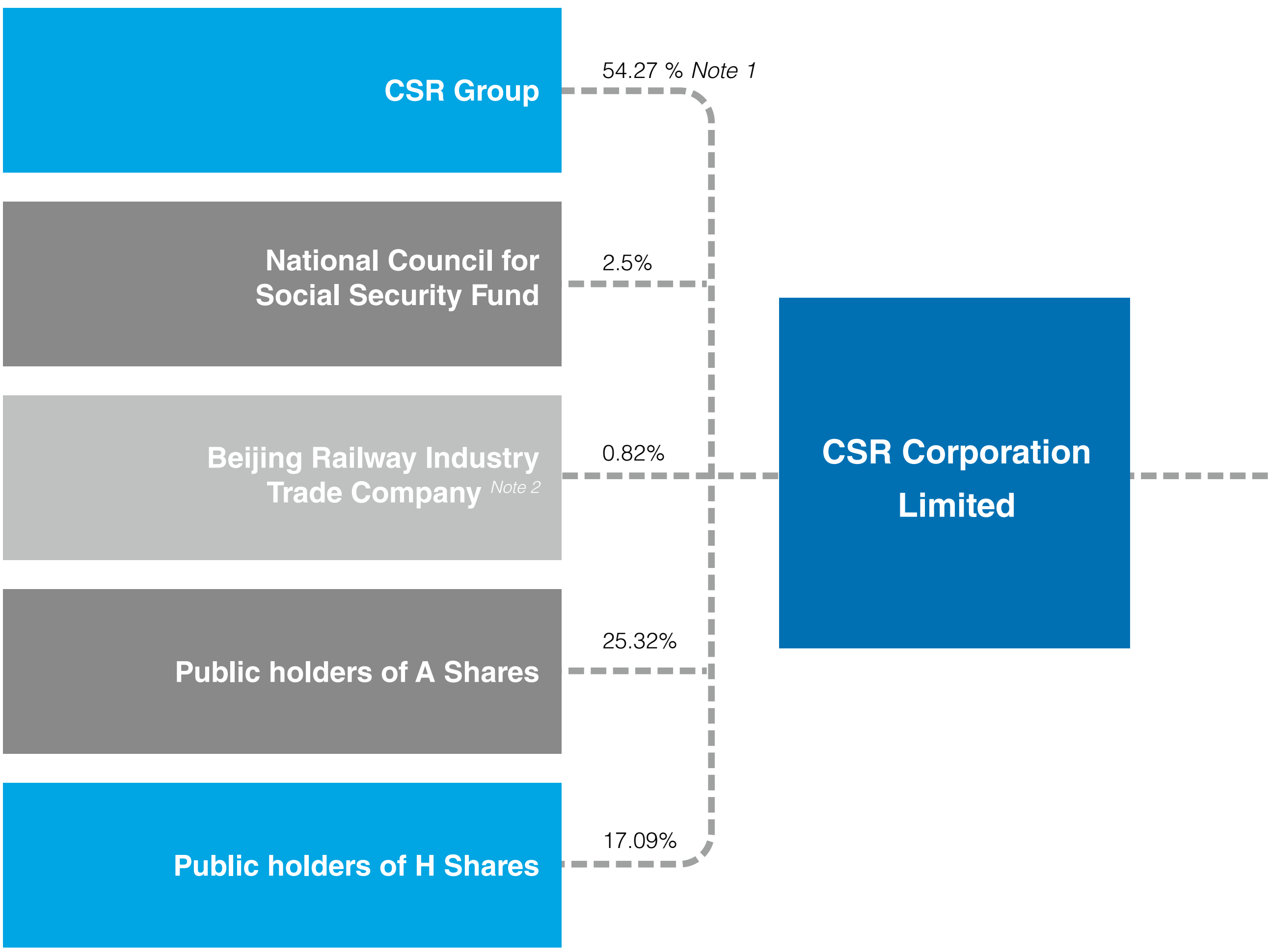


Financial Summary

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**63,912,435**	45,620,751	35,092,796	26,803,519	23,046,994
Cost of sales	**52,944,731**	38,453,741	29,278,774	22,785,003	19,803,184
Gross profit	**10,967,704**	7,167,010	5,814,022	4,018,516	3,243,810
Other income and gains	**617,718**	695,961	525,131	430,140	173,766
Selling and distribution costs	**1,980,348**	1,132,661	787,350	641,067	453,034
Administrative expenses	**5,785,762**	4,263,779	3,382,117	2,633,676	1,953,283
Other expenses, net	**449,081**	144,179	13,102	103,823	30,431
Finance costs	**316,572**	264,758	430,630	314,448	294,875
Share of profits and losses of associates and jointly-controlled entities	**611,794**	343,743	178,374	192,318	26,171
PROFIT BEFORE TAX	**3,665,453**	2,401,337	1,930,532	947,960	712,124
Tax	**415,482**	285,155	244,929	73,235	70,437
PROFIT FOR THE YEAR	**3,249,971**	2,116,182	1,685,603	874,725	641,687
Attributable to:					
Owners of the parent	**2,531,437**	1,678,153	1,384,240	613,031	544,758
Non-controlling interests	**718,534**	438,029	301,363	261,694	96,929
	3,249,971	2,116,182	1,685,603	874,725	641,687
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**73, 565,671**	55,238,315	45,516,251	32,690,918	26,344,367
TOTAL LIABILITIES	**49,724,921**	34,917,164	26,873,674	26,309,991	20,960,032
TOTAL NON-CONTROLLING INTERESTS	**4,596,565**	2,990,983	2,621,449	2,069,906	1,923,192

Corporate Structure Chart

As at 31 December 2010, the shareholding structure of the Company and its principal subsidiaries and jointly-controlled entities are as follows:



Note 1: During the reporting period, CSR Group acquired 2,800,000 shares of CSR Corporation Limited through the A share secondary market and its shareholding increased from 54.25% to 54.27%.

Note 2: In November 2010, Beijing Railway Industry Trade Company completed the registration with the industrial and commercial bureau for change of its name into CSR Capital Company. The change of the name for the purpose of securities registration was completed in March 2011.

Note 3: During the reporting period, the Company through equity acquisitions converted CSR Zhuzhou Electric Locomotive Co., Ltd. and Zhuzhou CSR Electric Co., Ltd. (株州南車電機股份有限公司) (formerly a major subsidiary of CSR Zhuzhou Electric Locomotive Co., Ltd., which changed its name to CSR Zhuzhou Electric Co., Ltd. upon completion of the equity acquisition) into its wholly-owned companies with limited liability.

Note 4: Upon completion of the A share placement by Zhuzhou Times New Material Technology Co., Ltd. in 2010, the equity held by the Company has increased from 21.91% to 24.32%.

- Wholly-owned subsidiaries
  - CSR Qishuyan Locomotive Co., Ltd.
  - CSR Sifang Rolling Stock Co., Ltd
  - CSR Nanjing Puzhen Rolling Stock Co., Ltd.
  - CSR Yangtze Rolling Stock Co., Ltd.
  - CSR Meishan Co., Ltd.
  - CSR Chengdu Locomotive & Rolling Stock Co., Ltd.
  - CSR (Hong Kong) Co., Ltd.
  - CSR Erqi Co., Ltd.
  - CSR Luoyang Locomotive Co., Ltd.
  - CSR Shijiazhuang Rolling Stock Co., Ltd.
  - CSR Zhuzhou Electric Locomotive Research Institute Co.,Ltd.
  - CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.
  - CSR Investing & Leasing Co., Ltd.
  - CSR Zhuzhou Electric Locomotive Co., Ltd. *Note 3*
  - CSR Zhuzhou Electric Co., Ltd. *Note 3*
- Non-wholly-owned subsidiaries
  - 99.61% CSR Ziyang Locomotive Co., Ltd.
  - 97.17% CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.
  - 57% Shijiazhuang Guoxiang Transportation Equipment Co., Ltd.
  - 56.17% Zhuzhou CSR Times Electric Co., Ltd.
  - 24.32% Zhuzhou Times New Material Technology Co., Ltd. *Note 4*
- Jointly-controlled entities
  - 50% Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.
  - 50% Bombardier Sifang (Qingdao) Transportation Ltd.

Corporate Structure Chart (Continued)

Chairman's Statement

Dear Shareholders,

Year 2010 not only marked the third anniversary of CSR Corporation Limited but also was an extraordinary year in our course of development. On 3 December, CSR broke the world speed record of high-speed railways in operation at the highest speed of 486.1 km per hour, demonstrating to the world the speed it can achieve. This is inarguably the best gift presented to our shareholders by the first session of the Board before the end of its term of office.

Dating back to 27 December three years ago, CSR Corporation Limited was founded at a time when reorganization and listing were main trends among state-owned enterprises. Thanks to the perseverance of our staff, CSR had made an impressive transition and successfully accomplished its initial public offering in domestic and external capital markets in shortly three years. Since then, the Company entered into a new mileage as the most prominent public listed company in the global rolling stock industry.

In 2010, CSR's revenue from operations increased by 40% over last year and net profit attributable to shareholders of the Company edged up by 51% over last year. In the past three years, these two indicators grew at a compound growth rate of 33% and 46%, respectively, as committed by the Company to its shareholders in the beginning of its listing. These achievements are attributable to the trust and support from our users, the painstaking efforts of all senior management members and staff, the full understanding and trust of our shareholders, as well as our years of commitment to both introduction and absorption of technology alongside independent innovation. CSR's innovation in technology and management is an unwavering source of momentum for its development. Recently, upon approval of the Ministry of Science and Technology, CSR has become the only enterprise to own a national research centre of high-speed MUs assembly and engineering technology in China.

In the National People’s Congress and Chinese People’s Political Consultative Conference in 2011, ‘’well-being’’ has been most frequently mentioned by representatives who attended the meeting. It represented the expectation of the Chinese people and the aspiration of the government in the days to come. ‘’Well-being’’ cannot be physically measured, but we can tell by how ordinary people make a living and the smiles on their face. Providing the public with convenient, comfortable and instant transportation to resolve the problem of traffic congestion also contributes to the betterment of life, which is also the goal we have aspired to achieve. For four years since the commissioning of China’s high-speed railways in 2007, the Company has provided safe transportation for more than 600 million passengers and its average daily traffic has increased from 237,000 passengers to 796,000 passengers. High-speed railways have not only changed the traditional concept of space between cities but also brought people closer to each other psychologically. At present, 65% of high-speed MUs operating at different speeds in China and 80% of the 9,600 kW high-powered electric locomotives (10,000 tonnes of traction power) that are put in service in the Datong-Qinhuangdao Railway Line, the golden passage of coal transportation, are manufactured by CSR. CSR has established its presence in the urban subway markets of 15 cities and accounted for over 60% of the market of domestic subways in the past three years, quietly contributing to better public transportation behind the scene.

At present, if there is one thing that is faster than the growth pace of Chinese economy, it will be the confidence that China bears. This confidence is in turn demonstrated by the new record created by it one after another, which includes the world’s largest high-speed railway network and the highest world speed record of high-speed railways. As we enter into the era of high-speed railways, the sector has entered into another round of prime development.

Currently, crude oil is being traded at over USD100/barrel on New York market, which again triggered concerns over fossil energies. As such, many countries declared their attention to the development of renewable energy sources. The industrial revolution occurred in the Great Britain 200 years ago, while information revolution originated in the USA 30 years ago. Energy revolution is said to be the third revolution that will have a significant influence on the world. By virtue of its well-known characteristics such as being green, low-carbon and environmentally friendly, rail transportation is bound to play an important role and witness enormous growth potential in the energy revolution. The development outline of the country’s 12th Five-Year Plan uses a whole section to picture the construction of a comprehensive communication and transportation system in the future.

All these factors will undoubtedly present an indefinite potential for development of rail transportation.

During the 12th Five-Year Plan, apart from ranking 2nd in the industry worldwide, CSR set a new target to be number one among its peers worldwide and one of the top 500 in the world. It will strive to become a leading player in the industry and a supplier that provides effective and concrete solutions. CSR will make its every effort to realize such ambition.

Let us expect the 3-year term of the new session of the Board and the future development of CSR.

趙小剛

Zhao Xiaogang
Chairman
March 2011

Chairman’s Statement (Continued)


"New CSR
New Creation"

Report Of Directors

A. MANAGEMENT'S DISCUSSION AND ANALYSIS

(I) Overall operation for 2010

In 2010, by seizing the opportunities afforded by China's steady economic recovery and the rapid development of "harmonious railways" and facing head-on such complicated development scenarios, CSR mapped out a strategic market layout for its railway transportation and extended products. By working vigorously towards lean production, and through active boost of revenue, cuts in expenses and scientifically optimise resource allocation, the Company achieved a fast growth in production, operation and economic efficiencies. In 2010, the Company recorded revenue of RMB63.912 billion, representing an increase of 40.09% over the previous year. Its profit from operations amounted to RMB3.370 billion, representing an increase of 45.13%. Net profit attributable to owners of the parent amounted to RMB2.531 billion, representing a growth of 50.85% over the previous year. In addition, BST, a joint venture of the Company, recorded revenue of RMB5.598 billion and a net profit of RMB1.045 billion in 2010. New orders of the Company amounted to approximately RM90.0 billion in 2010 (inclusive of approximately RMB13.0 billion received by BST). As at 31 December 2010, outstanding orders of the Company exceeded RMB100.0 billion, among which orders for MUs amounted to approximately RMB70.0 billion (inclusive of approximately RMB13.0 billion received by BST). Overseas orders amounted to approximately RMB13.0 billion.

Given the sound opportunities for railway transportation development, CSR has developed a strong independent innovation capability for its high-end railway transportation products. In 2010, the Company invested RMB3.55 billion in technical R&D, which accounted for 5.55% of its revenue. It launched 406 new R&D projects and continued with 304 existing R&D projects. It also won one first-class award of the State Scientific and Technological Progress Award. The Company made applications for 1,394 national patents and was granted 741 national patents. In addition, the National Research Centre of MUs Assembly and Engineering Technology (國家動車組總成工程技術研究中心) was included in the construction plan by the Ministry of Science and Technology.

In 2010, the Company pushed forward a lean management regime to serve its customers' needs, by establishing a lean production pilot construction programme and a scientific assessment system for lean production. Through tightened management on resources and supply chains, enhanced centralised procurement and reasonable inventory control, the Company effectively reduced its procurement and logistic costs. Meanwhile, the Company continued to improve its safety management system and enforced a safety accountability system. It also stepped up the establishment of a quality control system to increasingly enhance its product quality management.

CSR gives precedence to environmental protection amidst rapid growth. It pledges to provide society with a wide range of highly efficient, energy-saving and environmentally friendly rolling stock equipment, whilst actively promotes the research and development of new green industries. CSR actively contributes to energy saving and carbon emission reduction and economic sustainability of China. The Company also advocates energy efficiency and emission reduction in its production process. Among its subsidiaries, four passed clean production reviews, five passed energy audit, six were awarded "Green Enterprise" by local governments and one was awarded the accolade of "National Environment Friendly Enterprise" (國家環境友好企業), which is the only environment friendly exemplary enterprise with such award in the railway and rolling stock manufacturing sector in the PRC. Furthermore, the Company has its own energy saving monitoring institution with national qualifications, which provides energy efficiency monitoring services to its subsidiaries, help resolve their high energy consumption problems, enhance their energy utilisation efficiency and provide technical support to the management departments. In year 2010, which marked the end of China's Eleventh Five-Year Plan, the industry value added comprehensive energy consumption per RMB10,000 of CSR decreased by 48.23% compared with that of the end of the Tenth Five-Year Plan, while CSR's emission of SO2 and COD, the two major pollutants, decreased by 64.58% and 13.86% as compared to that of the end of the Tenth Five-Year Plan, respectively; both indicators exceeded the targets set for energy saving and emission reduction under the Eleventh Five-Year Plan.

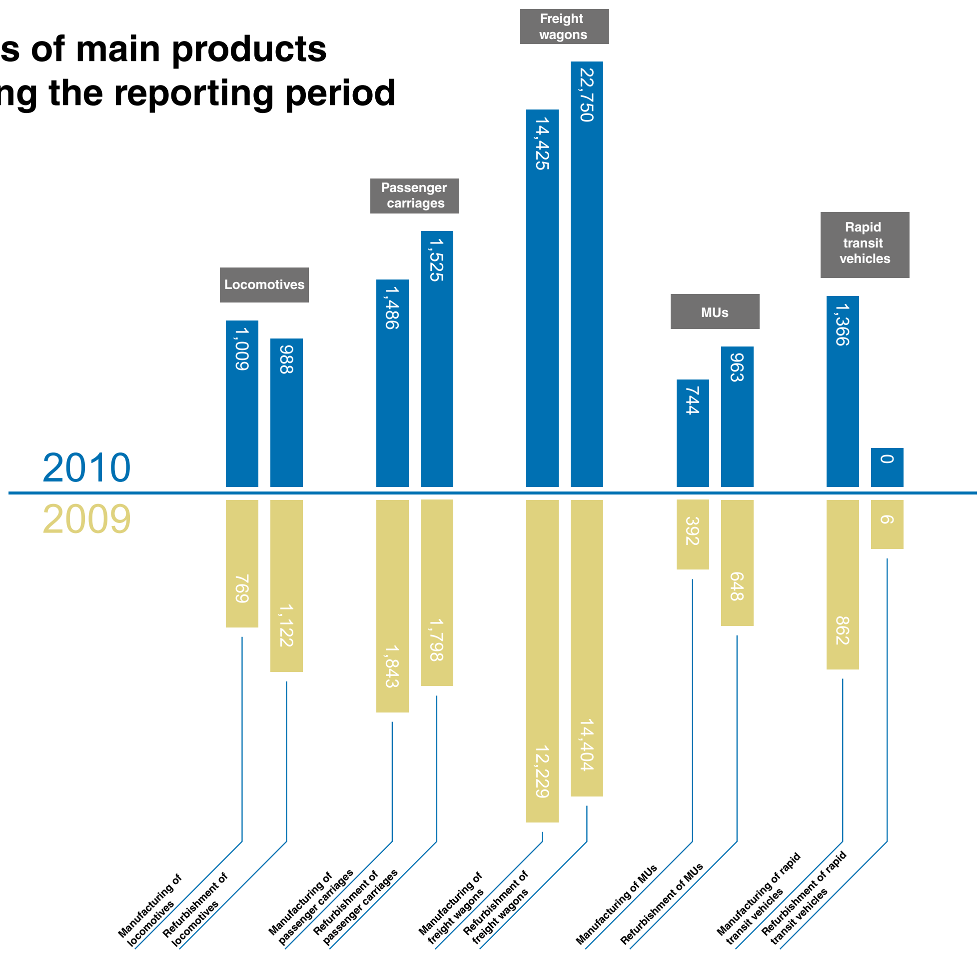
(II) Business overview

The core business of CSR includes R&D and design, manufacturing, refurbishment, sales and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key components as well as other extended businesses that utilize proprietary rolling stock technologies.

Following the global economic recovery and the emerging low-carbon economy, the railway transportation industry entered into a new stage of development. In 2010, the Company fully exploited the synergy arising from combinations of its diversified business portfolios and, through its unique way of thinking about business and doing business, strengthened its leading market position in the core railway transportation businesses. Not only did CSR account for over 50% of the market share in China's railway and rapid transit markets, it also expanded its overseas presence to over 60 countries and regions.

With the gathered momentum of internationalisation, CSR has taken advantage of its global network, its business scale and expertise in research and manufacturing to tap into new markets, new products and new business scope to meet the future development trends of worldwide railway transportation, which require low carbon environmentally-friendly, energy-recyclable, large-capacity, high reliability, convenient and comfortable.

Sales of main products during the reporting period



MUs – setting the pace

The MU segment of CSR comprises complete vehicle manufacturers, CSR Sifang, a major subsidiary of CSR,, and BST, a 50% joint venture, as well as core component manufacturers, such as CSR ZELRI, CSR Electric, CSR Puzhen and CSR Qishuyan. Leveraging full-scale business coverage, the Company has formed a comprehensive MU industry chain and an independent capability of ancillary research and development of 9 key MU technologies, including system integration as well as key sub-systems and components of MUs. Against the backdrop of a fast-growing high-speed MU industry in the PRC, CSR had entered into a period of prime growth. In 2010, revenue from the MU segment of CSR (excluding that of BST) amounted to RMB14.628 billion, representing an increase of 84.40% over 2009. As at the end of 2010, CSR delivered a total of 295 high-speed MUs (360 standard trains), which accounted for 65% of the total number of commissioned high-speed MUs in China and over 60% of the total number of market orders signed in China.

Setting new standards for the industry: The sharp growth in performance results of MU segment is a testimony of the success of CSR's key strategies by capitalising on its constant innovation and integration strengths to cater for the ever-growing market demand and to capture demand opportunities. CSR has successfully set up a high-speed MU R&D platform with whole product design, R&D and inspection capability. Drawing upon several years of valuable experience in research and development, CSR independently developed the new generation high-speed MU model CRH380A in 2010, boasting the highest operating speed of 380 km per hour and the highest speed of 486.1 km/h in the world's trial operation of railways. CRH380A embodied ten key innovation systems which featured high speed, safety, comforts and energy efficiency. Its derailment factor (脱軌系數), transverse force of wheel shafts and the vibration and speed of the passenger carriages and other safety benchmarks are well below international limitation standards while comfort indicators such as noise and pressure changes inside passenger carriages are all within the international premium standards. The train also has the world's leading renewable energy recovery rate, energy consumption of 100 km per capita and other energy saving and environment protection indicators.

Revenue from MU segment recorded a year-on-year increase of

84.4%

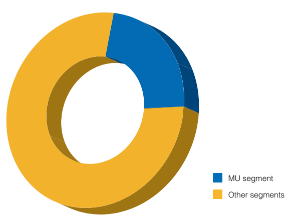
In the total number of commissioned MUs in China, CSR accounted for

65%

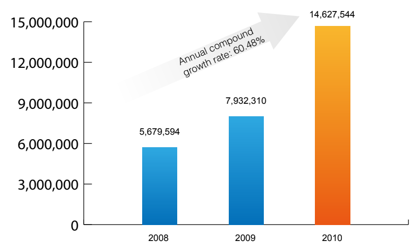
In the total number of orders signed in China, CSR accounted for

60%

**In 2010,
revenue from MU segment accounted
for 22.89% of the total revenue**



**Revenue from MU segment during the period
from 2008 to 2010 (Unit: RMB'000)**



Customised system solutions: Leveraging on its diversified product line and comprehensive technologies, CSR provides bespoke system solutions to customers. It has developed a high-speed MU product series with speeds ranging from 200 km to 380 km with diversified combinations, including seating coaches, berth sleeping cars and other vehicles, to satisfy a multitude of travelling needs. Meanwhile, CSR spares no effort in serving its customers over the entire lifecycle of products, by exploring new ways of reducing the costs of products over their entire lifecycle and extending its industry chain to repairs and maintenance.

Leading track record: The commissioning of Beijing-Tianjin, Wuhan-Guangzhou, Zhengzhou-Xi'an and Shanghai-Hangzhou high-speed railways have driven China's high-speed railway network to expand at an astonishing rate. CSR's high-speed MUs covers over 90% of existing increased speed and high-speed railways in China. Its products stood the test of different geographical terrains, and climatic conditions, with a safety operation volume of over 0.26 billion km, which is enough to stretch 574 times around the earth. The standard CRH380A MUs have already been put in service in the Shanghai-Hangzhou and Wuhan-Guangzhou high-speed railways while the long CRH380A MUs will be used for the Beijing-Shanghai high-speed railways. In 2010, CSR's MUs provided significant transportation capacity assurance for transportation during the Chinese New Year, the summer, the World Expo, the Asian Games and other critical moments.

Report Of Directors (Continued)

Locomotive segment – consolidation of its leading position

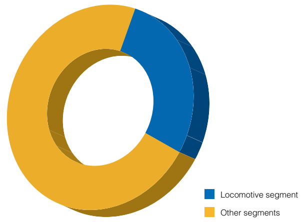
CSR's locomotive segment comprises enterprises specialized in the manufacturing and repair of locomotives, such as CSR Zhouzhou, CSR Ziyang, CSR Qishuyan, CSR Luoyang and CSR Chengdu, and those specialized in manufacturing of accessories, such as ZELRI, Qishuyan Institute and CSR Electric. The comprehensive locomotive industry chain of CSR facilitates independent research and development of accessories for key sub-systems such as locomotive-to-vehicle-traction system, as well as internet control system. CSR is the birthplace of the first Chinese electric main line locomotive and internal-combustion locomotive, with a distinct edge on its innovation capability, R&D expertise, business scale and a wealth of operation experience. In 2010, CSR stayed strongly competitive and maintained high profitability. Both new locomotives and refurnished locomotives took up more than half of the market share in China, coupled with a year-on-year increase of 27.77% in revenue of locomotive business to RMB18.019 billion.

Industry leading and avant-garde technology: With a view to meeting the diversified market needs, CSR researched and developed a wide range of high-powered locomotive products that vary in axle arrangement and traction powers, thus winning the accolade of "Hercules" in the locomotive arena. The HXD1 (9,600 kW eight-axle electric locomotive) is currently the most high-powered AC transmission electric locomotive in the world. To date, CSR had delivered 220 units of the above electric locomotives to Datong-Qinhuangdao Railway in the PRC, a railway with an annual transport volume of more than 400 million tonnes, boasting the largest transport volume of its kind. With a double-unit traction capability of 20,000 tonnes, the locomotive is definitely the main transportation force of Datong-Qinhuangdao Railway, accounting for 70% of its total transport load in terms of railway carrying

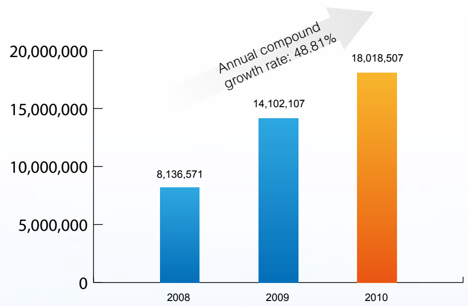
"In the total carrying capacity of Datong-Qinhuangdao Railway, HXDI high-powered electric locomotives accounted for

70%"

In 2010,
revenue from locomotive segment accounted
for 28.19% of the total revenue



Revenue from locomotive segment
during the period from 2008 to 2010 (Unit: RMB'000)



capacity. Its HXD1B (9,600 kW six-axle electric locomotive) has the largest single unit capacity AC transmission in the world, and is capable of accommodating the needs of a hauling capacity of 6,000 tonnes of cargoes on long and steep slope over a long distance. Its HXD1C (7,200 kW six-axle electric locomotive) set a record in the world for the shortest lead time needed for railway and locomotive research and development. Its single unit capacities can satisfy needs of a hauling capacity of 5,000 tonnes of cargoes on long and steep slope over a long distance. Meanwhile, its HXN5 (high-powered internal combustion locomotive) is one of the largest single unit internal combustion capacity locomotives in the world. It sets itself apart from international comparables by its outstanding energy saving and environmental protection capacities with oil consumption saving of 10% and reduced nitrogen oxides emission by 50% to meet U.S. EPA Tier 2 requirements.

Sophisticated and extensive application: CSR's high-powered locomotives are widely applied in freight railways in most regions in China, accounting for over 50% of the total number of locomotives in operation. They can cater for special needs of different regions and climatic conditions and operate in an outdoor temperature range within ±40℃. As at the end of 2010, CSR delivered a total of more than 1,300 units of high-powered AC transmission electronic locomotives and completed the first 300-unit order of HXN5 high-powered internal combustion locomotives. It has greatly resolved the transportation problems and fostered the economic development in regions with heavy rail freight traffic in China.

Report Of Directors (Continued)

3

Rapid transit segment — better than expected

Through CSR Zhuzhou, CSR Sifang and CSR Puzhen, its three enterprises qualified for whole metro car manufacturing as well as CSR ZELRI and other key component manufacturing, enterprises, CSR has developed a cluster of rapid transit manufacturing enterprises, featuring independent R&D, auxiliary system development and large scale operations. Rapid urbanisation and the blistering growth in regional economies in China has stimulated rapid growth in the rapid transit systems, as evidenced by an increase of 63.66% over 2009 to RMB7.175 billion in revenue from CSR's rapid transit business in 2010.

Whole-set metro cars have entered into 15 central cities in China

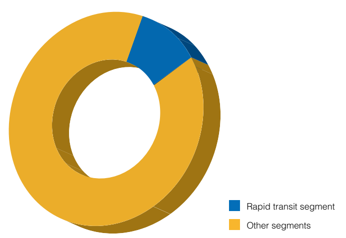
“In the past 4 years, CSR’s metro cars enjoyed an annual average market share over

60%”

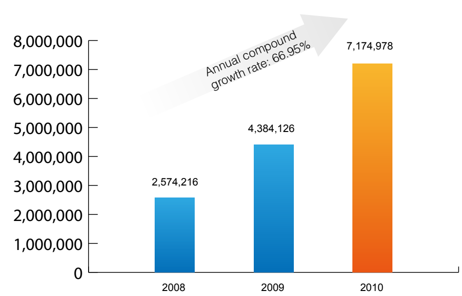
Market bright spot: Capitalizing on it extensive experience, enormous business scale and brand prominence, CSR successfully secured over 60% orders in China’s highly variegated rapid transit market. In 2010, CSR sucessfully bid (price negotiations) 11 rapid transit vehicle projects in 8 cities out of a total of 18 rapid transit vehicle projects opened for bidding (price negotiations) in 12 cities in China. It also penetrated into Ningbo, Zhengzhou, Kunming and Changsha, the four cities which offered rapid transit vehicle project biddings for the first time. Thus far, CSR’s metro cars accounted for over 30 rapid transit metro lines of 15 cities in China. In the past 4 years, CSR’s metro cars enjoyed an average market share of over 60% per year.

Cutting edge high-end products: CSR is one of the enterprises with the most wide-ranging rapid transit products and the most comprehensive industry chain which can cater for the varying needs of mid-to-high-end customers. CSR has in place a product platform for Type A and B aluminum alloy vehicles, Type B stainless steel and carbon steel vehicles, metro cars powered by linear electric motors and the fastest transit vehicle in China with an operating speed of 120 km. Making use of key proprietary technologies in the R&D of high-end rapid transit metro train, not only had CSR developed capabilities of integrating the entire vehicle system but it also has an ancillary platform for the supply of key components of its traction transmission system. It has exported its proprietary Type A metro cars. To date, the Company has established a manufacturing base for aluminum alloy vehicles, stainless steel vehicles, and bogies as well as an assembly, testing and R&D base for its rapid transit vehicles, with annual production capacity of more than 2,000 metro cars.

In 2010, revenue from rapid tranist segment accounted for 11.23% of the total revenue

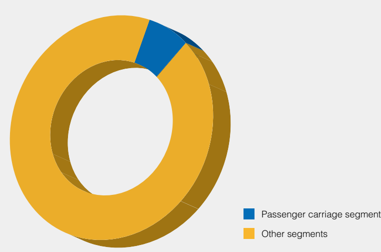


Revenue from rapid transit segment during the period from 2008 to 2010 (Unit: RMB’000)



4 Passenger carriage business – steady development

In 2010,
revenue from the passenger carriage segment
accounted for 6.60% of the total revenue



In 2010, CSR's new 25G passenger carriages won a market share of over

60%

The passenger carriage segment of CSR comprises CSR Puzhen, CSR Sifang, CSR Sifang Ltd. and CSR Chengdu. In 2010, adhering to its prudent business strategy, CSR reinforced its domestic market share and recorded revenue of RMB4.220 billion for its passenger carriage business, representing a decrease of 6.66% from 2009.

Capacity expansion in mid-end markets: As urbanisation deepened and demand for travelling increased, the market sentiment for passenger carriages remains upbeat. Passenger carriage 25G, which provides comfortable coach conditions, has become a key component of the mid-end railway passenger market. Leveraging its advanced technology, CSR strived to create customer value by applying the advanced concept of modularisation and ergonomic designs in the manufacturing of high-end products to the development and manufacturing of ordinary passenger carriages, which substantially enhanced the comfort, safety and energy saving and environmental protection efficiency of its vehicles. In 2010, CSR's new 25G passenger carriages won over 60% of the purchase orders in that year.

A firm foothold in the high-end markets: CSR is the sole provider of the passenger vehicles for the Qinghai-Tibet Railway Line which are the most technically sophisticated of its kind built to the highest specifications in China. During the Shanghai World Expo, CSR's self-developed Qinghai-Tibet 160 km sight-seeing passenger vehicles provided the most convenient passage link between Shanghai and Lhasa, running along the world's highest rail track at 5,072 meters above sea level. The passenger vehicles have upgraded interior decoration and whole car electric modularisation, with outstanding performance in terms of body sealability, interior decoration, oxygen generation, cold and wind sand protection, which are designed to fully meet the low air pressure, strong UV, windy, sandy with frequent thunders and lightnings and tundra extreme highland climatic conditions, and with a safe and green operation.

5 Freight wagon business – benefited from industry growth

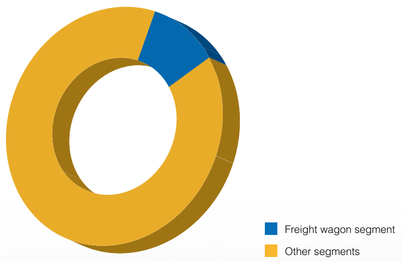
The freight wagon segment of CSR comprises CSR Yangtze, CSR Meishan, CSR Er Qi and CSR Shijiazhuang. Given China's distinct economic geographical conditions and the distinctive features of its geographical distribution of resources and industries, the basic transportation patterns involve north to south coal transport, west to east coal transport and south to north grains transport, which will subsist for a long time, and thus resulting in an increased market demand for railway freight wagons. In 2010, CSR's freight wagon business recorded revenue of RMB7.263 billion, representing an increase of 25.33% over 2009.

Large scale and sophisticated technology: Based on its strengthened research and development, widened business platform and network, CSR has experienced stable growth in its freight wagon business. CSR has the largest freight wagon development and manufacturing facilities in Asia and is strong in research and development. With internationally advanced synergic simulation platform and 3D design technology/ PDM system, CSR has international standard compliance product testing and appraisal capabilities. In addition, the Company has systematically developed key technologies of mainstream railway freight wagons, including 120 km per hour accelerated freight wagons and large-axle heavy load freight wagons, to meet the high speed and heavy load railway freight development in China.

“Revenue from freight wagon segment for 2010 recorded a year-on-year increase of

25.33%”

In 2010,
revenue from freight wagon segment accounted for 11.36% of the total revenue



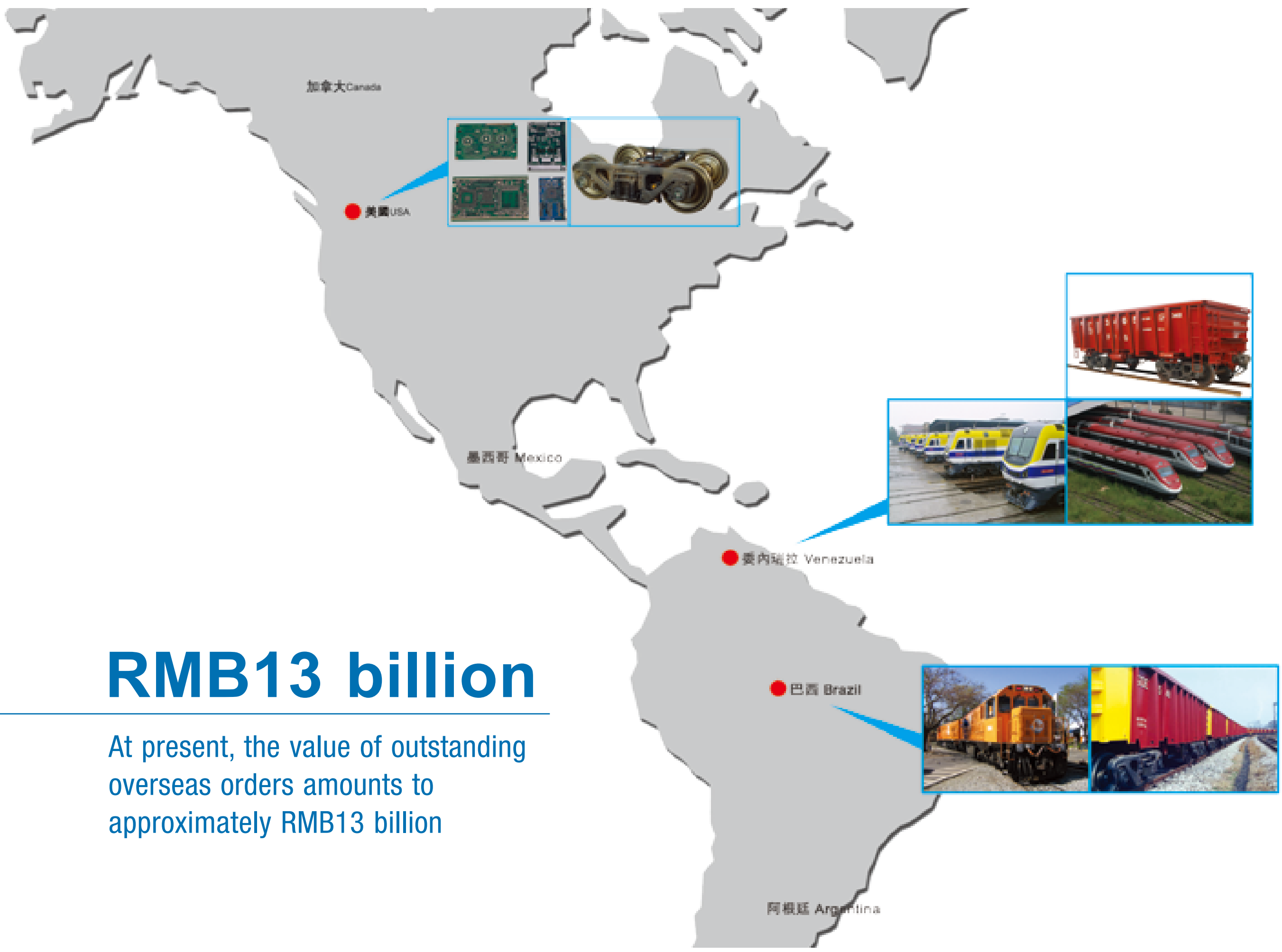
Provision of professional transportation equipment: CSR has improved its product mix and developed a myriad of new products to enlarge its market scope and penetration. The Company owns five major series of general railway freight wagons and long and large freight wagons, consisting open top wagons, box wagons, flat wagons, tank wagons and hopper wagons, as well as a series of special purpose railway freight wagons and dedicated railway freight wagons. The Company has also developed general freight wagons with hauling capacities of 70 tonnes, marking the historic transformation of the hauling capacities of general freight wagons in China from 60 tonnes per unit to 70 tonnes per unit. CSR also successfully launched freight wagons C80, which has the largest hauling capacities in China and providing important safeguards for the Datong-Qinhuangdao Railway coal transportation of over 400 million tonnes per annum. Its first 360-tonnes well-hole car (落下孔車) is by far the largest vehicle among all domestic medium-sized well-hole railway cars in China, which serves to provide new transportation equipment for the electricity, metallurgy, chemical engineering and heavy machinery industries.

Report Of Directors (Continued)

Foreigh operations – active expansion

As the global economy is still at its recovery stage, there have been hot debates over the development of a sustainable and low-carbon economy, and rolling stock has once again become the focus of decision-makers. Under this scenario, CSR accelerated its "go global" strategy which not only is a challenge for CSR to venture into uncharted territories, but is also a testimony to its strength. In 2010, CSR entered into overseas contracts in regions spanning across Europe, America, Oceania, Africa and Asia, amounting to nearly US$1.0 billion. At present, CSR's products have been exported to over 60 countries and regions around the world, winning increasing international recognition and accolades.

“CSR’s products have been exported to over 60 countries and regions around the world”



RMB13 billion

At present, the value of outstanding overseas orders amounts to approximately RMB13 billion

Quick penetration with targeted strategy: With a clear strategic focus, CSR vigorously expanded into emerging markets such as Oceania, America and Europe in 2010 while steadily maintaining its presence in traditional markets such as Asia, Africa and South America. In December 2010, CSR signed a cooperation framework agreement with GE for the establishment of joint venture company to engage in the production of railway passenger carriage stock including high-speed MUs in the United States.

Increase in monetary value: Export of CSR’s high-tech and high value-added products continues to increase with whole vehicle exports accounting for over 80% of total exports. Year 2010 highlighted the realization of the shift from single product export country to multi-product export country in countries such as Australia and Saudi Arabia, which saw the initial export of freight wagons to include export of locomotive products. Subsequent to obtaining the internal combustion locomotive project in Malaysia, the Company has further secured the inter-city MU contract, which is the largest single export contract in terms of value in the history in China. In addition to the export of accessories, the Company has also secured the second order for complete vehicles for metro railway in India.

Report Of Directors (Continued)

7 New business segment – fostered green busines as new growth drivers

The new business segment of CSR differentiates itself from the traditional rolling stock industries such as locomotives, rapid transit and high-speed MUs by the use of core railway transportation technologies to build up clusters of extended industries, including wind power and automobile equipment, industrial motors, construction machinery and composite materials industry segments. The new business segment now involves three of the seven major emerging strategic industries of the State, namely new energy, new materials and new energy vehicles. Through years of practice, CSR's new business has formed a more comprehensive business, with promising development as a whole. It will become an important growth pole for CSR both in respect of optimisation of its industrial structure as well as operational results and development. In 2010, CSR's new business segment recorded revenue of RMB8.607 billion, representing a remarkable increase of 74.20% over year 2009.

"Revenue from the new business segment recorded a substantial year-on-year increase of **74.20%**"

Strategic industry layout: To cope with the enormous future energy demand and pressure on the environment, there is a world-wide consensus to focus on the development of new energies and a green economy. Against this backdrop, CSR is actively arranging its industrial layout to better position itself in the next round of economic development. Leveraging its solid fundamentals and technology expertise, CSR has expanded into emerging sectors such as wind power equipment, automobile equipment, industrial motors, construction machinery and composite materials. As for the wind power equipment sector, CSR has established three major industrial facilities in Zhuzhou, Tianjin and Tongliao, which form an industry chain, mainly underpinned by ZELRI's whole machinery production and the ancillary production by CSR Electric, CSR Qishuyan Institute and Times New Material. With a production capacity of close to 1,000 units of wind turbine per annum, the Company has successfully become one of the top ten manufacturers in China's wind power industry. With respect to the automobile equipment sector, CSR had consecutively mobilized over 1,000 sets (units) of key equipment and almost 800 hybrid-powered passenger vehicles, which accounted for 70% and over 20%, respectively of the domestic market, thus becoming one of the major electric passenger carriage manufacturers and one of the largest suppliers of key components of electric automobile in China. With respect to the construction machinery sector, CSR has established the only base in China with comprehensive technologies on electrical and mechanical control system for rail maintenance machinery together with a full range of piling mechanical equipment for the construction machinery and petroleum machinery products. As for the composite materials sector, CSR has set up a professional research and product development base dedicated to polymeric modified materials and shock-absorbing and noise-reducing technologies, being the largest in operating scale and the strongest in terms of overall technical strength of its kind in China.

Joint venture and joint partnership for win-win development: CSR has actively forged strategic partnership with renowned domestic companies to achieve mutually-beneficial development. For wind power equipment, the Company had partnered with three major power companies, namely China Huaneng, China Huadian and China Datang, with the Company's wind power products fanning across northeast, northern, northwest and southern China. As for its electric automobile industry, CSR has established CSR Huanghai Electric Automobile Joint Stock Limited (南車黃海電動汽車股份有限公司), a joint venture company with Shuguang Group, to develop production capacity of more than 10,000 new energy carriage vehicles, in a bid to creating the largest production base of new energy passenger carriages in China.

Report Of Directors (Continued)

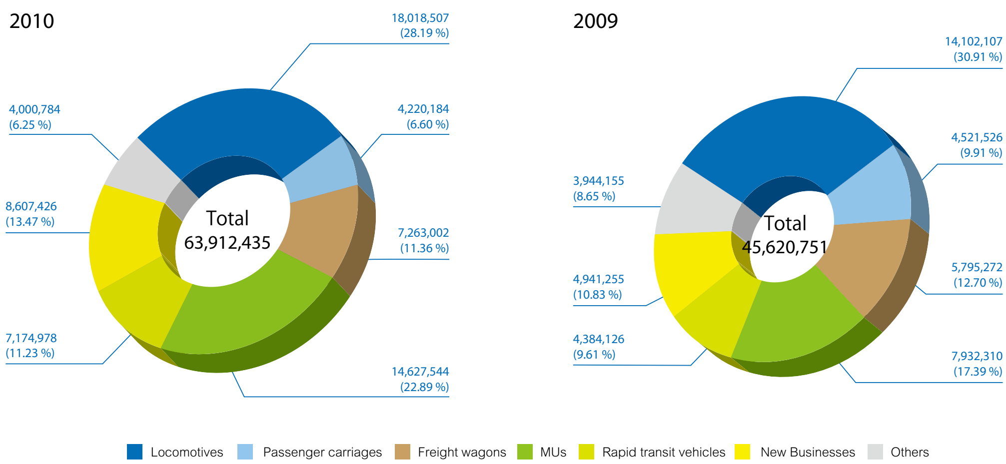
(III) ANALYSIS OF FINANCIAL STATEMENTS

1. The Company's operation status

(1) Revenue breakdown by business segments

Comparisons between revenue from all business segments of the Company for year 2010 and that of last year are set out in the following table:

Particulars of operations of principal subsidiaries of the Company and major companies invested by the Company *(RMB'000)*



Our revenue is mainly derived from locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles, new businesses and others. During the reporting period, the Company gained considerable growth in business scale and the increase in revenue was mainly attributable to the Company's proactive effort in seizing development opportunities arising from the rapid development in the PRC rolling stock manufacturing industry whilst making full use of its technological renovation to step up new product development and investment in technological renovation, thereby leading to a surge in revenue for the reporting period on basis of extended business foothold and significant growth in market sales.

Revenue generated from the locomotive product line is the important drive of the Company's revenue. The increase of the Company's revenue from its locomotive product line in 2010 over last year was primarily attributable to a dramatic increase in the sales volume of locomotives driven by a more earnest market demand arising from the high speed and heavy load railway development in the PRC.

In year 2010, revenue generated from our passenger carriage business declined as compared with that of last year, mainly due to a decrease in the procurement of passenger carriages along with rising demand for MUs in response to the rapid development of high speed railway in the PRC.

In year 2010, revenue from our freight wagon business increased as compared with that of last year, principally due to a year-on-year growth of revenue from freight wagons as market demand for China Railway's (國鐵) new freight wagons started to bounce back under improved economic conditions in 2010, notwithstanding a dramatic decrease in revenue from our freight wagon business due to a serious lack of orders of China Railway after the financial crisis in 2009.

In year 2010, revenue from our MU business increased, primarily attributable to the ever increasing market demand arising from the rapid development of high speed railway in the PRC. In particular, revenue from MU refurbishment amounted to RMB568.788 million.

In year 2010, revenue from our rapid transit vehicle business grew significantly as compared with that of last year, mainly due to the release of market demand arising from the rapid growth of the rapid transit vehicle industry, which led to a significant increase in our sales and production volume of rapid transit vehicles.

In 2010, new businesses of the Company grew significantly as compared with that of last year, primarily attributable to the Company's efforts in providing both technology and capital support for the development of proprietary rolling stock technologies related products, which triggered rapid growth in new businesses. In particular, revenue from wind power equipment amounted to RMB2,850 million, representing an increase of 102.49% as compared with the same period last year; revenue from construction machinery amounted to RMB1,285 million, representing a year-on-year increase of 108.34%; revenue from composite materials amounted to RMB840 million, representing a year-on-year increase of 60.56%; revenue from automobile equipments amounted to RMB810 million, representing a year-on-year increase of 76.16%; while revenue from electric components (電氣及元器件) amounted to RMB761 million.

Other revenue includes revenue from sales of materials and businesses other than rolling stock business. The year-on-year increase in our other revenue was primarily due to market expansion and business growth.

(2) Revenue breakdown by regions

From year 2010, revenue from the Company's operations by regions and the comparison with that of last year are shown in the following table:

Business segment	**2010** Amount (RMB'000)	**2010** Percentage %	2009 Amount (RMB'000)	2009 Percentage %	Growth rate %
Domestic market	**61,575,154**	**96.34**	44,242,933	96.98	39.18
Overseas market	**2,337,281**	**3.66**	1,377,818	3.02	69.64
Total	**63,912,435**	**100.00**	45,620,751	100.00	40.10

Revenue from domestic market of the Company increased by 39.18% as compared with that of last year whereas revenue from overseas market increased by 69.64% as compared with that in last year, which was primarily attributable to the Company's successful expansion into domestic and overseas markets, especially the rapid growth in revenue generated from the delivery of locomotives and passenger carriages in overseas markets in 2010.

(3) Analysis of gross profit and gross profit margin

From year 2010, consolidated gross profit of the Company and the comparison with that of last year are shown in the following table:

Item	**2010** Amount (RMB'000)	2009 Amount (RMB'000)	Growth rate %
Revenue	**63,912,435**	45,620,751	40.10
Cost of Sales	**52,944,731**	38,453,741	37.68
Gross profit	**10,967,704**	7,167,010	53.03
Gross profit margin	**17.16%**	15.71%	

In 2010, the Company's consolidated gross profit margin was 17.16%, representing a year-on-year increase of 1.45 percentage points. Such increase was primarily due to the increase in the overall gross profit as a result of the significant growth in segment revenue of MUs, locomotives and new businesses, which was higher than the average gross profit margin.

(4) **Major suppliers and customers**

In 2010, the procurement of the Company from its top five suppliers totaled RMB4,640.30388 million, accounting for 8.67% of the total procurement for the year.

In 2010, the sales of the Company to its top five customers totaled RMB 41,289.124 million, accounting for 64.60% of the total sales of the Company for the year. Such high degree of customer concentration was primarily attributable to the Company's sales to its biggest customer, namely the Ministry of Railways together with all railway bureaus, which accounted for 58.43% of the Company's total sales for the year. None of the Directors or its associates or any shareholders holding more than 5% of the equity interests in the Company had any interests in the above mentioned suppliers or customers.

2. Composition and changes of major assets and liabilities of the Company during the reporting period.

(1) Composition and changes of major assets of the Company during the reporting period

In 2010, the Company's assets were mainly measured by historical cost method and partly at fair value. Items of main statements which were measured at fair value included financial assets. There were no material changes to the measurement basis of major assets during the reporting period.

The composition and year-on-year changes (in net value) of major assets of the Company as at 31 December 2010 are shown in the following table:

Item	**2010** Amount (RMB'000)	**2010** Percentage %	2009 Amount (RMB'000)	2009 Percentage %	Growth rate %
Total current assets	**50,124,202**	**68.14**	36,686,815	66.42	36.63
Of which:					
Cash and cash equivalents	**13,770,897**	**18.72**	11,273,147	20.41	22.16
Trade receivables	**11,124,351**	**15.12**	6,638,161	12.02	67.58
Prepayment, deposits and other receivables	**4,966,921**	**6.75**	4,640,365	8.40	7.04
Inventories	**17,733,284**	**24.11**	11,415,069	20.67	55.35
Total non-current assets	**23,441,469**	**31.86**	18,551,500	33.58	26.36
Of which:					
Property, plant and equipment	**17,065,727**	**23.20**	13,509,207	24.46	26.33
Total assets	**73,565,671**	**100.00**	55,238,315	100.00	33.18

As at 31 December 2010, the ratio of current assets to total assets of the Company was 68.14%. The asset portfolio of the Company was contributed mainly by current assets and less by non-current assets. Such feature was mainly a result of the longer production cycle in the operation of the equipment manufacturing industry.

The balance of the Company's cash and cash equivalents was relatively significant. In absolute terms, the cash and cash equivalents of the Company amounted to RMB13,770.897 million as at the end of the year, representing an increase of 22.16% as compared with that as at the end of last year. This was mainly attributable to 1) the considerable growth in cash and bank balance as a result of the issuance of medium-term notes of RMB2.0 billion and the issuance of short-term debentures of RMB500 million in the year and 2) the need of sustaining a moderate amount of cash and bank balance by the end of the year to meet the growing capital needs in respect of production and operation as a result of the increase in commissioned production volume. In relative terms, our cash and cash equivalents accounted for 18.72% of total assets by the end of the year, representing a decrease of 1.69 percentage points from the beginning of the year.

The trade receivables of the Company were mainly contract receivables. In absolute terms, the trade receivables of the Company amounted to RMB11,124.351 million, representing an increase of 67.58% as compared to the beginning of 2010, mainly attributable to the growth in trade receivables as a result of the increase in revenue for the year. In relative terms, trade receivable as a percentage of total assets was 15.12%, representing an increase of 3.10 percentage points from the beginning of the year.

Prepayments of the Company were mainly purchase payment to suppliers for raw materials. In absolute terms, the prepayments, deposits and other receivables of the Company amounted to RMB4,966.921 million at the end of the year, representing an increase of 7.04% from the beginning of the year. Such increase was mainly due to the increase of overseas procurement deposits paid for customs or the increase in taxes to be repaid as a result of growing business. In relative terms, the prepayments, deposits and other receivables of the Company as a percentage of total assets amounted to 6.75% at the end of the year, representing a decrease of 1.65 percentage points from the beginning of the year.

Inventories of the Company mainly include raw materials, work in progress and inventories of finished goods. In absolute terms, net inventories of the Company amounted to RMB17,733.284 million by the end of the year, representing an increase of 55.35% over the beginning of the year. Such increase was mainly due to 1) the increase in production capital as the Company's operation scale and business expanded; and 2) plenty of raw material reserve and inventories of finished goods by the end of the year as most contracts of the Company were performed in the beginning of the second year. In relative terms, net inventories of the Company accounted for 24.11% of total assets at the end of the year, representing an increase of 3.44 percentage points over the beginning of the year.

The property, plant and equipment of the Company had increased by 26.33% as compared with the beginning of the year. Such increase was mainly attributable to the increase in fixed assets investment as a result of the expansion of production capacity and upgrade of products and technologies. In relative terms, the property, plant and equipment of the Company accounted for 23.20% of the total assets at the end of the year, representing a decrease of 1.26 percentage points from the beginning of the year.

(2) Composition and changes of major liabilities of the Company during the reporting period

The composition and year-on-year changes of major liabilities of the Company as at 31 December 2010 are shown in the following table:

Item	**2010** Amount *(RMB'000)*	Percentage %	2009 Amount *(RMB'000)*	Percentage %	Growth rate %
Total current liabilities	**42,662,356**	**85.80**	30,066,604	86.11	41.89
Of which:					
Interest-bearing bank and other borrowings	**5,777,951**	**11.62**	3,193,345	9.15	80.94
Bills payable	**6,912,763**	**13.90**	4,975,387	14.25	38.94
Trade payables	**17,971,521**	**36.14**	13,676,189	39.17	31.41
Other payables and accruals	**11,103,047**	**22.33**	7,597,602	21.76	46.14
Total non-current liabilities	**7,062,565**	**14.20**	4,850,560	13.89	45.60
Of which:					
Interest-bearing bank and other borrowings	**4,203,724**	**8.45**	2,171,866	6.22	93.55
Defined benefit obligations	**1,761,150**	**3.54**	1,969,740	5.64	-10.59
Total liabilities	**49,724,921**	**100.00**	34,917,164	100	42.41

As at 31 December 2010, the current liabilities of the Company accounted for 85.80% of the total liabilities. The structure of the Company's liabilities was featured by a high proportion of current liabilities, which echoed with the high proportion of current assets.

The short-term interest-bearing bank and other borrowings of the Company were mainly used for accommodating the needs for liquidity during its operation. In absolute terms, the increase in short-term interest bearing bank and other borrowings of the Company as at the end of 2010 was relatively larger than the increase at the end of last year as grew by 80.94%. This was mainly due to the increase in borrowings as a result of a relatively tight supply of capital given a high inventory level of raw materials and foreign semi-finished products for an ongoing operation. In relative terms, the proportion of short-term interest bearing bank and other borrowings among the total liabilities of the Company increased by 2.47 percentage points as compared with that as at the end of last year.

The bills payable of the Company were mainly bills issued to suppliers for liquidity. As at the end of 2010, the bills payable of the Company increased significantly by 38.94% as compared with that as at the end of last year, mainly attributable to the increase in procurement given the increase in business scale and business volume of the Company.

The trade payables of the Company were mainly outstanding amount payable to suppliers of raw materials. As at the end of 2010, trade payables of the Company increased by 31.41% as compared with the end of last year. Such dramatic increase was mainly attributable to the expansion of business scale, the increase in business volume and the increase in the amount of procurement of the Company.

As at the end of 2010, other payables and accruals increased by 46.14% as compared with that as at the end of last year, mainly due to a substantial increase in the receipt of prepayments under sales contracts over the end of last year as a result of the Company's growth in operation scale and business volume.

As at the end of 2010, long-term interest-bearing bank and other borrowings of the Company increased by 93.55% as compared with that as at the end of last year. The dramatic increase was mainly attributable to the issue of RMB2 billion mid-term notes, which was conducted on basis of an analysis of the Company's capital status, financing needs and capital sources with reference to the situation of domestic debenture market. Funds raised were mainly used for satisfying various capital needs such as additional working capital.

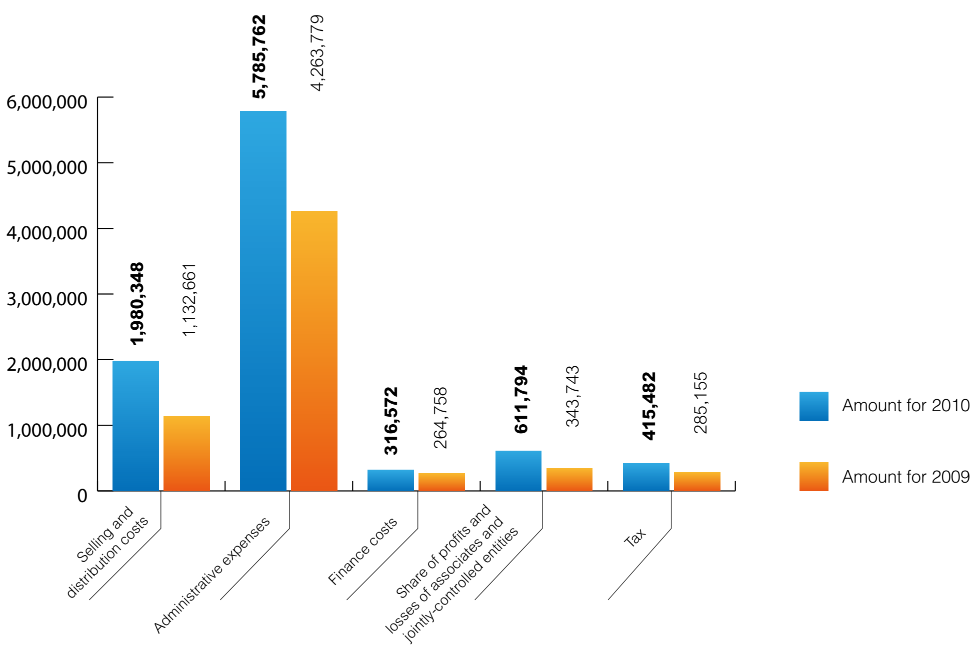
As at the end of 2010, provision for supplementary pension subsidies and early retirement benefits decreased slightly from last year and took up a lower proportion.

As at 31 December 2010, the financial leverage of the Company was 62.03%. Details are set out in note 42 to the financial statements prepared under IFRS in this annual report.

3. Material changes in financial figures such as administrative expenses during the reporting period

In 2010, the financial figures such as administrative expenses of the Company and year-on-year changes thereof are shown in the following table:

The year-on-year changes in administration expenses and other financial information *(RMB'000)*



In 2010, the selling and distribution costs of the Company increased as compared with that of last year, which was mainly attributable to 1) the increase in the proportion of estimated provision for loss of product quality assurance as a result of the increase in revenue of the Company, 2) the rapid growth in sales service expense, sales commissions and intermediary fees and 3) the growth in the salary of sales persons as a result of the expansion of the sales department. The increase in administrative expenses of the Company as compared with that of last year was mainly attributable to 1) the increase in research and development expenses of the Company and 2) the corresponding increase in the salary of management and maintenance fees as a result of the Company's growth in operation scale and business volume. The increase in the finance costs of the Company as compared with that of last year was mainly attributable to the increase in interest expense following the increase in interest-bearing liabilities, the decrease in interest income upon completion of investment of raised fund and the increase in exchange loss of foreign currency given the appreciation of Renminbi. The increase in the share of profits and losses of associates and jointly-controlled entities of the Company was mainly attributable to the increase in profits of associates and jointly controlled entities. The tax of the Company increased mainly due to the increase in overall profit from operations of the year.

4. Breakdown of cash flow during the reporting period

Item	**2010 Amount (RMB'000)**	2009 Amount (RMB'000)	Growth rate %
Net cash flows from operating activities	**3,716,174**	4,402,804	(15.60)
Net cash flows from investing activities	**(5,628,349)**	(4,541,317)	23.94
Net cash flows from financing activities	**4,661,023**	103,690	4,395.15

In 2010, the net cash flows from operating activities of the Company decreased by 15.60% over last year, which was mainly due to a year-on-year decrease in operating activities inflows as a result of increased inventories and staff remuneration in spite of the secured net inflow generated from operating activities under the Company's greater effort in management and collection of accounts receivable. Net cash flows from investing activities of the Company was RMB5,628.349 million, representing an increase of RMB1,087.032 million or 23.94% over last year, which was mainly due to the increase in cash payment for acquisition of fixed assets, intangible assets and other long-term assets. Net cash flows from financing activities of the Company increased by RMB4,557.333 million from last year, mainly because that the Company enlarged the scale of debt financing such as bank loans and mid-term notes in order to cope with the tensional situation of capital in future.

5. Significant capital expenses in the reporting period

The significant capital expenses of the Company in 2010 are set out in the following table:

Item	**2010 Amount (RMB million)**	2009 Amount (RMB million)
Property, plant and equipment	**4,842**	4,223
Lease prepayments	**617**	433
Total capital expenses	**5,459**	4,656

The capital expenses of the Company were mainly used for construction of property, plant and equipment, etc., which strengthened its capabilities for operation and sustainable development and further enhanced its business scale and strength.

6. Particulars of operations of principal subsidiaries of the Company and major companies invested by the Company (figures below are prepared under the PRC GAAP)

Unit: RMB'000

Name of subsidiary	Principal operations	Registered capital	Total assets as at the end of the year	Net assets attributable to owners of the parent as at the end of the year	Net profit attributable to owners of the parent for 2010	Revenue in 2010
CSR Zhuzhou	Research and development and manufacture of railway electric locomotives, MUs and rapid transit vehicles	3,474,026	12,049,439	3,953,732	292,899	16,060,779
CSR Sifang	Research and development and manufacture of railway MUs, passenger carriages and rapid transit vehicles; provision of maintenance services of railway MUs and high-end passenger carriages	3,103,712	14,047,886	3,859,508	735,738	16,584,635
CSR ZELRI	Research and development and manufacture of railway electric powered motors and control technology and related electric equipment; research and development and manufacture of railway vehicle accessories	2,381,710	14,793,057	3,306,414	522,340	10,443,000
CSR Yangtze	Research and development, manufacture and maintenance of railway freight wagons	2,096,718	4,941,727	1,827,515	-106,571	3,517,868
CSR Qishuyan	Research and development, manufacture and maintenance of railway diesel locomotives	942,611	4,090,431	1,088,588	120,397	4,663,668

Unit: RMB'000

Name of the investee company	Principal business scope	Net profit	Investment income from the investee company	Percentage of net profit of the Company (attributable to the parent) *(%)*
BST	Production of transit vehicles	1,045,010	506,830	20.02

BST was established on 27 November 1998, which is a 50-50 Chinese-foreign joint venture established by CSR Sifang Ltd. and Bombardier to engage in the production of transit vehicles. Its business scope mainly includes: the design and production of high-end passenger carriages, ordinary passenger carriages, electric MUs, luxury double-decker passenger carriages, high-speed passenger carriages and rapid transit vehicles and bogies, sales of self-produced products of joint ventures and provision of relevant after-sales service.

7. Assets in relation to fair value measurement

Unit: RMB'000

Item	Amount at the beginning of the period	Gain or loss from changes of fair value in the period	Accumulated changes in fair value recognized in equity	Provision for impairment for the period	Other changes in the period	Amount at the end of the period
Financial assets						
of which: 1. financial assets at fair value through profit or loss	24,248	(6,736)	—	—	—	17,512
of which: derivative financial assets	—	—	—	—	—	—
2. available-for-sale financial assets	8,084	—	(2,866)	—	—	2,565
Sub-total of financial assets	32,332	(6,736)	(2,866)	—	—	20,077
Financial liabilities						
Other						
Total	32,332	(6,736)	(2,866)	—	—	20,077

8. Financial assets and financial liabilities in foreign currencies

The financial assets and financial liabilities held by the Company in foreign currencies are listed in the table below:

Unit: RMB'000

Item	Amount at the beginning of the period	Gain or loss from changes of fair value in the period	Accumulated changes in fair value recognized in equity	Provision for impairment for the period	Other changes in the period	Amount at the end of the period
Financial assets						
of which: 1. financial assets at fair value through profit or loss						
of which: derivative financial assets						
2. loans and other receivables	2,830,891	—	—	—	(1,296,270)	1,534,621
3. available-for-sale financial assets	—	—	—	—	—	—
4. investment held to maturity	—	—	—	—	—	—
Sub-total of financial assets	2,830,891	—	—	—	(1,296,270)	1,534,621
Financial liabilities	417,902	—	—	—	146,074	563,976

9. Particulars of pledge of assets of the Company

As at 31 December 2010, the following assets of the Group were pledged to secure bank loans:

Item	**Amount** *(RMB'000)*
Property building	71,493
Lease prepayment	24,592
Cash and bank balance	8,364
Inventories	6,520
Trade receivables	623,970
Total	734,939

10. Particulars of contingent liabilities of the Company

Neither the Group nor the Company had any other contingent liabilities in 2010.

11. Staff of the Company

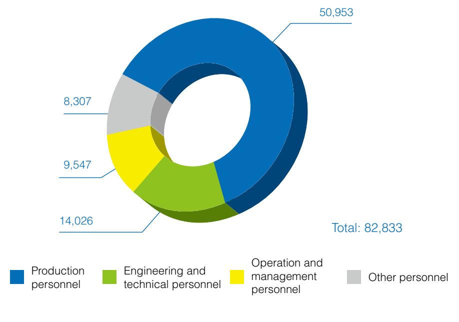
Total number of staff	82,833	Number of people whose retirement expenses are born by the Company	52,994

Note: The above resigned and retired staff had been subjected to actuarial treatment and a sum has been set aside for such purpose. The impact on profit and loss was insignificant as a one-off provision was made for liabilities during the reorganisation and reforms in respect of welfare expenses subject to actuarial treatment.

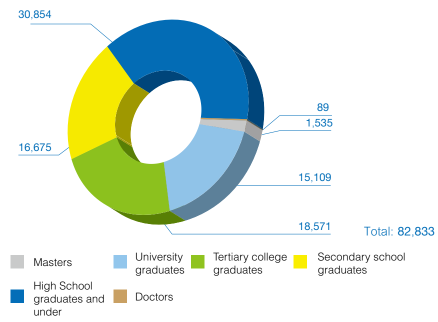
The staff structure was as follows:

1. By profession

The profession composition of the staff of the Company (number of staff)



The education level composition of the staff of the Company (number of staff)



Report Of Directors (Continued)

2. By education

The training schemes for staff were as follows:

According to its strategic development planning, the Company spared no effort in improving its management system and development of talents, strengthening the development of a pool of talents in the field of core management, technology and expertise, expediting the development of international talents whilst stepping up efforts in nurturing talents and a talent pipeline. A succession scheme of talents has been put in place to establish and strengthen the talent pool at each management level. The Company also pledged to recruit talents through school recruitment and internet recruitment campaigns and assessed talented staff through a professional system for talent assessment. In compliance with the Labor Contract Law of the People's Republic of China, it strengthened its labor system, standardized labor management and forged harmonious staff relations. With reference to its human resources strategic planning, the Company put greater efforts in training and the systematic development of talents on management, technology and expertise fronts with a view to increasing the overall staff quality, skills and international competitiveness. During the year, a total of approximately 67,000 attendances were received at the training sessions, of which, approximately 14,000 were for management training sessions, approximately 12,000 were for expertise training sessions and approximately 41,000 were for technical training sessions.

Staff remuneration policy is set out as follows:

The Company follows the compensation concept of basing compensation on position, sharing results and balancing internal and external reward, so that the decision-making responsibility, influence and qualifications of different positions are reflected in the salaries. While emphasizing corporate development, the Company also let its staff share the success of the Company. Besides, in addition to the external reward like salary, due attention is also paid to the internal incentives such as senses of competence, achievement and responsibility and personal development.

In 2010, the Company actively remodeled its remuneration distribution system by changing the salary system from position-linked to performance-linked and put in place a corporate-wide performance appraisal system. A flexible remuneration distribution policy was adopted by the Company in addition to the implementation of a performance-linked salary system for ordinary staff. Staff remuneration was paid based on the Company's results and employees' individual performance. The Company adopted a position-based salary system for management, technical and supporting personnel, a yearly-based salary system and target-based salary system for senior management members and middle management members of its subsidiaries, respectively. It adopted a project-based salary system for technical staff, a commission-based salary system for marketing and sales staff, a piece-rate wage system for production line operators and a salary agreement system for special personnel.

Subsidiaries of the Company arrange basic social insurance schemes and housing reserve funds for their employees and bear the corresponding contribution attributable to them and provide all required statutory social security schemes for the benefits of their employees in accordance with the State and local regulations.

Details in respect of the wages, salaries and other employee's benefits of the staff of the Company are set out in Note 6 to the financial statements prepared under the IFRS in this annual report.

(4) FUTURE PROSPECTS

1. Industry trend and an overview of market competitions

According to "The Mid and Long-term Plans for Railway Network" (中長期鐵路網規劃) as approved by the State Council and revised in 2008, the national railway operational length in the PRC will be extended to over 110,000 km by 2012, with more than 50% consisting of double and electrified lines. Under the Twelfth Five-Year Plan, China's railway is set on the track of rapid growth. By 2020, the national railway operational length will be extended to over 120,000 km, comprising approximately 16,000 km of passenger-dedicated lines, 50% of which will consist of double lines and over 60% of electrified lines. Major high-traffic lines are expected to incorporate separate lines for cargo and passenger transportations and major technologies and facilities are expected to be either up to or aligned with advanced international standards. The railway industry is poised to enjoy rapid growth momentum. Great opportunities also beckon for the development of the industry of rapid transit transportation. As at the end of 2010, over 40 cities in the PRC are constructing or preparing to construct rapid transit facility systems such as subway systems and light rail cars, which will bring about the construction of a transit system with a total estimated length of 2,700 km and a total investment of over RMB1 trillion by 2015. China has become the largest rapid transit system construction market in the world and demand for rapid transit vehicles is expected to increase.

By virtue of technology transfer and independent innovation, the Company reinforced its strength in the research, development and manufacturing of rolling stock, thus carving a leading edge in terms of production quality and operation scale throughout the world. The Company has an unparalleled presence in the domestic industry. In the short run, lines such as locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles in the domestic rolling stock manufacturing industry will face relatively mild pressure from overseas competitors. Competition is expected to intensify as the industry develops. With its strategy of internationalisation gathering pace, the Company's participation in the overseas market will increase, as will its direct competition with international players.

2. Opportunities and challenges ahead of the Company

Sound development opportunities are underway. Firstly, the promotion of harmonious railway construction, as well as the adjustment to The Mid and Long-term Plans for Railway Network in 2008 have increased the speed of railway construction and development, and will stimulate high demands for locomotive equipment in terms of the varieties produced and the quality and quantity of the products. This will therefore create enormous opportunities for a leap forward in the rolling stock industry. Secondly, accelerating urbanisation (particularly the rapid economic development in regions such as the Yangtze River Delta, the Pearl River Delta, Bohai Bay Region, Chang-Zhu-Tan, Cheng-Yu as well as city clusters in the central part of China, Wuhan city Circle (武漢城市圈), Guanzhong — Tianshui (關中 — 天水) and city clusters in the West Coast of the Straits) will bring robust growth to intra-city and intercity transit system transportation, thereby giving fresh impetus to the rolling stock industry. Thirdly, the State's sweeping effort to promote its energy saving and emission reduction strategies, alongside the eco-friendly features and environmental protection advantages of rail transportation and rapid transit, has reinforced the pivotal role of the industry in the national economy and will favour a sustainable and rapid expansion in the rolling stock manufacturing arena. Fourthly, the State has established industry stimulus plans and a series of regional stimulus schemes, such as the Accelerating Adjustment and Stimulus Plan of Rolling Stock Manufacturing Industry (《加快裝備製造業調整振興計劃》). These, together with a series of preferential and favourable policies such as tax exemption for imports and refunds for exports of major stock manufacturing enterprises, will foster the development of rolling stock manufacturing enterprises. Fifthly, the State Council promulgated the Decision on Accelerating the Cultivation and Development of Strategic New Industries (《關於加快培育和發展戰略性新興產業的決定》), with a view to advancing the improvement of strategic new industries at a faster pace. The principal businesses of CSR, i.e. high-end rolling stock, complete wind power generating units, composite materials, electricity-driven vehicles, fall respectively within the seven major strategic new industries, namely the industries of high-end equipment manufacturing, new energy, new materials and new energy automobiles. Given an improving real economy, the capacity expansion and industrial upgrade in the vehicle, electricity generation, petroleum and shipbuilding industries led to an increase in the demand for high quality machinery and electric products, which provides huge business potential for CSR's future development. Finally, as rolling stock industries in various countries around the world are either undergoing or will undergo a phase of renovation, the growing prominence of high speed trains on the global stage and the competitiveness in the increasingly advanced industrial chain in the domestic manufacturing sector will provide the rolling stock industry with a golden opportunity to "kick start" international operation.

Challenges that lie ahead for the Company are as follows: Firstly, as investment in the construction of railways and other infrastructure has increased, the market demand for rolling stock also increased sharply, however, an imbalanced demand structure for its products will subsist. Secondly, due to the lingering impact of the global financial crisis that impedes the take-off of the global economy, the expansion of the rolling stock market overseas and the development of businesses utilising proprietary rolling stock technologies have become much more difficult, not to mention the increase of its performance and exchange rate risks. Thirdly, more demanding requests from users and changing market dynamics will be the headwind to the sustainable development of the Company. Fourthly, excess liquidity around the globe is expected to lead to greater fluctuations in the price of basic production materials such as oil, water, electricity, steel products and non-ferrous metals, which will enhance the difficulties of controlling corporate operating costs. Lastly, notwithstanding the financial crisis and the market turbulence it subsequently caused, rolling stock companies in China are confronted with even more fierce international competition, posing as grave challenges to the market competitiveness, technology innovation ability, corporate governance capability, risk prevention capability and the international operating capability of the Company.

3. Strategies and business planning of the Company

The Company will pool more resources into scientific research and establish an internationally advanced system that brings together studies of industry development, product research and development, production and manufacturing, in a bid to becoming one of the Global 500 and a highly renowned brand worldwide. Its goal in the mid to long term is to be an all-round rolling stock solutions provider with a leading edge across the globe. CSR's ranking in the Global 500 is rising steadily and its brand profile has been recognised worldwide.

Development planning of each major product line:

Locomotive operation: according to the developmental trend of railway locomotives, high-speed, heavy-hauling and high-powered locomotives will become the mainstream. The Company will focus on the development of electric locomotives, especially high-speed, heavy-hauling and high-powered electric products, aiming to keep the research and development, test and manufacturing of its electric locomotives to world-class standards. Through realigning its scale and product mix for higher performance, the Company expects to maintain its production capacity, technology and export edges on high-powered diesel, mining and shunting locomotives in the PRC to align with international advanced standards.

MU operation: MU is a stronghold in future development. The Company will increase the capacity, enhance the performance and optimise the product mix of MU operations, unifying their planning so as to cement its leading presence in the research, development and manufacturing of MUs and to boost the rapid development of inter-city MUs as well.

Passenger carriage operation: the Company aims to maintain its existing manufacturing capacity and leading edge by vigorously promoting the development of passenger carriage vehicles with a speed of 200 km/h, optimising its product portfolio and improving its passenger carriage operation. It strives to improve the productivity and product quality through streamlined production.

Freight wagon operation: leveraging its existing production capability, the Company spares no efforts in technological renovation and capacity expansion, so as to meet the demand for new products such as big-axis overhauling freight wagons and express freight wagons arising from the division of passenger carriage and freight wagon operations in railway transportation as well as the vibrant development of heavy hauling and express freight wagons, and further cement its technological edge in China. In addition, it will vigorously promote resource integration to excel in the freight wagon industry with world-class capability in research and development, as well as the testing and manufacturing of freight wagons.

Rapid transit vehicle operations: in line with the market trend, the Company will expand and enhance rapid transit vehicle operations by setting up assembly and maintenance bases, optimising the industrial layout and improving overall capacity. Furthermore, it will step up its effort in increasing technology innovation and independent development. Based on various rapid transit vehicle technology platforms utilizing aluminum alloy, stainless steel and other bodywork technologies, as well as different speed-class bogie technologies, the Company aims to realise resource sharing through technology integration, in the hope of building a world-class research and development, testing and manufacturing base for rapid transit vehicles. The Company will also energetically engage in the maintenance of rapid transit vehicles and component refurbishment operations, aiming to expand itself into a new business segment.

New businesses: in the coming years, alongside the focus on the traditional rolling stock products and innovations listed above, the Company will draw upon its technical expertise and advantages to develop extended products based on proprietary rolling stock technologies. Such products will include wind power equipment, composite materials, electric automobiles, gear transmission systems, motors, project machines, engines and parts, industrial converters, electrical installations, automobile turbochargers and so forth. These will diversify the income stream and increase the business potentials of the Company for higher profitability and comprehensive competitiveness.

2011 marks the beginning of the "Twelfth Five-year Plan", and the Company will relentlessly press ahead with its "Twelfth Five-year" development strategy in line with the scientific outlook on development. Additionally, it will step up efforts in independent innovation, structure adjustment, regulation and control, market expansion, brand building and international operation capability, with a view to achieving harmony and stability within the Company, kicking off a good start for the "Twelfth Five-year" development and creating a new outlook for CSR's scientific development.

The Company will register an increase of over 20% in revenue for 2011. As such, it will focus on achieving the following tasks: (1) to accommodate itself to changes in the market, as well as to establish and improve the marketing network; (2) to promote resource consolidation and facilitate the industrial strategic layout; (3) to enhance streamlined production and prop up scientific management; (4) strengthen the awareness of quality foremost to ensure product safety and reliability; (5) to improve capital operation capability on the basis of intensified financial management; and (6) to implement the assets operation assessment and to refine the regulation system.

In 2011, in view of the development strategy and production and operating needs of the Company, it plans to invest RMB7.742 billion in fixed assets, mainly in projects of strategic importance to its development, such as high-powered locomotives, high-speed MUs, inter-city MUs and rapid transits, railway freight wagons and projects that utilise proprietary rolling stock technologies. The Company will mainly make use of internal resources. The outstanding balance of the fund will be mainly financed by bank loans or the issuance of short-term financing bonds.

4. Major risks and counter-measures of the Company.

(1) Major risks faced by the Company

1 Exchange rate risk

The current RMB exchange rate reform incurred exchange rate fluctuations that were particularly visible in the rapid depreciation of foreign currencies such as US dollar and HK dollar against Renminbi. This made the Company vulnerable to financial losses caused by additional risks arising from the devaluation of foreign currency funds from the export segment and overseas markets.

2 Risks arising from notable changes in prices of materials, including energy, raw materials and accessories

Though intended to cope with the risk of economic recession, excess liquidity injected into the domestic market led to higher inflation expectations and increased volatility in prices of major production materials including energy, steel, and non-ferrous metals, which may have an adverse impact on the Company's cost control when there is a lack of countermeasures to fend off the risk of price fluctuations.

3 Risks arising from force majeure incidents such as natural disasters

Natural disasters such as earthquakes, typhoons, tsunamis and floods, as well as other force majeure incidents might lead to financial losses and casualties within the Company and affect its normal production operation.

(2) Counter-measures of the Company

1 The Company will perform settlements timely and facilitate the payment of foreign currency proceeds to prevent exchange rate risks. Furthermore, it will explore the feasibility of exchange rate lock-ups and other hedging products for simple financial products to reduce the potential risks of fluctuations in exchange rates.

2 The Company will step up efforts in its management and analysis concerning the information of commodity prices, expanding and enhancing the Company's centralised procurement of commodities and applying advanced management approaches, such as "streamlined production" and ERP to strengthen its logistics management and commodity price control. This way it will alleviate the impact of the fluctuations in commodity prices on the product costs of the Company.

3 The Company will establish and improve its natural disaster contingency plan, organise disaster response drills amongst companies and increase the awareness of disaster prevention, so as to minimise the losses and impacts of natural disasters.

B. INVESTMENTS OF THE COMPANY

1. Use of proceeds

Use of proceeds raised from H Share offering

In 2008, the Company raised aggregate proceeds of HK$4.784 billion from the listing of its H Shares. Actual capital received amounted to HK$4.647 billion upon deduction of relevant issuing expenses. As at 31 December 2010, a total of HK$3.609 billion of proceeds raised from the H Share offering was used, of which HK$1.158 billion was used to acquire advanced foreign equipment for research and development, manufacturing and testing; HK$2.369 billion was used to import critical components which would facilitate the domestic production of complete rolling stock units; HK$25 million was used to import advanced key foreign technologies for railway locomotives; and an aggregate of HK$57 million was used to cover expenses of the listing. In the previous year, the Company contributed HK$390 million to the capital of CSR Hong Kong and received bank deposit interests of HK$57 million. As at 31 December 2010, the balance of proceeds raised from H Share offering in the designated proceeds account of the Company amounted to approximately HK$705 million. The uses of proceeds stated above were in strict compliance with the disclosures in the Prospectus and the relevant approvals from SAFE and supervised by the bank(s) where such account is opened.

On 8 March 2011, the Company published an announcement on the adjustment to the usage proportion of proceeds raised from H Share offering. In consideration of the great demand for proceeds in the procurement of advanced foreign equipment for research and development, manufacturing and testing as well as the import of critical components which facilitate the domestic production of complete rolling stock units, the Board was of the opinion that it was necessary to adjust the proposed usage proportion of proceeds raised from H Share offering and resolved to approve the use of all remaining proceeds raised from H Share offering in the procurement of advanced foreign equipment for research and development, manufacturing and testing as well as the import of critical components which facilitate the domestic production of complete rolling stock units.

Use of proceeds raised from A Share offering

The Company raised net proceeds of RMB6,369.41 million from the initial public offering of its A Shares in August 2008. In 2010, the Company used RMB781.28 million of the proceeds. As at the end of 2010, a total of RMB6,369.97 million was used, while the balance in the designated proceeds account of the Company aggregated to RMB22.48 million (including RMB51,625 paid by CSR Electric by mistakes to the designated account of A share proceeds of the Company).

On 31 December 2010, CSR Electric, a subsidiary of the Company, paid RMB51,625 to the designated account of proceeds raised from the initial public offering of A shares of the Company by mistakes during inter-entity settlement. The Company had refunded the payment on 4 January 2011.

Upon consideration at the President's meeting of the Company, RMB559,200 of the bank deposit interests raised from the A Share offering of the Company was used in the investment projects funded by IPO proceeds in relation to the enhancement of information technology of the Company.

As at 31 December 2010, the balance of the raised proceeds amounted to RMB22.43 million, all of which was attributable to the bank deposit interests of the raised proceeds. Such balance will be used in the investment projects funded by IPO proceeds in relation to high-speed MUs and the industrialisation of critical components of high-powered locomotives.

As considered and approved at the 15th meeting of the first session of the Board, on 27 November 2009, the Company utilised RMB630 million in aggregate out of the proceeds for temporary replenishment of the working capital. The amount was recovered in full on 25 May 2010.

2. Material projects not funded by proceeds from share offerings

In 2010, the Company's investment projects not funded by proceeds from the share offerings amounted to RMB3,240 million, mainly comprising the industrialisation of high-speed MUs with a maximum speed of 350 km/h, construction of a national engineering laboratory dedicated to high-speed railway system integration, construction of CSR Guangdong's rolling stock vehicle maintenance and production base (廣東南車軌道交通車輛修造基地建設) and a capacity expansion project for polymeric shock-absorbing and noise reducing elastic cells products of CSR ZELRI.

During the reporting period, material projects not funded by proceeds from the share offerings are set out as follows:

Unit: RMB0'000

Project name	Total investment of the project	Investment during the reporting period	Progress of the project	Revenue from the project
Industrialisation of high-speed MUs with maximum speed of 350 km/h	129,360	62,510	Major construction work has been completed and the project has been put into operation.	34,270
Construction of a national engineering laboratory dedicated to high-speed railway system integration	41,434	8,587	Most equipment has been ordered and some of them have been installed and put into use.	The project has not been completed yet and no revenue was generated therefrom.
Construction of CSR Guangdong's rolling stock vehicle maintenance and production base (廣東南車軌道交通車輛修造基地建設) *(Note 1)*	159,000	16,677	Relevant land parcels had been acquired and leveled, currently under the foundation treatment.	The project has not been completed yet and no revenue was generated therefrom.
Capacity expansion project for polymeric shock-absorbing and noise reducing elastic cells products of CSR ZELRI	25,009	7,520	Major construction work of the plants had been completed and some of the equipment had been ordered.	The project has not been completed yet and no revenue was generated therefrom.

Note 1: The project was undertaken by Guangdong Rolling Stock Vehicles Co. Limited (廣東軌道交通車輛有限公司). Such company completed registration in 2010 with a registered capital of RMB1 billion. CSR Puzhen held 51% of its shares.

3. Capital increase in major subsidiaries

In 2010, the Company injected a capital of RMB389.30 million into CSR Yangtze, a wholly-owned subsidiary of the Company. The Company injected a capital of RMB1,530.00 million into CSR Zhuzhou., a wholly-owned subsidiary of the Company. The Company further injected a capital of RMB558.93 million into CSR Qishuyan Institute, a wholly-owned subsidiary of the Company. The Company also further injected a capital of RMB181.32 million into CSR Puzhen, a wholly-owned subsidiary of the Company.

C. REASONS FOR CORRECTION OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR MATERIAL ACCOUNTING ERRORS OF THE COMPANY AND EXPLANATION ON THEIR EFFECTS

During the reporting period, there were no changes in the accounting policies or accounting estimates, corrections of significant accounting errors, supplementation of significant information omitted or amendments of results forecasts of the Company.

D. EXPLANATION FOR THE SELECTION OF MAJOR ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

For details, please refer to note 2 "Basis of preparation and accounting policies" to the financial statements prepared under IFRS in this annual report.

E. STATEMENT OF THE BOARD OF DIRECTORS ON THE RESPONSIBILITY OF INTERNAL CONTROL

The Board and the Management of the Company are responsible for establishing and implementing a comprehensive internal control system. The goal of internal control is to ensure compliance with the laws and regulations in the Company's business operations, together with asset safety and accuracy and completeness of the financial reports and the relevant information, to increase business efficiency and to promote fulfillment of the Company's corporate development strategy. Pursuant to the requirements of Basic Standards for Enterprise Internal Control, the Board had conducted evaluation on the internal control of financial statements and was not aware of any major and significant deficiency in the design and execution of the Company's internal control. The Company's internal control system is basically under sound and effective operation.

F. ADMINISTRATIVE MEASURES ON HOLDERS OF INSIDER INFORMATION

According to the Company's self-evaluation, none of the holders of insider information had made use of insider information in share transactions before any information disclosure of significant price-sensitive nature that may affect the share price of the Company.

G. PROPOSAL FOR PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL

According to the Company Law, the Securities Law, relevant fiscal policies and the Articles of Association, in consideration of the financial position of the Company, the Board proposes a profit distribution to shareholders of RMB0.04 (tax inclusive) per share, which aggregates to a total dividend of RMB473.6 million. The distribution proposal is subject to consideration and approval at the general meeting of the Company.

The Company will issue a separate announcement regarding the record date for the payment of H Share dividends and date of closure of register of members of the Company.

Under relevant regulations of China Securities Depository and Clearing Corporation and according to the market practice adopted for dividend distribution for A Shares, the Company will publish a separate announcement in respect of the dividend distribution to holders of A shares for the year 2010 after the 2010 annual general meeting to determine the record date and ex-rights date for dividend distribution to the holders of A Shares for the year 2010.

H. DISTRIBUTIONS MADE IN THE LAST THREE YEARS

Unit: RMB0'000

Year of distribution	Amount of cash dividends (tax inclusive)	Net profit attributable to the owners of the Company in the consolidated financial statement during the year of distribution	Percentage of net profit attributable to the owners of the Company in the consolidated financial statement %
2008	37,888	138,424	27.37
2009	47,360	167,815	28.22

According to the Agreement in Relation to the Promotion of CSR Corporation Limited entered into between the promoters of the Company, namely CSRG and BRIT, as well as the resolutions passed at the 2007 annual general meeting of the Company in 2007, the net profits of the Company (as set forth in the consolidated statements) for the period from the asset valuation date (i.e. 30 June 2007) of the Company to the date on which the Company was incorporated (i.e. 28 December 2007) and the net profits of the Company (as set forth in the consolidated statements) for the period from the day immediately after the incorporation date of the Company (i.e. 29 December 2007) to 31 December 2007 were distributed to CSRG. According to the financial data in the audited consolidated financial report prepared by Ernst & Young Hua Ming under PRC accounting standards, it was determined that the distributable profit from 30 June 2007 to 31 December 2007 was RMB327.8 million, and the distribution was completed in April 2008.

I. ESTABLISHMENT OF A COMPREHENSIVE MANAGEMENT SYSTEM OF EXTERNAL INFORMATION USERS OF THE COMPANY

The Company had formulated the Administrative Measures on Holders of Insider Information, pursuant to which the provision of information to external information users had been specified in “Chapter 4: Management on External Information Users” thereof.

J. TAX AND TAX RELIEF

In accordance with Enterprise Income Tax Law of the People’s Republic of China and its implementation rules which became effective from since 1 January 2008, enterprise income tax shall be withheld at a rate of 10% when the Company pays final dividends to non-resident enterprises whose names appear on the register of H shareholders of the Company. The enterprise income tax shall be withheld for the dividends of any H Shares under the name of non-individual shareholders (any H Shares of the Company registered in the name of HKSCC Nominees Limited, other nominees and trustees, or other organisations and institutions, shall be deemed as shares held by non-resident enterprise shareholders). In accordance with Notice of the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises issued by the State Tax Bureau (Guo shui han No.[2008]897), enterprise income tax shall be withheld at a rate of 10% when a Chinese resident enterprise pays dividends (for 2008 and onward) to overseas H-share holders which are overseas non-resident enterprises.

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

Shareholders of the Company are subject to tax and/or enjoy tax relief in accordance with the aforementioned regulations.

K. CONNECTED TRANSACTIONS

Major connected transactions of the Group in 2010 under the Hong Kong Listing Rules are as follows:

(I) Non-exempt Connected Transaction

The connected transaction in relation to the joint external investment with CSRG in establishing a finance company

At the 21st meeting of the first session of the Board of the Company on 28 October 2010, the resolution in respect of the joint establishment of CSR Finance Co., Ltd jointly by the Company and CSRG was considered and passed, pursuant to which the establishment of CSR Finance Co., Ltd (hereafter as "CSR Finance", for temporary use, with specific name to be approved by the State Administration of Industry and Commerce) by the Company and CSRG, its controlling shareholder, was approved. Pursuant to the "Capital Contribution Agreement" entered into by the contributors on 28 October 2010, CSR Finance had a registered capital of RMB1 billion, among which RMB910 million was proposed to be contributed by the Company in cash, accounting for 91% of its registered capital, whereas RMB90 million was proposed to be contributed by CSRG, accounting for 9% of its registered capital.

The establishment of a finance company by the Company will help the Company tighten its centralised management on capital, diversify its investment and financing channels and enhance capital efficiency, thus providing the Company with timely and long-term capital resources for development, whist securing considerable returns for the Company. As CSRG is the controlling shareholder of the Company which directly holds 54.27% equity interest in the Company, CSRG is thus a connected party of the Company pursuant to requirements under the Rules Governing the Listing of Securities on the Shanghai Stock Exchange and the Hong Kong Listing Rules, and the joint investment above constitutes a connected transaction of the Company.

As the establishment of CSR Finance is still subject to the approval of China Banking Regulatory Commission(中國銀行業監督管理委員會), such transaction is subject to uncertainties.

(II) Non-exempt Continuing Connected Transactions

With the continuous development of the Group, the existing annual caps for certain continuing connected transactions of the Company can no longer satisfy the needs of the Group, therefore the Company published relevant announcements on 27 May 2010 in which the Company revised annual caps for 2010 in relation to continuing connected transactions under the Product Mutual Provision Framework Agreement with CSRG. In addition, the Company also disclosed the new continuing connected transactions under the Product Purchase Framework Agreement with Changzhou Qifeng and the Product Purchase Framework Agreement with KYB, as well as their respective annual caps from 2010 to 2012 in the aforementioned announcement.

In addition, in accordance with the amended Hong Kong Listing Rules that took effect from 3 June 2010, in respect of the continuing connected transactions mentioned in sections 2 and 3 and from sections 6 to 8 below, all relevant parties of such transactions were connected persons of the Company at subsidiary level. As the respective assets, profits and revenue size test ratios of each of the relevant subsidiaries of the Company represent less than 5% for the latest financial year, each of the relevant subsidiaries shall be considered as an insignificant subsidiary of the Company pursuant to the amended Rule 14A.31(9)(b) of the Hong Kong Listing Rules. The transactions between the Group and such related parties shall be exempted from reporting, annual review, announcement and independent shareholders' approval requirements. Subsequently, the Company issued an announcement on 23 November 2010 in respect of the application of exemption of such transactions under Rule 14A.31(9) and Rule 14A.33(4) of the Hong Kong Listing Rules, that such transactions will be exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules as long as such transactions were in compliance with the requirements under Rule 14A.31(9)of the Hong Kong Listing Rules.

The annual caps for the Company's existing and new continuing connected transactions and their actual transaction amounts during the reporting period are as follows:

Unit: RMB0'000

No.	Categories of connected transactions	2010 original annual caps	2010 revised annual caps (if applicable)	Actual transaction amount in 2010
1	Aggregate procurement value under Product Mutual Provision Framework Agreement with CSRG	850	1,089	485.9
	Aggregate sales value under Product Mutual Provision Framework Agreement with CSRG	424	424	148.4
2	Components Supply Framework Agreement with Xi'an Kaitian	154	154	72.5*
3	Aluminum Supply Framework Agreement with Jilin Midas	461	461	153*
4	MU Components Supply Framework Agreement with KTK	822	822	174.1**
5	Product Purchase Framework Agreement entered into with Times New Materials	705	705	66.1***
6	Aggregate procurement value under Products and Ancillary Services Mutual Provision Framework Agreement with CRGL	517.5	517.5	12.9*
	Aggregate sales value under Products and Ancillary Services Mutual Provision Framework Agreement with CRGL	750.24	750.24	138.6*
7	Aggregate procurement value under Product Purchase Framework Agreement with KYB	242	242	117.3*
8	Aggregate procurement value under Product Purchase Framework Agreement with Changzhou Qifeng	220	220	21.9*

* The actual transaction amount as of 23 November 2010.
** For details of relevant actual transaction amount as of 14 April 2010, please see paragraph 4 below.
*** For details of relevant actual transaction amount as of 19 May 2010, please see paragraph 5 below.

The major continuing connected transactions of the Company during the reporting period are as follows:

1. Product Mutual Provision Framework Agreement with CSRG

CSRG is a substantial shareholder and promoter of the Company. After the restructuring, CSRG retained part of assets and businesses to provide certain ancillary products to the core business of the Company. The Company and certain of its associates also provide raw materials and accessories to CSRG or its associates for processing into rolling stock components, while CSRG or its associates sell back all or part of such components to the Company for use in its core business. The Company entered into the Product Mutual Provision Framework Agreement (as supplemented by a supplementary agreement dated 15 July 2008) with CSRG on 10 January 2008, to regulate such mutual provision of products between them. The agreement took effect on 1 January 2008 and shall expire on 31 December 2010. The Company published an announcement on 28 December 2010 in relation to the renewal of Product Mutual Provision Framework Agreement with CSRG and for the determination of annual caps of the transactions from years 2011 to 2013. The agreement has officially come into effect on 1 January 2011. The main contents of the agreement include that the sale of ancillary products by any party to the other party shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, the other party is entitled to engage other supplier(s) for the ancillary products required.

(1) The 2010 annual cap for the provision of products by CSRG or its associates to the Group for the year ended 31 December 2010 was RMB1,089 million, and the actual transaction amount was RMB485.9 million; (2) the 2010 annual cap for the sales of products to CSRG or its associates by the Group for the year ended 31 December 2010 was RMB424 million, and the actual transaction amount was RMB148.4 million.

2. Components Supply Framework Agreement with Xi'an Kaitian

Xi'an Kaitian holds a 44% equity interest in Ziyang Chenfeng, a sub-subsidiary of the Company, therefore Xi'an Kaitian is a connected person of the Company under the Hong Kong Listing Rules. Xi'an Kaitian (as a supplier of components and accessories for locomotives) provides electrical accessories, components and other accessories for locomotives to the Company. In order to regulate the business relationship between the Company and Xi'an Kaitian, the Company entered into the Components Supply Framework Agreement with Xi'an Kaitian on 29 July 2008. The agreement took effect on 1 January 2008 and shall expire on 31 December 2010. The main contents of the agreement include that the sale of products by Xi'an Kaitian to the Group shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, the Group is entitled to engage other supplier(s) for the products required.

The 2010 annual cap for the procurement of products from Xi'an Kaitian or its associates by the Group was RMB154 million, and the actual transaction amount of the Group was RMB72.5 million for the period from 1 January 2010 to 23 November 2010.

3. Aluminum Supply Framework Agreement with Jilin Midas

Jilin Midas is a wholly-owned subsidiary of Midas Holdings Limited, which holds a 32.5% equity interest in Nanjing SR Puzhen Rail Transport Co., Ltd., a sub-subsidiary of the Company; therefore Jilin Midas is a connected person of the Company under the Hong Kong Listing Rules. Jilin Midas (as an aluminum and raw materials supplier) provides raw materials, components and aluminum to the Company. In order to regulate the business relationship between the Company and Jilin Midas, the Company entered into the Aluminum Supply Framework Agreement with Jilin Midas on 29 July 2008. The agreement took effect on 1 January 2008 and shall expire on 31 December 2010. The main contents of the agreement include that the sale of products by Jilin Midas to the Group shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, the Company is entitled to engage other supplier(s) for the products required.

The 2010 annual cap for the procurement of products from Jilin Midas or its associates by the Group was RMB461 million, and the actual transaction amount was RMB153 million for the period from 1 January 2010 to 23 November 2010 .

4. MU Components Supply Framework Agreement with KTK

KTK is an associate (as defined in the Hong Kong Listing Rules) of Jiangsu Pengyuan Electronics Co., Ltd. under the Hong Kong Listing Rules, and Jiangsu Pengyuan Electronics Co., Ltd is a substantial shareholder of Nanjing Puzhen Haitai EMU Co., Ltd., a subsidiary of the Company. KTK therefore is a connected person of the Company. KTK together with its associates provides electrical accessories for MUs (including EMUs and DMUs), raw materials and other accessories to the Company. In order to regulate the business relationship between the Company and KTK, the Company entered into the MU Components Supply Framework Agreement with KTK on 29 July 2008. The agreement took effect on 1 January 2008 and shall expire on 31 December 2010. The main contents of the agreement include that the sale of such raw materials and accessories by KTK to the Group shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, the Group is entitled to engage other supplier(s) for the electrical accessories for MUs, raw materials and other accessories required.

The Company had been notified that Jiangsu Pengyuan Electronics Co., Ltd. had transferred its entire equity interest held by it in Nanjing Puzhen Haitai EMU Co., Ltd. to an independent third party on 15 April 2010. Accordingly, Jiangsu Pengyuan Electronics Co., Ltd. and its associates (including KTK) were no longer connected persons of the Company and the transactions between the Group and KTK no longer constituted connected transactions. The 2010 annual cap for the procurement of products from KTK or its associates by the Group was RMB822 million, and the actual transaction amount was RMB174.1 million for the period from 1 January 2010 to 14 April 2010.

5. Product Purchase Framework Agreement entered into with Times New Materials

Times New Materials is a non wholly-owned subsidiary of the Company. As of 18 May 2010, as BRIT, a promoter and a connected person of the Company at the listed issuer level, is a substantial shareholder of Times New Materials holding 11.30% equity interest therein, Times New Materials therefore becomes a connected person of the Company under the Hong Kong Listing Rules. Times New Materials supplies the Company and its certain subsidiaries with products including shock absorbing and noise-reducing elastic cells (railway accessories), special insulation products and coating (wind power product accessories). In order to regulate the business relationship between the Group and Times New Materials, the Company entered into the Product Purchase Framework Agreement with Times New Materials on 13 April 2009. The agreement took effect on 1 January 2009 and shall expire on 31 December 2010. The main contents of the agreement include that the sale of railway components and wind power product accessories by Times New Materials to the Group shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, the Group is entitled to engage other supplier(s) for the products required.

With reference to the announcement on 19 May 2010 of the Company, Times New Materials had completed non-public issue on 18 May 2010. Upon completion of the non-public issue, the equity interest in the issued share capital of Times New Materials held by BRIT was diluted to 9.82%. Therefore, Times New Materials was no longer a connected person of the Company, and the transactions between the Group and Times New Materials no longer constituted connected transactions thereafter. The 2010 annual cap for the procurement of products from Times New Materials by the Group was RMB705 million, and the actual transaction amount was RMB66.1 million for the period from 1 January 2010 to 19 May 2010.

6. Products and Ancillary Services Mutual Provision Framework Agreement with CRGL

China Railway Bus Co., Ltd., a wholly-owned subsidiary of CRGL, holds 40% equity interests in Baoji CSR Times Engineering Machinery Co., Ltd., a non wholly-owned subsidiary of the Company. Under the Hong Kong Listing Rules, China Railway Bus Co., Ltd. is a substantial shareholder of Baoji CSR Times Engineering Machinery Co., Ltd. and therefore is a connected person of the Company. Likewise, CRGL, a controlling shareholder of China Railway Bus Co., Ltd., is also a connected person of the Company under the Hong Kong Listing Rules. CRGL and its associates supplies the Company certain products and services including, but not limited to, parts and components, mechanical processing ancillary services and rapid transit sensor plate installation services. In the meantime, the Group also supplies the CRGL Group certain products and services including, but not limited to, mechanical products and after-sales services for railway projects, elastic components, electrical locomotives and accessories. In order to regulate the business relationship between the Company and CRGL, the Company entered into a Products and Ancillary Services Mutual Provision Framework Agreement with CRGL on 26 August 2009. The agreement shall expire on 31 December 2011. The main contents of the agreement include that the supply of products and/or services by and between the Group and CRGL Group and its subsidiaries shall be made on terms no less favorable than those offered by or to (as appropriate) independent third parties under comparable conditions.

The 2010 annual cap for the provision of products and/or services by CRGL or its associates to the Group amounted to RMB517.5 million, and the actual transaction amount for the provision of products and/or services by CRGL or its associates to the Group was amounted to RMB12.9 million for the period from 1 January 2010 to 23 November 2010; (2) the 2010 annual cap for the sale of products and/or services to CRGL or its associates by the Group amounted to RMB750.24 million, and the actual transaction amount amounted to RMB138.6 million for the period from 1 January 2010 to 23 November 2010 .

7. Product Purchase Framework Agreement with KYB

The Company, through its wholly-owned subsidiary, CSR Qishuyan Institute, holds 51% equity interest in Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd., a non wholly-owned subsidiary of the Company. As KYB is a substantial shareholder of Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd. holding the remaining 49% of its equity interest, KYB is a connected person of the Group under the Hong Kong Listing Rules. KYB is mainly engaged in the production and sale of oscillating damper products and components for, including but not limited to, railway and rapid transit equipment. The Group mainly purchases oscillating damper products and components from KYB. In order to regulate the business relationship between the Group and KYB Group, the Group entered into the Product Purchase Framework Agreement with KYB on 27 May 2010, which remained effective until 31 December 2012. The principal terms of such agreement provides that the sale of products by KYB to the Group shall be made on terms not less favorable than those offered to independent third parties under comparable conditions.

The 2010 annual cap for the provision of products by KYB Group to the Group was RMB242 million, and the actual transaction amount for the provision of products and services by KYB Group to the Group amounted to RMB117.3 million for the period from 1 January 2010 to 23 November 2010.

8. Product Purchase Framework Agreement with Changzhou Qifeng

Ziyang Chenfeng is an indirect non wholly-owned subsidiary of the Company. As Changzhou Qifeng is the holding company of Qishuyan Rolling Stock Parts Factory (常州市戚墅堰車輛附件廠有限公司), which in turns holds 10% equity interest in Ziyang Chenfeng, Changzhou Qifeng is a connected person of the Company under the Hong Kong Listing Rules. Changzhou Qifeng is mainly engaged in the production and sale of components for locomotives, passenger carriages and freight wagons. CSR Qishuyan, a wholly-owned subsidiary of the Company, and certain members of the Group, purchase locomotive components, passenger carriage components and freight wagon components from Changzhou Qifeng. In order to regulate the business relationship between the Group and Changzhou Qifeng Group, the Group entered into the Product Purchase Framework Agreement with Changzhou Qifeng on 27 May 2010, which remained effective until 31 December 2012. The principal terms of such agreement provides that the sale of products by Changzhou Qifeng Group to the Group shall be made on terms no less favorable than those offered to independent third parties under comparable conditions.

The 2010 annual cap for the provision of products by Changzhou Qifeng Group to the Group was RMB220 million, and the actual transaction amount for the provision of products and services by Changzhou Qifeng Group to the Group amounted to RMB21.9 million for the period from 1 January 2010 to 23 November 2010.

In respect of the aforesaid 2010 annual caps and actual annual transaction amounts for the aforesaid continuing connected transactions in 2010, each of the applicable percentage ratios (as defined in the Hong Kong Listing Rules, other than the earnings ratio) is below 2.5% (and adjusted to 5% after the amended Hong Kong Listing Rules took effect from 3 June 2010). Therefore, the aforesaid transactions are exempted from the independent shareholders' approval requirements, and are only subject to the reporting, annual review and announcement requirements under the Hong Kong Listing Rules. The Company has complied with the disclosure requirements of connected transactions in accordance with Chapter 14A of the Hong Kong Listing Rules.

The Independent Non-executive Directors of the Company have confirmed to the Board that they have reviewed the non-exempt continuing connected transactions and are of the opinion that such transactions are:

- in the ordinary and usual course of business of the Group;
- conducted on normal commercial terms or if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable than terms available from/to (as appropriate) independent third parties, as far as the Group is concerned; and
- conducted on the terms of the relevant transaction agreements which are fair and reasonable and in the interests of the Company and its shareholders as a whole

The auditors of the Company have reviewed the aforesaid continuing connected transactions and issued a letter to the Board, stating that:

- such transactions have received the approval of the Company's board of directors;
- such transactions are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Group;
- such transactions have been entered into in accordance with the relevant agreement governing the transactions; and
- the disclosed continuing connected transaction have not exceeded the maximum aggregate annual cap disclosed in the previous announcements dated 23 April 2009, 26 August 2009 and 27 May 2010 made by the Company in respect of each of the disclosed continuing connected transactions.

Save as the above, pursuant to the Hong Kong Listing Rules, certain connected party transactions in Note 39 to the consolidated financial statements of the Company also constitute continuing connected transactions (as defined in Chapter 14 of the Hong Kong Listing Rules. Such connected party transactions have complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

(III) Non-Competition Agreement

In 2010 CSRG stated that it did not violate the commitments under Non-Competition Agreement entered into with the Company on 10 January 2008 (as supplemented by a supplementary agreement dated 15 July 2008). The Independent Non-executive Directors of the Company also reviewed the compliance of CSRG with the Non-Competition Agreement and considered that CSRG had not violated the requirements of the agreement in 2010.

L. OTHER DISCLOSEABLE MATTERS

Principal Operations

The Group and the Company are mainly engaged in research and development, manufacturing, sales, refurbishment and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as other businesses that utilize proprietary rolling stock technologies.

Major Customers and Suppliers

Please refer to relevant sections of the Management Discussion and Analysis in this annual report for details of the Company's major customers and suppliers.

Fixed Assets

Please refer to Note 14 to the financial statements prepared under IFRS in this annual report for details of the Company's fixed assets.

Reserves

Details of the changes in reserves of the Company and the Group are set out in the Consolidated Statement of Changes in Equity prepared under IFRS in this annual report.

Reserves Available for Distribution

Please refer to Note 36 to the financial statements prepared under IFRS in this annual report for details of the Company's reserves available for distribution.

Share Capital

Please refer to relevant sections of "Changes in Share Capital and Particulars about Shareholders" in this annual report for details of the Company's share capital.

Bank loans and Other Loans

Please refer to Note 32 to the financial statements prepared under IFRS in this annual report for details of the Group and the Company's bank loans and other loans as at 31 December 2010.

Property, Plant and Equipment

Please refer to Note 14 to the financial statements prepared under IFRS in this annual report for details of changes in the Group and the Company's property, mechanic devices and equipment for 2010.

Donations

The Group's charitable and other donations amounted to approximately RMB5.18 million during the reporting period this year.

Service Contracts of Directors and Supervisors

None of the Directors or the Supervisors of the Company has entered into a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than normal statutory compensation.

Directors and Supervisors' Interests in Contracts

None of the Company or its subsidiaries entered into any contract of significance in which Director or Supervisor of the Company held, either directly or indirectly, any material interests for the year ended 31 December 2010.

Loans provided to the Directors, Supervisors and Senior Management of the Company

The Company or its subsidiaries did not provide the Directors, Supervisors or other Senior Management with any loans or similar loans.

The Directors' Interest in Businesses Competing with the Company

None of the Directors of the Company is interested in any business which directly or indirectly competes or may compete with the Group.

Financial, Business or Family Relationship among Members of the Board

None of the members of the Board of the Company had any financial, business, family or other material relationship with each other.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

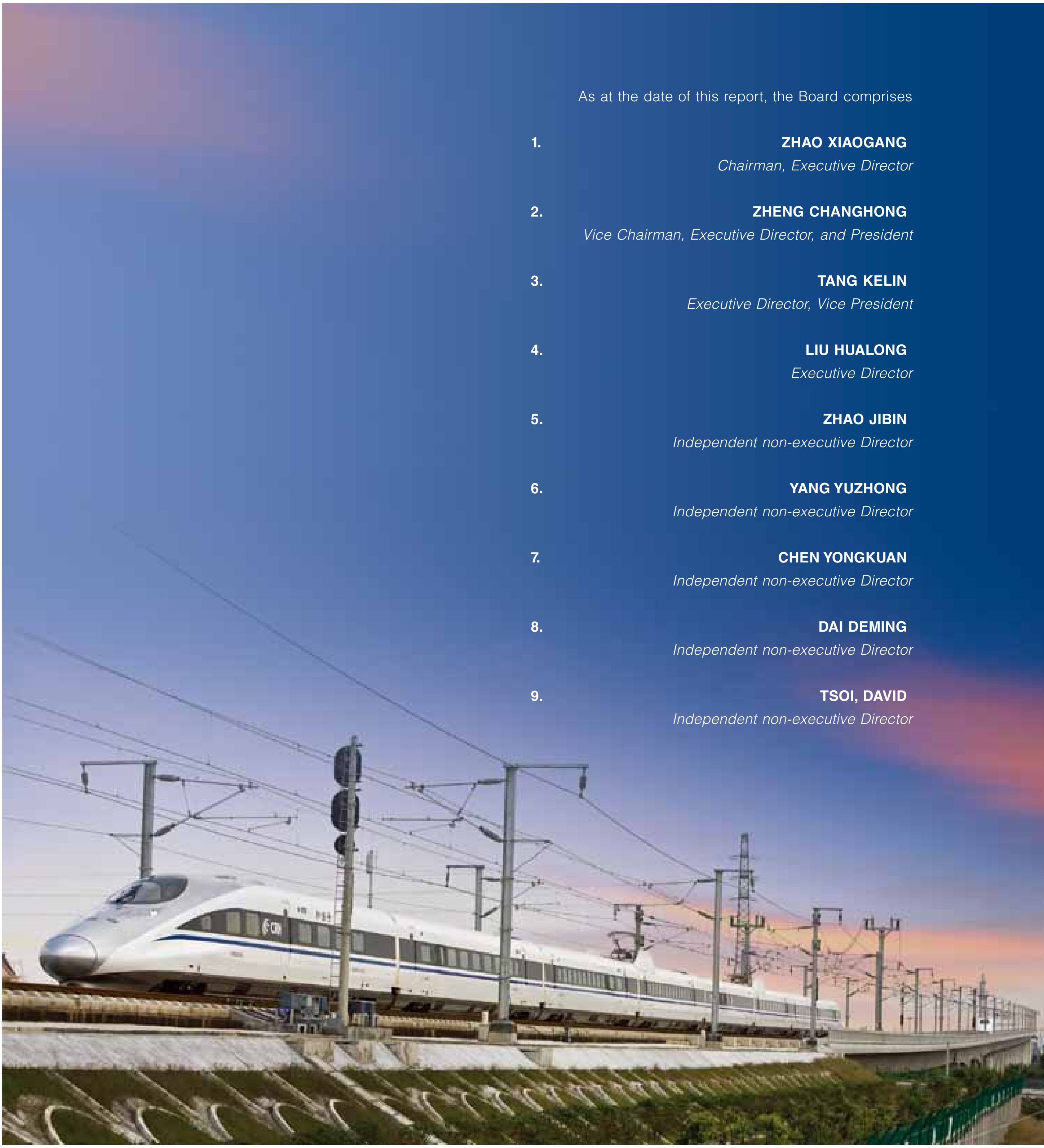
Pre-emptive Rights

There is no provision regarding pre-emptive rights under the Articles of Association and the laws of the PRC which oblige the Company to offer new shares to its existing shareholders on a pro rata basis.

Employee Retirement Plan

Details of the Company's employee retirement plan are set out in Note 33 to the financial statements prepared under IFRS in this annual report.

Board Introduction



As at the date of this report, the Board comprises

1. **ZHAO XIAOGANG**
   Chairman, Executive Director
2. **ZHENG CHANGHONG**
   Vice Chairman, Executive Director, and President
3. **TANG KELIN**
   Executive Director, Vice President
4. **LIU HUALONG**
   Executive Director
5. **ZHAO JIBIN**
   Independent non-executive Director
6. **YANG YUZHONG**
   Independent non-executive Director
7. **CHEN YONGKUAN**
   Independent non-executive Director
8. **DAI DEMING**
   Independent non-executive Director
9. **TSOI, DAVID**
   Independent non-executive Director

Directors, Supervisors And Senior Management

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Unit: RMB0'000

Name	Position	Gender	Age	Commencement of term of office	Expiration of term of office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason of the change	Whether receiving remuneration from the Company	Remuneration received from the Company during the Reporting Period	Welfare expenses including basic pension insurance	Total amount before tax	Whether receiving remuneration or allowance from shareholders or other associates
Zhao Xiaogang	Chairman Executive Director	M	59	27 December 2007	–	–	–	–	Yes	60.42	6.25	66.67	No
Zheng Changhong	Vice Chairman Executive Director President	M	55	27 December 2007	–	–	–	–	Yes	60.42	6.25	66.67	No
Tang Kelin	Executive Director Vice President	M	58	27 December 2007	–	–	–	–	Yes	54.11	6.25	60.36	No
Liu Hualong	Executive Director	M	48	27 December 2007	–	–	–	–	Yes	54.11	6.25	60.36	No
Zhao Jibin	Independent Non-executive Director	M	58	27 December 2007	–	–	–	–	Yes			15.12	No
Yang Yuzhong	Independent Non-executive Director	M	66	27 December 2007	–	–	–	–	Yes			16.62	No
Chen Yongkuan	Independent Non-executive Director	M	64	27 December 2007	–	–	–	–	Yes			15.22	No
Dai Deming	Independent Non-executive Director	M	48	27 December 2007	–	–	–	–	Yes			15.72	No
Tsoi, David	Independent Non-executive Director	M	63	3 March 2008	–	–	–	–	Yes			14.44	No
Wang Yan	Chairman of the Supervisory Committee	M	55	27 December 2007	–	–	–	–	No	–	–	–	Yes
Li Jianguo	Supervisor	M	60	27 December 2007	–	–	–	–	Yes	32.78	4.12	36.90	No
Qiu Wei	Employee Representative Supervisor	M	51	22 December 2009	–	–	–	–	Yes	34.52	6.25	40.77	No
Zhang Jun	Vice President	M	55	27 December 2007	–	–	–	–	Yes	52.91	6.25	59.16	No
Fu Jianguo	Vice President	M	47	27 December 2007	–	–	–	–	Yes	52.91	6.25	59.16	No
Zhan Yanjing	Vice President Chief Financial Officer	F	47	27 December 2007	–	–	–	–	Yes	52.91	6.25	59.16	No
Shao Renqiang	Secretary to the Board	M	46	27 December 2007	–	–	–	–	Yes	41.30	5.18	46.48	No

* During the reporting period, no Director or Supervisor of the Company waived or agreed to waive the remuneration arrangement.

MAJOR WORKING EXPERIENCES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE LAST 5 YEARS:

DIRECTORS

1 **Zhao Xiaogang**, has been the general manager (the legal representative) and deputy Party secretary of CSRG since September 2000. Since December 2007, he has served as Chairman, an executive Director and Party Secretary of the Company. He is also the vice chairman of China Enterprise Confederation and Council of China Enterprise Directors Association and a standing council member of the China Communication and Transportation Association and the China Railway Society.

2 **Zheng Changhong**, was the Party secretary and deputy general manager of CSRG from May 2004 to December 2007. Since December 2007, he has served as the vice-chairman, an executive Director, President and Deputy Party secretary of the Company, and CSRG's Party secretary. He is also a part-time professor of Lanzhou University.

3 **Tang Kelin**, was the deputy general manager of CSRG from September 2000 to December 2007. Since November 2004, he has served as a standing member of the Party Committee of CSRG. He served as the chief engineer of CSRG from December 2006 to October 2007 and the chairman of CSR Yangtze from August 2006 to October 2008. He has been an executive Director, vice president and a standing member of the Party Committee of the Company since December 2007.

4 **Liu Hualong**, served as the deputy general manager of CSRG from May 2004 to December 2007. Since November 2004, he has been a standing member of the Party Committee of CSRG. Since December 2007, he has been an executive Director, Deputy Party secretary, and the secretary of the Disciplinary Committee of the Company and also the deputy Party secretary, the secretary of the disciplinary committee, and chairman of the labor union of CSRG.

5 **Zhao Jibin**, has been the chairman and Party secretary of China Tietong Communications Corporation since October 2003. He has been an independent non-executive Director of the Company since December 2007. He has served as deputy general manager and a member of the Party Group of China Mobile Communications Corporation since May 2008.

6 **Yang Yuzhong**, served as the standing deputy general manager of China Aviation Industry Corporation I, head of China Aviation Research Institute, and chairman of AVICI Commercial Aircraft Co., Ltd. from July 1997 to July 2006. He has been a consultant of China Aviation Industry Corporation since August 2006. He was an independent non-executive director of China National Materials Company Limited from June 2007 to December 2009. He has been an independent non-executive Director of the Company since December 2007 and an external Director of China Materials Group Corp., Ltd. since December 2009.

6 7 8 9 10

7 **Chen Yongkuan**, served as the Party secretary and the vice chairman of China Communications Construction Group Company Ltd. from August 2005 to July 2006, the vice chairman of China Communications Construction Group Company Ltd. and China Communications Construction Company Ltd. from July 2006 to December 2007, and the chairman of the board of directors of Zhenhua (Singapore) Engineering Pte. Ltd. from May 2003 to December 2009. He has been an independent non-executive Director of the Company since December 2007, and also an independent non-executive director of Metallurgical Corporation of China Ltd. since November 2008.

8 **Dai Deming**, has been a professor and tutor of doctoral students of the Accounting Department of the School of Business of Renmin University of China since June 1996. Mr. Dai served as a director of the Accounting Department of the School of Business of Renmin University of China from October 2001 to September 2010. He was an independent non-executive director of Qingdao Aucma Stock Company Limited, Tsinghua Unisplendour Guhan Bio-pharmaceutical Corporation Ltd., Yunnan Freetrade Science and Technology Co., Ltd., SDIC ZhongLu Fruit Juice Co., Ltd. and Guangdong MACRO Co., Ltd from June 2002 to May 2007. Mr. Dai has been an external supervisor of China Construction Bank Corporation since June 2007 and an independent non-executive Director of the Company since December 2007.

9 **Tsoi, David**, has been an independent non-executive director of Melco LottVentures Limited since October 2001. He has been a director and general manager of Alliott, Tsoi CPA Limited since September 2004. He had been the chairman of the Asia-Pacific region of Alliot Group and an independent non-executive director of Wafer Systems Limited. Mr. Tsoi has been an independent non-executive Director of the Company since March 2008 and an independent non-executive director of Enviro Energy International Holdings Limited since July 2008.

SUPERVISORS

10 **Wang Yan**, acted as the deputy chief accountant and the head of the Finance Department of CSRG from May 2004 to March 2007. From March 2007 to December 2007, he was an assistant to the general manager, and the head of the Directors' and Supervisors' Office of CSRG. He has served as the chairman of the Company's Supervisory Committee since December 2007, and also been an assistant to CSRG's general manager, the chairman of the Supervisory Committee of CSR Sifang (since July 2002), a supervisor of CSR Ziyang (since May 2006) and director of assets management center of CSRG (since January 2010).

11 **Li Jianguo**, was the deputy secretary of CSRG's Disciplinary Committee from December 2000 to March 2007, a deputy chief economist of CSRG from March 2007 to December 2007; a part time supervisor (employee representative supervisor) of the Stated-owned Assets Supervision and Administration Commission of the State Council for three consecutive terms from April 2001 to September 2009. He has been a Supervisor of the Company since December 2007. From January 2008 to August 2010, he has also served as a deputy chief economist and the head of the Audit and Risk Department of the Company (until January 2010).

12 **Qiu Wei**, served as deputy director of the Party Committee Office and head of the General Affairs Office of CSRG from April 2005 to January 2008. He has been the deputy director of the Working Committee of Labor Union of the Company since January 2008 and the employee representative Supervisor of the Company since December 2009.

SENIOR MANAGEMENT

Zheng Changhong, his biography is set out above.

Tang Kelin, his biography is set out above.

13 **Zhang Jun**, served as the deputy Party secretary and secretary of CSRG's Disciplinary Committee from May 2004 to December 2007 and chairman of CSRG's labor union from August 2004 to December 2007. He has been a vice president and a standing member of the Party Committee of the Company since December 2007. He is also a standing member of the Party Committee of CSRG.

14 **Fu Jianguo**, was a deputy general manager of CSRG from May 2004 to December 2007. He has been a standing member of the Party Committee of CSRG since November 2004 and a vice president and a standing member of the Party Committee of the Company since December 2007.

15 **Zhan Yanjing (female)**, served as the chief accountant of CSRG from April 2005 to December 2007. She has been a standing member of the Party Committee of CSRG since May 2006 and a vice president, the chief financial officer and a standing member of the Party Committee of the Company since December 2007.

16

16 **Shao Renqiang** was a director, a deputy general manager and the chief accountant of CSR Sifang from August 2004 to November 2007; and the head of CSRG's Audit Department and a director of CSR Sifang from November 2007 to January 2008. Since December 2007, he has been the secretary of the Board of the Company and a director of CSR Sifang.

(II) POSITIONS HELD IN SHAREHOLDERS AND OTHER ENTITIES

Positions held in shareholders

Name	Name of the shareholder	Position held	Commencement of term of office	Expiration of term of office	Whether receiving remuneration or allowance
Zhao Xiaogang	CSRG	General Manager	28 September 2000	—	No
Wang Yan	CSRG	Assistant to General Manager	6 March 2007	—	Yes

Positions held in other entities

Name	Names of other entities	Position held	Commencement of term of office	Expiration of term of office	Whether receiving remuneration or allowance
Zhao Jibin	China Tietong Communications Corporation	Chairman, Party Secretary	October 2003	—	Yes
	China Mobile Communications Corporation	Deputy General Manager, Party Member	May 2008	—	Yes
Yang Yuzhong	China Aviation Industry Corporation	Consultant	August 2006	—	Yes
	China Materials Group Corp., Ltd.	External Director	December 2009	—	Yes
Chen Yongkuan	Metallurgical Corporation of China Ltd.	Independent Non-executive Director	November 2008	—	Yes
Dai Deming	Renmin University of China	Director of the Accounting Department of the School of Business	October 2001	September 2010	Yes
	China Construction Bank Corporation	External Supervisor	June 2007	—	Yes
Tsoi, David	Melco LottVentures Limited	Independent Non-executive Director	October 2001	—	Yes
	Alliott, Tsoi CPA Limited	Director and General Manager	September 2004	—	Yes
	Enviro Energy International Holdings Limited	Independent Non-executive Director	July 2008	—	Yes
Wang Yan	CSR Sifang	Chairman of the Supervisory Committee	July 2002	—	No
	CSR Ziyang	Supervisor	May 2006	—	No
Li Jianguo	CSR Sifang Ltd.	Chairman of the Supervisory Committee	March 2007	January 2010	No
Shao Renqiang	CSR Sifang	Director	July 2002	—	No

Directors, Supervisors And Senior Management (Continued)

(III) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Procedures for determination of the remuneration of Directors, Supervisors and Senior Management

The Remuneration and Evaluation Committee of the Board submits proposals to the Board in respect of the remuneration policies and structure for Directors and members of the Senior Management. The Board decides the remuneration, incentives and punishment matters for members of the management. The general meeting of the Company decides matters relating to the remuneration for the relevant Directors and Supervisors.

2. Determination basis for remuneration of Directors, Supervisors and Senior Management

The remunerations of Directors, Supervisors and Senior Management are determined according to the Articles of Association and provisions of relevant regulations.

3. Payment of remuneration to Directors, Supervisors and Senior Management

The Company, pursuant to relevant provisions, paid remunerations to the Directors, Supervisors and Senior Management, except for Mr. Wang Yan, a Supervisor, who did not receive remuneration from the Company.

(IV) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

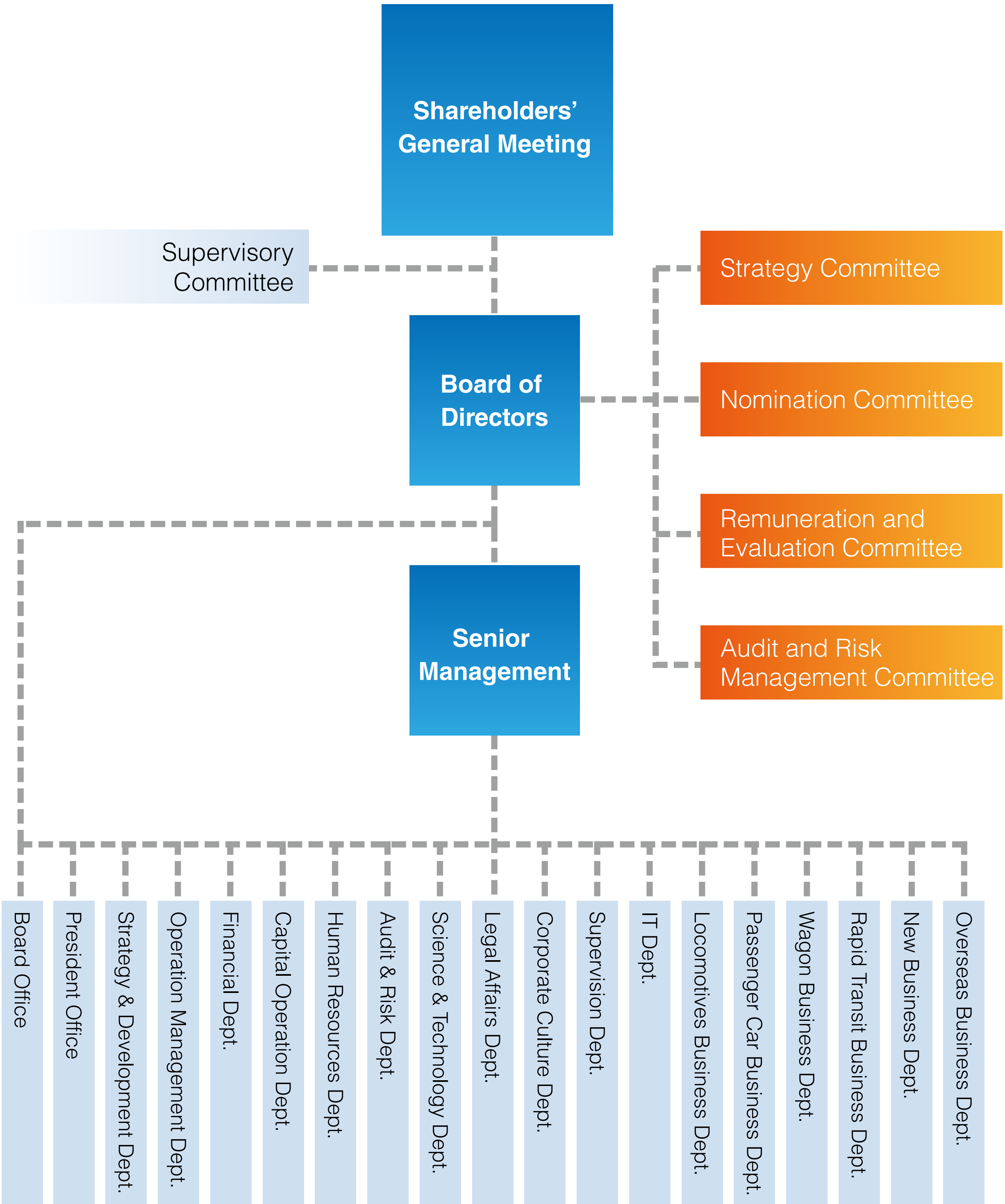
During the reporting period, there was no change in Directors, Supervisors and Senior Management of the Company.

The first session of Supervisory Committee have reached their respective 3-year term. At the 22nd meeting of the first session of the Board held on 27 December 2010, the Board proposed that all members of the first session of the Board be re-elected as Directors of the second session of the Board. The Company will convene an extraordinary general meeting ("EGM") on 26 April 2011, for the purpose of considering the proposal in relation to the re-election of the second session of the Board. Until the term of office of the second session of the Board become effective on the conclusion of the EGM, all Directors of the first session of the Board will continue to perform their duties as Directors in accordance with the relevant provisions of the Articles of Association.

Mr. Li Jianguo, a Supervisor of the Company, will cease to act as a Supervisor of the Company upon the expiry of his term of office as a member of the first session of the Supervisory Committee. At the 15th meeting of the first session of the Supervisor Committee of the Company held on 27 December 2010, the Supervisory Committee approved the following matters: 1. Wang Yan and Sun Ke being nominated as candidates for shareholder representative Supervisors of the second session of the Supervisory Committee of the Company. 2. submission of the proposal in relation to the election of the shareholder representative Supervisors of the second session of the Supervisory Committee of the Company to the EGM for consideration and approval. 3. prior to the second session of the Supervisory Committee becoming effective, the first session of the Supervisory Committee to perform its duties until the formation of the second session of the Supervisory Committee by the shareholder representative Supervisors to be elected at the EGM and employee representative Supervisors. 4. the term of office of the shareholder representative Supervisors of the second session of the Supervisory Committee, being three years commencing from the date of the passing of the election at the EGM pursuant to the Articles of Association. As approved at the employee congress, Mr. Qiu Wei has been elected as the employee representative Supervisor of the second session of the Supervisory Committee of the Company.

Report Of Corporate Governance

The Company's overall corporate governance structure is set out below:



(I) CORPORATE GOVERNANCE

The Company regards sound corporate governance as the intrinsic impetus for its development. During the reporting period, the Company, as an enterprise listed in both Mainland China and Hong Kong, standardized its corporate operation in strict compliance with the laws, regulations and regulatory documents of the PRC and Hong Kong, and made continuous efforts in maintaining and promoting its public image. Pursuant to the laws and regulations such as the Company Law, and requirements of the rules and regulations of the regulatory authorities, the Company has established a modern corporate governance structure featuring "three committees and one management" and an effective corporate governance mechanism consisting of the general meeting (as the highest authority), the Board (as the decision-making body), the Supervisory Committee (as the supervisory body) and the management (as the executive body). Currently, the Company's corporate governance meets the requirements of regulatory documents applicable to listed companies in the PRC and Hong Kong.

The Company established the system for corporate governance practice according to the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules. After reviewing the corporate governance documents adopted by the Company, the Board is of opinion that the Company's corporate governance is in compliance with all the principles, code provisions and part of the recommended best practices in the CG Code. In certain aspects, the corporate governance practices adopted by the Company are more stringent than code provisions set out in the CG Code.

(II) SHAREHOLDERS AND GENERAL MEETINGS

1. Shareholders and general meetings

The general meeting is the highest authority of the Company, through which shareholders may exercise their powers. Safeguarding shareholders' interest and promoting their values always serve as the Company's goal of development. In accordance with the Company Law, the Securities Law, and other laws, regulations and regulatory documents in the PRC as well as the relevant laws, regulations and regulatory documents in Hong Kong, the Company formulated the Articles of Association and Rules of Procedure of Shareholders' General Meetings which provide for detailed procedures of the convening, holding, proposal submission and voting of general meetings. The Company has established channels for effective communication with shareholders and has invited comments and advices from shareholders to ensure that all shareholders have the right to know, right to participate and right to vote in respect of the Company's significant events. The Company attached great importance to the management of investor relations. It has established comprehensive channels for effective communication with shareholders. The Company cordially received visits and phone calls from shareholders to ensure that all shareholders, especially minority shareholders, could fully exercise their rights.

2. Relationship between the controlling shareholder and the Company

The Company is independent from its controlling shareholder in terms of personnel, assets, finance, organisation and business. The Board, Supervisory Committee and internal departments are able to operate independently. The controlling shareholder of the Company has obligations of trust and confidence to the Company and its public shareholders, and has not committed acts in violation of the interests of the Company through utilizing its connected relationship with the Company. Particulars are as follows:

Independence in businesses	The Company is independent from its controlling shareholder in its business and has full power to make decisions and to operate independently.
Independence in personnel	All staff members are employed independently by the Company. The Company formulates its remuneration systems and pays remuneration independently. None of the members of the Senior Management of the Company holds any administrative management position in CSRG, the controlling shareholder of the Company, or receives remuneration from CSRG and other companies controlled by it.
Independence in assets	The Company has independent and complete assets necessary for its productions and operations, including land and properties, machinery and equipment, trademarks and other intellectual property rights as well as electronic information equipment, which are completely independent of CSRG.

Independence in organisations	The Company establishes shareholders' general meetings, the Board and management team for operations, which will make decisions for the Company's operations within their respective spheres of authorities and such organisational structures operate completely independent of the controlling shareholder. The Company has established an organisational structure consisting of various departments with clear division of responsibilities. The Company has also established an internal control system to promote the effective operation of the Company's businesses.
Independence in finance	The Company establishes a financial department with adequate financial and accounting staff in charge of financial checking and auditing of the Company's accounts. The Company has established independent accounting system, financial accounting management system and accounting policies. It has independent accounting books, opens separate bank accounts and pays taxes independently according to the applicable laws.

(III) DIRECTORS AND THE BOARD

1. Directors and the Board

The Board plays a pivotal role in the corporate governance. The Board comprises nine Directors, including five independent non-executive Directors. The Board has a reasonable membership composition in terms of intellectual background, including a number of entrepreneurs possessing extensive experiences in operation and management and some famous experts and scholars in finance. All Directors are highly capable of performing their functions and have strong sense of duty. During the reporting period, all Directors attended the Board meetings with an earnest and responsible attitude, actively participated in training, and carried out independently their respective responsibilities and duties in a loyal, honest, and diligent manner in accordance with the requirements under the Articles of Association and Rules of Procedure for the Board of Directors, bringing into full play Directors' decision-making role in corporate governance.

Directors were elected and the Board was established in strict compliance with the provision of regulatory documents on corporate governance of listed companies and the Articles of Association. The number of the Directors and composition of the Board fully comply with the laws, regulations and the Articles of Association. The Board has established four committees under it, namely the Strategy Committee, Audit and Risk Management Committee, Remuneration and Evaluation Committee and Nomination Committee. During the reporting period, all the committees carried out work in a regular manner, presented proposals from their respective professional perspectives for discussion and consideration, providing strong support for the Board in its decision making.

The composition of the Board, biographical details of Directors and connections between them are detailed in the sections headed "Biographic Details of Directors, Supervisors and Senior Management" and "Report of Directors - Financial, Business or Family Relationship among Directors" in this annual report. Each Director is appointed for a term of three years. Upon expiry, the term is renewable upon re-election. The term of office for an independent non-executive Director is renewable subject to a limit of not more than six years. In 2010, the Company purchased liability insurance for the Directors, Supervisors and Senior Management of the Company to provide security for the compensation liabilities that may arise during the performance of their duties under the laws.

The term of the first session of Board of the Company has reached its 3-year term, and the Board nominated candidates for the second session of Board at the 22nd meeting of the first session of Board held on 27 December 2010. The second session of Board is intended to be comprised of nine Directors. The Board recommended that all members of the first session of Board be re-elected as Directors of the second session of Board. The Company intends to convene the EGM on 26 April 2011 to consider the proposal in relation to the re-election of the second session of Board. All Directors of the first session of Board will perform their respective responsibilities as directors in accordance with relevant requirements of the Articles of Association until the term of the second session of Board commences at the conclusion of such EGM.

2. Independent non-executive Directors

The Board comprises five independent non-executive Directors, representing more than 50% of the total number of Directors. All members of the Audit and Risk Management Committee and Remuneration and Evaluation Committee under the Board are independent non-executive Directors. Independent non-executive Directors represent the majority of the members of the Nomination Committee, and chairmen of the Audit and Risk Management Committee, Nomination Committee, Remuneration and Evaluation Committee are all independent non-executive Directors. The independent non-executive Directors of the Company have extensive expertise and experience, among whom Dai Deming and David Tsoi are accounting professionals.

During the reporting period, under the principle of objectiveness, independence and prudence and in the interests of investors and relevant parties, the independent non-executive Directors put their expertise into full play, actively attended the Board meetings and meetings of board committees, made inspections and investigations of a number of subsidiaries, duly performed their duties, and issued their independent opinion on significant events in accordance with the laws and regulations. They have played their role in improving the Board's scientific decision-making process and promoting sustainable and healthy development of the Company's businesses. To enable the independent non-executive Directors to play such roles, necessary systems shall be put in place to safeguard such need. By continuously improving the systems, the Company clearly defined the responsibilities and duties of the Board and the Board committees, standardized operation procedures and provided guarantee for the independent non-executive Directors' power to perform their functions. Relevant systems established by the Company include Independent Directors' Manual, Annual Report Working Rules for Independent Directors, Communication Rules for Independent Directors and Management Methods for Investigations and Studies of Independent Directors.

The independent non-executive Directors of the Company have submitted written confirmations of their independency as required by Rule 3.13 of the Hong Kong Listing Rules. The Company considers that the independency of each of the independent non-executive Directors has been established. During the reporting period, the independent non-executive Directors did not raised objections to proposals presented at the Board meetings or other meetings for the year.

3. Duty of the Board

The Board is the decision-making organisation of the Company. It reports to the shareholders' general meeting and exercises the following powers in accordance to the Articles of Association: (1) to convene shareholders' general meetings and implement resolutions of the general meetings; (2) to decide on the Company's business plans and investment plans; (3) to formulate the Company's annual financial budget plan, final accounting plan, profit distribution plan and plan for recovery of losses; (4) to formulate proposals for material acquisition, share repurchase by the Company, or merger, division, dissolution and transformation; (5) to appoint or remove senior management personnel and, to decide on their remuneration and award matters; (6) to formulate the Company's basic management system; (7) to decide on the establishment of special committees of the Board and to consider and approve the resolutions proposed by each special committee of the Board; and (8) to manage information disclosure of the Company.

4. Board Meetings

During the reporting period, in accordance with the CG Code, the Board held board meetings at least four times a year, and convened meetings for all members of the Board to attend (if necessary) to make major decisions.

In 2010, the Board held 6 meetings in total. The following table shows details of Director's attendance at the board meetings during the reporting period.

Name of Director	Number of attendance*	Number of entrusted attendance**
Executive Director		
Mr. Zhao Xiaogang	6	0
Mr. Zheng Changhong	6	0
Mr. Tang Kelin	5	1
Mr. Liu Hualong	5	1
Independent Non-executive Director		
Mr. Zhao Jibin	6	0
Mr. Yang Yuzhong	6	0
Mr. Chen Yongkuan	5	1
Mr. Dai Deming	5	1
Mr. Tsoi, David	6	0

* During the reporting period, 5 board meetings were held by way of on-site meetings, and 1 board meeting was held by way of communication.

** Mr. Tang Kelin was unable to attend the Board meeting held by the Board on 27 September 2010, and appointed Mr. Zhao Xiaogang as his proxy to attend and vote on his behalf at the meeting. Mr. Liu Hualong was unable to attend the Board meeting held by the Board on 27 September 2010, and appointed Mr. Zheng Changhong as his proxy to attend and vote on his behalf at the meeting. Mr. Chen Yongkuan was unable to attend the Board meeting held by the Board on 28 October 2010, and appointed Mr. Dai Deming as his proxy to attend and vote on his behalf at the meeting. Mr. Dai Deming was unable to attend the Board meeting held by the Board on 1 September 2010, and appointed Mr. Yang Yuzhong as his proxy to attend and vote on his behalf at the meeting.

5. Board Committees

The Board has established the Audit and Risk Management Committee, Remuneration and Evaluation Committee, Strategy Committee and Nomination Committee, and specified their respective terms of references in accordance with laws, regulations and principles stipulated by the CG Code. Each committee reports its work to the Board. Performance of the Board Committees' duties during the reporting period is set out below:

(1) STRATEGY COMMITTEE

In accordance with the amended Working Rules for Strategy Committee of the Board of CSR Corporation Limited, members of the Strategy Committee increased from five to six, including Mr. Zhao Xiaogang, Mr. Zheng Changhong, Mr. Yang Yuzhong (independent non-executive Director), Mr. Zhao Jibin (independent non-executive Director), Mr. Tang Kelin and Mr. Liu Hualong (a new committee member approved by the Board in 2010). Mr. Zhao Xiaogang serves as the chairman of the Strategy Committee while Mr. Yang Yuzhong serves as the vice-chairman of the committee. The primary responsibilities of the Strategy Committee are to formulate the overall development plans and investment decision-making procedures for the Company, including, among others:

- reviewing the Company's long-term development strategies;
- reviewing the Company's strategic planning and implementing reports; and
- reviewing significant capital expenditure, investment and financing projects that require approval of the Board.

During the reporting period, the Strategy Committee held five meetings. The attendance of each Director is as follows:

Name of Director	Number of attendance / Number of meeting	Attendance rate
Zhao Xiaogang	5	100%
Zheng Changhong	5	100%
Yang Yuzhong	5	100%
Zhao Jibin	5	100%
Tang Kelin	5	100%

During the reporting period, the Strategy Committee strictly complied with requirements of Working Rules for Strategy Committee of the Board, independently and objectively performed its duties, and studied and made proposals for the Company's development strategies and material investment decisions. The committee reviewed the proposals, including Development Strategy (Outline) of the Company for the "Twelfth Five-Year Plan", the Special Report on Deposit and Actual Use of the Proceeds from the Company's A Shares Issue, 2009 Final Accounts of the Company, 2009 Profit Distribution Plan of the Company, 2009 Social Responsibility Report of the Company, and the Management Measures on Holders of Insider Information.

(2) NOMINATION COMMITTEE

The Nomination Committee of the Company consists of five Directors, namely, Mr. Zhao Xiaogang, Mr. Zhao Jibin (independent non-executive Director), Mr. Yang Yuzhong (independent non-executive Director), Mr. Chen Yongkuan (independent non-executive Director) and Mr. Liu Hualong. Mr. Zhao Jibin serves as the chairman of the Nomination Committee. The primary responsibilities of the Nomination Committee are to formulate the nomination procedures and standards for candidates for Directors and members of the Senior Management and to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and Senior Management. The relevant standards for nomination of a Director include the Director's proper professional knowledge and experience in the industry, personal integrity, good faith and technique and commitment of adequate time.

During the reporting period, Nomination Committee held 2 meetings and all members attended the meetings.

Candidates for Directors (other than independent non-executive Directors) are nominated by the Board or shareholder(s) individually or jointly holding 3% or more of the total issued shares of the Company carrying voting rights, and appointed by a general meeting of the Company. The Board, Supervisory Committee or shareholder(s) individually or jointly holding 1% or more of shares in the Company are entitled to nominate candidates for independent non-executive Directors to be appointed at the shareholders' general meetings.

During the reporting period, the Nomination Committee strictly complied with requirements of Working Rules for Nomination Committee of the Board, independently and objectively performed its duties and held 2 meetings. At the fifth meeting held on 20 October 2010, the proposal in relation to Recommendation of Mr. Zheng Sheng as the Securities Representative of CSR Corporation Limited was considered and approved. At the sixth meeting held on 27 December 2010, the proposal in relation to the Nomination for the Candidates of the Directors of the Second Session of the Board was considered and approved.

(3) REMUNERATION AND EVALUATION COMMITTEE

In accordance with the amended Working Rules for Remuneration and Evaluation Committee of the Board of CSR Corporation Limited, members of the Remuneration and Evaluation Committee reduced from four to three, including Mr. Chen Yongkuan, Mr. Dai Deming and Mr. Tsoi, David, all being independent non-executive Directors. Mr. Chen Yongkuan serves as the chairman of the Remuneration and Evaluation Committee. As approved by the Board, Mr. Liu Hualong ceased to serve as a member of the committee. The primary responsibilities of the Remuneration and Evaluation Committee are to formulate the evaluation standards and conduct evaluation of the Directors and Senior Management and to determine and review the compensation policies and schemes for the Company's Directors and Senior Management, including, among others:

- studying the assessment criterion, performance assessment process, remuneration, incentive and punishment measures, and submitting the same to the Board for approval;
- assessing duty performance of the Directors and the Senior Management and evaluating their performance;
- supervising the implementation of the Company's remuneration system;
- considering the specific remuneration packages (including non-monetary benefit, pension arrangement and all insurance coverage, including unemployment insurance) of all executive Directors and the Senior Management and making recommendations to the Board regarding the remuneration of the non-executive Directors. Factors considered by the Remuneration and Evaluation Committee may include remuneration for relevant personnel among the peers, time dedicated to perform duties by such Directors or the Senior Management, terms of reference of the Directors or the Senior Management, other employee's compensation and specific performance of the Directors or the Senior Management. When determining the remuneration for the Directors or the Senior Management, a Director or a member of the Senior Management or their respective associate shall not determine his/her own remuneration;
- considering if compensation arrangements are to be made to an executive Director or a member of the Senior Management for lost or termination of his/her position and ensuring that such compensation (if any) complies with the relevant contractual provisions, or if contract provisions are not followed, ensuring such compensation is fair and reasonable, without resulting in too heavy a burden on the Company;
- considering if compensation arrangements are to be made to a Director for termination or dismissal due to his/her misconduct, and ensuring such compensation (if any) complies with the relevant contractual provisions, or if contract provisions are not followed, ensuring compensation is fair and reasonable; and other affairs conferred by the Board.

During the reporting period, the Remuneration and Evaluation Committee held 3 meetings. The attendance of each member of the committee during the reporting period is as follows:

Name of Director	Number of attendance / Number of meeting	Attendance rate
Chen Yongkuan	3	100%
Dai Deming	3	100%
Tsoi, David	3	100%
Liu Hualong	1 *	100%

* As Mr. Liu Hualong ceased to be a member of the Remuneration and Evaluation Committee from 1 September 2010, he was not required to attend the meetings held by the committee on 8 September 2010 and 27 December 2010.

During the reporting period, the Remuneration and Evaluation Committee strictly complied with requirements of Working Principles for Remuneration and Evaluation Committee of the Board and independently and objectively performed its duties. The committee considered and approved four proposals in relation to the Remuneration and Welfare Contribution for the Company's Directors and Supervisors in 2009, Remuneration and Welfare Contribution for the Company's Senior Management in 2009, the Company's Share Option Scheme (Draft) and Interim Measures on Management of the Company's Share Option Scheme (Draft).

(4) AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee of the Company consists of three independent non-executive Directors, namely, Mr. Dai Deming, Mr. Yang Yuzhong and Mr. Tsoi, David. Mr. Dai Deming is an accounting professional and Mr. Tsoi, David is a Certified Public Accountant. Mr. Dai Deming serves as the chairman of the Audit and Risk Management Committee. The primary responsibilities of the Audit and Risk Management Committee are to review and supervise the Company's financial reporting process, including, among others:

- appointing and overseeing the work of the Company's independent auditors and pre-approving all non-audit services to be provided by the Company's independent auditors;
- reviewing the Company's annual and interim financial statements, profits announcements, critical accounting policies and practices used in preparing financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;
- reviewing the planning and staffing of internal audits, the organisation, responsibilities, plans, results, budget and staffing of the Company's internal audit team and the quality and effectiveness of the Company's internal controls;
- reviewing the Company's risk assessment and management policies; and
- establishing procedures for the treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters, potential violations of law and questionable accounting or auditing matters.

During the reporting period, the Audit and Risk Management Committee held six meetings. The attendance of each Director of the committee is as follows:

Name of Director	Number of attendance / Number of meeting	Attendance rate
Dai Deming	6	100%
Yang Yuzhong	6	100%
Tsoi, David	6	100%

During the reporting period, all members performed their functions and carried out their responsibilities conferred by the Board in a diligent and earnest manner. All members attended meetings on time, studied, examined and approved proposals in compliance with requirements of regulatory authorities and the Company, actively communicated with external accountants and relevant departments of the Company, and completed all their work successfully.

- Meetings held are set out below::

  During the reporting period, the Audit and Risk Management Committee held six meetings. It considered and approved the following proposals: 2009 Annual Report of the Company, 2010 First Quarterly Report of the Company, External Guarantees Provided by the Company and its Subsidiaries, Credit Limit of the Company for 2010, Relevant Matters on A Share Connected Transactions of the Company in 2010, Relevant Matters on H Share Connected Transactions of the Company in 2010, Audit Report on the Use of Proceeds of the Company in 2009, Self-assessment Report of the Board on Internal Control of the Company, Reappointment of Certified Public Accountants for Year 2010 and Decision on the Remuneration Determination Method, 2010 Interim Report of the Company, Audit Report on the Use of Proceeds of the Company in the First Half of 2010, 2010 Third Quarterly Report of the Company, Establishment of CSR Finance Co., Ltd and Connected Transactions in Relation thereto, Signing of Connected Transaction Agreement by the Company and CSR Group, Remuneration of Certified Public Accountants of the Company for Year 2010 and Term of Engagement, Schedule for Audit of 2010 Financial Report of the Company, and Work Plan for the Company's Annual Audit in 2011.

- Performance of its duties in relation to 2010 Annual Report is set out below::

  (1) issuing review opinions on 2010 annual financial report of the Company. The Audit and Risk Management Committee issued its review opinions on the annual financial report of the Company twice pursuant to the relevant requirements of CSRC: (1) the Audit and Risk Management Committee issued a written opinion on the unaudited financial report, and (2) after the auditors for annual audit issued preliminary audit opinion, the Audit and Risk Management Committee reviewed again the financial report of the Company and issued a written opinion.

  (2) reviewing the 2010 financial report of the Company and agreeing to submit the same to the Board of the Company for consideration.

(3) supervising the audit work of the auditors. The Audit and Risk Management Committee communicated with auditors for annual audit in respect of 2010 annual audit arrangement and timetable. Having been debriefed special reports from the auditors and financial officers of the Company respectively, the committee determined the audit work arrangement of the Company for 2010. Upon the commencement of audit by the auditors with respect to the Company's annual audit, members of the committee proactively communicated with the auditors, and through the financial officers and secretary to the Board of the Company, supervised the auditors to complete the auditors' report as scheduled and sent supervision letter to the auditors twice.

(4) summarizing the annual audit work done by the accounting firms. The committee assessed and summarized the audit work done by the accounting firms who provided audit service in respect of the Company's annual report. The committee reported the assessment results and the summary to the Board.

- Supervising and giving guidance to the Company's internal audit. The Audit and Risk Management Committee was debriefed reports on the Company's internal audit in multiple occasions, and communicated with the Company's internal audit department, through face-to-face talks, phone calls and emails, to suggest requirements and to monitor their work. The committee reviewed and approved the internal audit work plan put forward by the Company and considered the proposals submitted by the audit department, gave guidance and lay down requirements for internal audit.

- Reviewing the Company's financial information and disclosure thereof. The Audit and Risk Management Committee examined and studied in multiple occasions the financial information disclosed in the Company's reports and financial statements, and carefully reviewed proposals regarding financial statements.

- Reviewing the Company's internal control system and its operation. The Audit and Risk Management Committee debriefed the report by the supervisory departments for internal control in respect of their supervisory work on risk management and internal control, and urged the Company to enhance its internal control and management capability. In the internal control assessment process, members of the Audit and Risk Management Committee communicated with the chief financial officer of the Company, head of the financial department and the persons responsible for the preparation of financial statements, studied carefully and filled the Working Paper of Self-assessment of Internal Control, discussed and reviewed the Self-assessment Report on Internal Control submitted by the Company.

(IV) CHAIRMAN AND PRESIDENT

To ensure the balanced distribution of power and authorisation and to avoid excessive concentration of power, the positions of the chairman and president are assumed by Mr. Zhao Xiaogang and Mr. Zheng Changhong respectively, so as to improve independence, accountability and responsibility. The chairman and the president are two distinctly different positions, with clean division of duties as set out in the Articles of Association.

As the legal representative of the Company, the chairman presides over the operations of the Board, with an aim to ensure that the Board acts in the best interests of the Company and that Board's operates effectively, performs its responsibilities accordingly and has discussion over various important and appropriate matters and that the Directors have access to accurate, timely and clear data. The president, on the other hands, leads the management and is responsible for the management of the day-to-day operations of the Company, including the implementation of the policies adopted by the Board, and reports to the Board on the Company's overall operation. The Articles of Association set out in detail the respective duties of the chairman and the president.

(V) SUPERVISORS AND THE SUPERVISORY COMMITTEE

The Supervisory Committee is the supervision organisation of the Company. It reports to the shareholders' general meeting and is responsible for supervising the Company's finance and compliance of the duty performance of Directors, the president and other Senior Management members, so as to protect the interests of the Company and shareholders under the laws. The Company has taken effective measures to ensure the Supervisor's rights to be informed and provide the Supervisors with necessary information and data in a timely manner. The president and other Senior Management members, at the request of the Supervisory Committee, report to it with respect to information regarding the signing of material contracts and the execution thereof, use of capital as well as the profits and losses.

(VI) ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

The Board has attached much importance to the establishment and improvement of the Company' internal control system, and strived to improve the internal control system of the Company. After reviewing the effectiveness of the internal control systems of the Company and its subsidiaries, the Board is of opinion that the Company has established a sound internal control system. During the reporting period, the Company constantly improved and reviewed its internal control practices based on its practical experience, shareholders' opinions, and domestic and international development trends and with reference to supervisory regulations of its places of listing and changes of internal and external risks.

1. Work plans and implementation proposals for establishing and improving internal control system

In order to ensure the successful implementation of the Basic Standards for Enterprise Internal Control and the Implementary Guideline for Enterprise Internal Control, the Company has formulated the following work plans and implementation proposals: (1) to set up a leading team and a working group for the "establishment and improvement of internal control system"; (2) To refine the design of internal control mechanism, which mainly involves four steps: (i) to clearly define the duties for each person responsible for internal control; (ii) the working group holds monthly regular meetings and quarterly analysis meetings to discuss important matters in relation to internal control; (iii) to determine the qualification and quantification principles of the internal control system; (iv) to promote the continuous improvement, implementation and rectification of internal control work to form a complete work-loop; (3) to focus on the practice of self-checking against standards in internal control so as to cement a solid foundation for the full-scale application in 2011; (4) to wage an in-depth and comprehensive campaign for promoting basic standards and supporting guidelines which will include three steps: (i) trainings on internal control theories for mid-to-senior management members of the Company's headquarter and first-tier subsidiaries; (ii) trainings on internal control theories for personnel holding key positions in the internal control team; (iii) trainings and experience exchanging events for heads and operators of internal control teams of all entities; (5) to promote and introduce the contents of internal control guidelines in various forms; (6) to draw support from external forces to enhance internal control. The Company intends to engage intermediaries owning high-caliber and experienced professionals to provide consulting services; (7) to rely on its own strengths to conduct special investigations and studies on internal control.

2. Establishment and operation of the system for internal control over financial reporting

In order to ensure the effectiveness of corporate governance, the Company has established a complete internal control system and formulated the following rules and regulations, Articles of Association, Rules of Procedure for Shareholders' General Meetings, Rules of Procedure for the Board of Directors, Rules of Procedure for Supervisory Committee, Independent Directors' Manual, Working principles of the Strategy Committee, Working principles of the Audit and Risk Management Committee, Working principles of the Nomination Committee, Working principles of the Remuneration and Evaluation Committee, President's Manual, Management Measures on Use of Proceeds, Management Measures on Related Party Transactions, Management Measures on Information Disclosure, Management Measures on Investor Relations, and Management Measures on External Guarantees, etc. In addition, the Company has also formulated Management Measures on Contracts and Agreements, Management Measures on Investment and various financial and audit regulations, and has compiled Employee Handbook, Compilation of Rules and Regulations, Risk Management Manual, Internal Control Manual and Audit System Manual, with a view to standardizing its internal control practices. In compliance with Basic Standards for Enterprise Internal Control jointly issued by the Ministry of Finance and other 4 Ministries, Internal Control Guidance for Listed Company by Shanghai Stock Exchange, CG Code by Hong Kong Stock Exchange and Comprehensive Risk Management Guidance for Central Enterprises by State-owned Asset Supervision and Administration Commission of the State Council (the "SASAC"), the Company, by reference to its own characteristics, established internal control system including control over financial reporting, which was strictly operated in compliance with such system.

No material deficiency in internal control over financial reporting was found during the year.

3. Internal control system and its implementation

The Company formulated and issued the Internal Control Manual. Furthermore, the Company has established an internal control system based on its actual characteristics and with reference to the Basic Standards for Enterprise Internal Control jointly issued by the Ministry of Finance and other four ministries, the Guidelines for Internal Control of Listed Companies of the Shanghai Stock Exchange and the CG Code of Hong Kong Stock Exchange, and strictly followed such system in practice.

4. Establishment of supervisory departments for internal control

The Company's supervisory departments for internal control consist of the internal audit department, the supervisory department and the legal affairs department. The Company's headquarter has established the audit and risk department, supervisory department and legal affairs department. The first-level subsidiaries of the Company have all established their own independent audit and supervisory departments, and employed legal management personnel.

5. The Board's arrangements on internal control activities

The Board reviews the internal control system and its operation. The Audit and Risk Management Committee of the Board debriefs and considers the report by the supervisory departments for internal control in respect of their supervisory work on risk management and internal control, and urge the Company to enhance its internal control and management capability. In the internal control assessment process, members of the Audit and Risk Management Committee communicated with the chief financial officer of the Company, head of the financial department and the persons responsible for the preparing of financial statements, and discussed with the accounting firms in relation to the audit matters of the annual report.

6. Information disclosure and transparency

The secretary to the Board is responsible for specific information disclosure. The Company has established the investor relationship unit of the Board Office, which is a department dedicated to investor relations responsible for investor reception and consultation for better communication with shareholders. During the reporting period and in strict compliance with the Rules Governing the Listing of Securities on the Shanghai Stock Exchange, the Hong Kong Listing Rules, the Articles of Association and the Administrative Measures on Information Disclosure and guided by the principle of simultaneous disclosure for companies with shares listed on multiple places, the Company performed its information disclosure obligations in accordance with the laws in Mainland China and Hong Kong by publishing information in a true, accurate, complete, timely and effective manner through legitimate ways such as designated newspapers or websites, ensuring equal shareholders' access to information of the Company.

(VII) EVALUATION AND MOTIVATION FOR THE SENIOR MANAGEMENT

The Company applies annual performance evaluation on members of the Senior Management. Remuneration of the Senior Management includes performance bonus which is calculated based on performance appraisals by the Company.

(VIII) ESTABLISHMENT OF ACCOUNTABILITY MECHANISM FOR MAJOR ERRORS IN ANNUAL REPORT DISCLOSURE

The Management Measures on Information Disclosure of the Company sets out detailed provisions with respect to the accountability mechanism for major errors in information disclosure: obligors and other insiders for information disclosure shall be held liable for the non-compliance by the Company with the laws and regulations in relation to information disclosure which has incurred any adverse effect or loss to the Company as a result of the breach of duty of such persons or violation of relevant provisions by such person. During the reporting period, the Company did not have significant errors in the disclosure of annual report of the Company.

(IX) DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors confirm that they have the responsibility for preparation of the financial statements for the Company for the year ended 31 December 2010, in order to truly and impartially report the financial conditions and business results of the Company and the Group, and undertake relevant responsibilities for preparation of the financial statements of the Group.

With the assistance of the accounting department, the Directors confirm that the financial statements of the Company were prepared in accordance with relevant laws, regulations and applicable accounting standards. The Directors also confirm that the financial statements have been and will be published in due course.

The responsibility statement made by the Company's auditors in respect of the financial statements is set out in the section headed "Independent Auditors' Report" in the Auditors' Report of the annual report.

(X) CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS AND SUPERVISORS

The Company has adopted the Management Method Regarding the Shareholding of Directors, Supervisors and Senior Management on terms no less exacting than the required standards of dealing set out in the Model Code. Relevant employees who are likely to be in possession of unpublished price sensitive data of the Company are also subject to the rules required under such document.

As at 31 December 2010, after making specific inquiries with all Directors and Supervisors, the Company confirmed that all Directors and Supervisors have complied with the relevant codes on securities transactions by Directors and Supervisors as set out in the Model Code and the "Management Method regarding Shareholding of Directors, Supervisors and Senior Management of the Company".

(XI) AUDITORS

The Company has appointed Ernst & Young and Ernst & Young Hua Ming as its international and domestic auditors respectively since its establishment. During the reporting period, the Company made no change in this respect, and continued to engage Ernst & Young Hua Ming and Ernst & Young as its domestic and international audit firms respectively for the audit of its 2010 annual financial report.

The Company has paid Ernst & Young and Ernst & Young Hua Ming an aggregate of RMB12 million as annual professional auditing fees for providing audit services with respect to the 2010 financial statements, which fees are inclusive of business taxes, business trip costs, accommodation and communication costs. During 2010, the Company also paid them RMB2.45 million for agreed-upon procedures. Apart from the above, the Company has not engaged Ernst & Young or Ernst & Young Hua Ming for any major non-auditing service.

Certain subsidiaries of the Company engaged Ernst & Young Hua Ming as their auditors for their respective financial report of 2010 and paid a total of RMB4.05 million as auditors' remuneration.

Investor Relations

Year 2010 witnessed rapid growth of CSR, in which the Company received much attention from investors, potential investors and the public. In addition to making standard and sufficient information disclosure, the Company, through communicating with investors in an accurate, timely and clear manner, effectively enhanced the recognition of the Company's value among investors and promoted its market capitalisation. Meanwhile, by giving feedbacks from the capital markets to the management, the Company further perfected its corporate governance structure, enhanced its management, promoted transparency of corporate management in a bid to maximize its shareholders interests while improving the Company's intrinsic value.

During the reporting period, in accordance with the Company Law, the Securities Law, the Working Guidelines for the Relationship Between Listed Companies and Investors, and other laws and regulations, the Company kept improving systems such as the Management Rules for Investors Relations, Management Rules for Information Disclosure and Management Rules for News Release, further specifying the purpose, principles, targets, contents and methods of investor relations management of the Company.

During the reporting period, the Company continued to improve its daily work in investor relations management. Firstly, the Company kept updating investor records. Through day-to-day communications with analysts, the Company updated analyst records and established a database for 20 analysts who have been paying regular attention to CSR, and conducted daily management and maintenance in respect thereof; the Company collected investor information and established databases dynamically, and enhanced management of register of members. Secondly, the Company continued to update the special column for investor relations at its website so that the latest information about the Company has been made available to investors in a timely manner. Thirdly, the implementation staff of the investor relations management team searched for information on the capital market, followed up movements of shareholders and timely reported the same to the management level, so as to provide data for planning and arrangement of major activities for investor relations. Fourthly, the Company arranged special personnel to answer and receive calls and emails from investors and record in a patient and meticulous way, answered questions brought by investors and collected visit plans of investors and made corresponding arrangements. Fifthly, we organized non-transactional road shows and attended investor strategic meetings organized by securities traders. Through holding results announcement conference, arranging one to one investor visits and setting up regional investor online dialogue, the Company enhanced communication with investors and has established a favourable communication atmosphere. Lastly, the Company continued the adoption of and implemented the signature system for visitors' reception.

In 2010, the Company mainly carried out the following work as regards investor relations according to relevant regulatory requirements: in April 2010, a results announcement presentation was held in Hong Kong by the Company, which was attended by the senior executives of the Company. At the same time of holding results announcement conferences and participating in interviews with the media, to further communicate with investors, the Company also hosted 16 one-to-one meetings, 2 one-to-many meetings with the investors. In May, the senior executives of the Company were divided into two groups who led the road shows in Europe and the US. The senior executives of the Company held 16 investor conferences in Dubai, London, Edinburgh and Frankfurt, and 24 investor conferences in Singapore, New York, Boston, and San Francisco. On 28 October, on the occasion that the Company's new generation of high-speed MUs CRH380A reached a record speed of 416.6 km/h, the Company invited investors to visit CSR Sifang and held an investor communication meeting. On 8 December, at the time the 7th World Congress on High Speed Rail took place, the Company invited 30 institutions and 40 investors of CSR to visit the high-speed rail exhibition and held investor communication meetings. In 2010, the Company had active and open communications with investors and analysts through many ways such as results announcement conferences, general meetings, investor strategy meetings, corporate visits, teleconference and visits and inspection of subsidiaries. The Company met approximately 257 investors, analysts and fund managers (1,600 person-time) and held 6 strategy conferences. Effective management of investor relations facilitated the good interaction between the Company and its investors, and helped establish a stable and premium investor base. The Company strived to create a culture for the purpose of serving and respecting investors and a philosophy championing both the maximisation of overall corporate interests and the increase of shareholders' wealth. As at 31 December 2010, the market capitalisation of CSR was RMB91.7 billion.

The Company's investment value has been highly recognized since 2010. Awards won by the Company are as follows:

Time of Awards	Awards	Awarder
January 2010	National Award for Science and Technology Progress-First-class Prize	the State Council
January 2010	Most Responsible Enterprise in China in 2009 (2009年最具責任感企業)	Guided by the Ministry of Commerce, SASAC, State Administration for Industry & Commerce, AQSIQ, State Administration for Work Safety, Overseas Chinese Affairs Office of the State Council, All China Federation of Trade Unions, Red Cross Society of China and China News Service, and jointly sponsored by China News Week and Chinese Red Cross Foundation
February 2010	World Top 500 Valuable Brands (全球最有價值500品牌)	Brand Finance, a brand value consultancy company in UK
May 2010	Excellent Board of Directors	Board of Directors magazine
May 2010	Top 50 Rail Transport Enterprise for Independent Innovation in 2009 (軌道交通企業自主創新•2009年度50強企業)	RT Rail Transport magazine of HNZ (鴻與智《RT軌道交通》雜誌), China Enterprise Evaluation Association
May 2010	National Meritorious Enterprise for Energy Saving and Emission Reduction in 2009 (2009中國節能減排功勛企業)	All-China Environment Federation, newspaper office of Chinese Enterprise
June 2010	Contribution Award for Promoting Green IT Application and Development in Advanced Manufacture Industry in 2009 (2009推動先進製造業綠色IT應用與發展貢獻獎)	Institute for Chinese Electronic & Information Industry Development (中國電子資訊?業發展研究院)
July 2010	Special Award for Science and Technology Innovation (科技創新特別獎)	SASAC
July 2010	Special Award for Efficiency Progress (效益進步特別獎)	SASAC
August 2010	Forbes Global 2000	Forbes
August 2010	China 100 Premium Growth Companies (中國百優(優質增長)公司)	Talents magazine
August 2010	China's Low Carbon Leading Brands (低碳中國 · 領軍品牌)	People.com
September 2010	No. 131 among China Enterprise Top 500 in 2010	China Enterprise Confederation, China Enterprise Directors Association
September 2010	Award for Independent Innovation and R&D (自主創新研發創造獎)	China Enterprise Evaluation Association
November 2010	Annual Top 100 for Management of Investor Relations (年度投資者關係管理百強)	Research Centre for Investor Relations Management of Chinese Listed Companies (中國上市公司投資者關係管理研究中心)
November 2010	Best Capability in Public Relations Management (最佳輿情能力)	Research Centre for Investor Relations Management of Chinese Listed Companies (中國上市公司投資者關係管理研究中心)
December 2010	The Chamber of Hong Kong Listed Companies: Honourable Mention Award In Corporate Governance Excellence Awards 2010	Chamber of Hong Kong Listed Companies

Investor Relations (Continued)

Performance of Social Responsibilities

In 2010, CSR assumed its obligations and responsibilities as a corporate citizen by adopting the same code of conduct and strategies as those used for promoting its business development. While pursuing economic benefits and safeguarding its shareholders' interests, it strove to offer the most valuable green products to customers, enhance resources conservation and environmental protection, maintain the legitimate rights and interests of its employees and play an active role in social welfare undertakings. The Company won the "Most Responsible Enterprise in China in 2010".

FULFILLING CORPORATE RESPONSIBILITIES IN RIGOROUS MANNER

The Company constantly refined corporate governance structure and enhanced internal control and risk management. The general meeting, the Board, the Supervisory Committee and the management have performed their respective duties separately. Meanwhile, the rules of procedures governing the general meetings, Board meetings and the meetings of the Supervisory Committee have been strictly followed to ensure the making of major decisions scientifically, the open information disclosure and the effective risk control, thus effectively safeguarding shareholders' interests and creditors' legitimate rights. The Company has been granted a number of awards in tandem, including Excellent Board of Directors (優秀董事會獎) in the 6th Gold Round Table Awards for the Boards of Directors of Chinese Listed Companies (第六屆中國上市公司董事會「金圓桌獎」), Honourable Mention (評獎委員嘉許獎) of the Hong Kong Corporate Governance Excellence Awards 2010, and Excellent Board of Directors 2010 Nomination Award (2010年優秀董事會提名獎) granted by the Shanghai Stock Exchange. In addition, the Company ranked among the Top 100 Companies with Best Investor Relations Management of the Year (年度投資者關係管理百強) and won the Best Capability in Public Relations Management (最佳輿情能力) award at the 5th China Investor Relations Annual Conference.

Leveraging on its financial, technical and intellectual resources, the Company carried out its investing and operating activities in a sustainable way, thus benefiting investors, customers and employees. The Company was honored as one of the Most Influential Enterprises 2010 (2010年度最具影響力企業) and China 100 Premium Growth Companies (中國百優(優質增長)公司). In Forbes Global 2000 enterprises, the Company was ranked 63rd among Mainland China-based companies. For the first time, the Company was included in the list of Fortune China 500 (財富中國500強排行榜) by ranking 49th in the general ranking and 2nd in machinery and equipment manufacturing category. According to the 2010 Global Railway Market Survey Report issued by SCI Verkehr, a Germany-based rail transit consulting firm, CSR has successfully ranked top three in global rail transit industry.

DEVOTING TO BUSINESS DEVELOPMENT AND RESEARCH WITH ADHERENCE TO A "GREEN" PHILOSOPHY

Being committed to vitalize China's high-end equipment manufacturing and lead the development trend of global rail transit industry, the Company endeavours to provide energy-efficient and environment-friendly transport vehicles and equipment products. CSR was granted by SASAC the Special Award for Science and Technology Innovation (科技創新特別獎) and Special Award for Efficiency Progress (效益進步特別獎) for central government-controlled enterprises.

The CRH380A new generation high-speed MUs, which were independently developed by the Company, feature high speed, high safety, great comfort and high energy conservation. The rapid transit vehicles developed by the Company help expand the urban transport capacity, lower resource consumption and reduce operation time in major cites such as Beijing, Shanghai, Nanjing, Guangzhou, Shenzhen, Wuhan and Chengdu. Meanwhile, the Company expanded investment and put more efforts in the development and research of products such as wind power equipment, electric automobiles and gas engines using new energy and new materials, and swiftly put them into industrialized operation. Accordingly, the Company has become the largest electric passenger car maker in China 50% of the drive systems of the electric automobiles at the World Expo were supplied by CSR. Having gained the core technology of wind power generating units through independent research, and equipped with leading low-voltage ride-through capability in the PRC, the Company has become the most competitive provider of wind power electric equipment and converter equipment in China.

The Company ranked 8th among industrial enterprises in the TOP 100 Chinese Enterprises for Independent Innovation (中國企業自主創新TOP100), and won the Award for Independent Innovation and R&D (自主創新研發創造獎) for Chinese enterprises. Furthermore, the Company was included in Top 50 Rail Transport Enterprise for Independent Innovation in 2009 (軌道交通企業自主創新·2009年度50強企業) at the 6th World Metro Rail Summit, and its CRH2 350 km/h High-speed MUs and Network-control And Traction Transmission System both ranked among the Top 10 Rail Transit Products for Independent Innovation in 2009 (軌道交通企業自主創新·2009年度十大產品).

UPHOLDING THE PEOPLE-ORIENTED PRINCIPLE

In compliance with all applicable environmental, health and safety standards, CSR has always cared about its employees throughout its production and operation. The Company sticks to the people-oriented concept, proactively builds platform for employees to achieve their personal values, creates favourable working environment and fosters career growth space for employees, thus allowing every employee to share success with CSR.

While enhancing its production safety, the Company also invested RMB25 million in energy-saving improvement and environmental protection projects in the year. The Company keeps a close eye on occupational health and has enhanced labor protection and supervision over occupational hazard, so as to create safe, healthy and sanitary working conditions and environment for employees. The Company also attaches importance to staff training and career planning, and constantly improves their occupational quality and skills through optimizing and perfecting training system. Keeping a watchful eye on the work and life of disadvantaged people, distressed employees, front-line production employees and models workers, the Company paid visits to 19,865 distressed employees and allocated relief fund in an aggregate amount of RMB15.31 million.

DEDICATING TO GREEN PRODUCTION WITH PROMOTION OF CHARITY

On the one hand, CSR offers the most advanced products to cater for the needs of modern life, it takes the initiative to fulfill the obligations and responsibilities as a corporate citizen on the other hand. Through endorsing environmental, charity and social welfare activities, the Company strives to make long-term contributions to the local economy, communities and environment.

In the context of advocating low-carbon economy, energy saving and environmental protection, the Company aspired to commit itself into a resource-efficient enterprise, and to promote clean production and develop cyclic economy. As a result, it was awarded the National Meritorious Enterprise for Energy Saving and Emission Reduction in 2009（2009中國節能減排功勳企業）, and won the Contribution Award for Promoting Green IT Application and Development in Advanced Manufacture Industry in 2009（2009推動先進製造業綠色IT應用與發展貢獻獎）and 2010 China's Low Carbon Leading Brands（低碳中國・領軍品牌）. The Company actively participated in social welfare activities, allocating RMB3.6 million (RMB30.4 million in aggregate from 2002 to 2008) as poverty alleviation fund to help construct infrastructures in Napo County and Jingxi County. The Company's subsidiaries also actively took part in the local public welfare activities, and approximately RMB2 million was donated for such purpose. Furthermore, the Company organized a donation campaign among its staff for the earthquake-stricken Yushu, Qinghai and an aggregate of RMB1,767,939.2 was donated to the Red Cross Society of China. The Company took part in drought relief work in the south-western region and donated RMB1 million to help battle drought in Napo County and Jingxi County.

Regarding social responsibilities as an important part of its business development strategy and operation management, CSR will consistently improve its social responsibility system and communication system in the course of operation and management, comply with laws and regulations, preserve commercial credit, open to public supervision and realize all-round, coordinated and sustainable development of the Company and the society.

Changes in Share Capital and Particulars of Shareholders

(I) CHANGES IN SHARE CAPITAL

1. Changes in shares and share capital structure

During the reporting period, there was no change in the total number of shares and capital structure of the Company. As at 31 December 2010, the share capital structure of the Company was as follows:

Unit: share

	Quantity	Percentage
I. Shares subject to trading moratorium		
1. State-owned and state-owned legal person shares	6,816,000,000	57.57
2. Other domestic shares	—	—
Total shares subject to trading moratorium	6,816,000,000	57.57
II. Shares not subject to trading moratorium		
1. Ordinary shares denominated in RMB	3,000,000,000	25.34
2. Domestic listed foreign shares	—	—
3. Overseas listed foreign shares	2,024,000,000	17.09
4. Others	—	—
Total shares not subject to trading moratorium	5,024,000,000	42.43
III. Total number of shares	11,840,000,000	100.00

2. Changes in shares subject to trading moratorium

During the reporting period, there was no change in the Company's shares subject to trading moratorium.

(II) ISSUE AND LISTING OF SECURITIES

1. Issue of securities during last three years

Unit: Share

Type of shares	Date of issue	Issue price	Shares issued	Date of listing	Number of shares approved for listing	Date of termination of trading
A Shares	5 August 2008	RMB2.18 per share	3,000,000,000	18 August 2008	2,400,000,000	
H Shares	14 August 2008	HK$2.6 per share	1,840,000,000*	21 August 2008	1,600,000,000	
				19 September 2008	240,000,000	

Note: * including 240,000,000 H Shares issued by the Company at a price of HK$2.6 per share upon the exercise of the over-allotment option in full on 12 September 2008.

The Company issued 3,000,000,000 A Shares at a price of RMB2.18 per share in August 2008. Such A Shares with a par value of RMB1 each were listed on the Shanghai Stock Exchange on 18 August 2008.

The Company issued 1,600,000,000 H Shares at a price of HK$2.6 per share (before the excise of over allotment option) in August 2008. Such H Shares with a par value of RMB1 each were listed on the Hong Kong Stock Exchange on 21 August 2008. On 12 September 2008, upon the full exercise of the over-allotment option, the Company issued 240,000,000 H shares at a price of HK$2.6 per share. After the exercise of the over-allotment option in full, the Company has 1,840,000,000 H shares in issue. In accordance with the relevant provisions for reduction of state-owned shares, the Company's shareholders holding state-owned legal person shares, namely, CSRG and BRIT, transferred such number of state-owned shares held by them equivalent to 10% of the total H Shares offered at the H Share offering, or 184 million shares, to the NSSF. Such State-owned shares were converted into H Shares on a 1:1 basis.

2. Changes in total shares and share capital structure

The total number of issued shares and the share capital structure of the Company had not changed as a result of any bonus issue or share placement during the reporting period.

3. Existing internal employee shares

The Company had no internal employee shares as at the end of the reporting period.

(III) PARTICULARS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

1. The number of shareholders and their shareholdings

(1) Total number of shareholders as at the end of the reporting period

As at the end of the reporting period, the Company had 212,081 shareholders in total, including 209,230 holders of A Shares and 2,851 holders of H Shares.

(2) Shareholdings of the top ten shareholders

Unit: Share

Name of Shareholder	Nature of shareholder	Percentage of shareholding (%)	Number of shares held	Change during the reporting period	Number of shares subject to trading moratorium	Number of shares pledged or frozen
CSRG	State-owned legal person	54.27	6,425,714,285	2,800,000	6,422,914,285	Nil
HKSCC NOMINEES LIMITED	Overseas legal person	17.04	2,018,066,840	904,940		Unknown
Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)	—	2.50	295,714,286	0	295,714,286	Unknown
BRIT	State-owned legal person	0.82	97,371,429	0	97,371,429	4,285,714
China Construction Bank - Great Wall Brand Selective Stock Investment Fund (中國建設銀行－長城品牌優選股票型證券投資基金)	Other	0.54	64,371,102	(712,430)		Unknown
Industrial and Commercial Bank of China - South Longyuan Industrial Subject Stock Investment Fund (中國工商銀行－南方隆元產業主題股票型證券投資基金)	Other	0.53	62,500,000	22,853,088		Unknown
China Construction Bank - China AMC Advantage. Growth Stock Fund（中國建設銀行－華夏優勢增長股票型證券投資基金）	Other	0.46	54,999,748	54,999,748		Unknown
China Construction Bank - Fortune SGAM Industrial Selected Investment Fund（中國建設銀行－華寶興業行業精選股票型證券投資基金）	Other	0.44	51,916,604	51,916,604		Unknown
Industrial and Commercial Bank of China - Lion Value Growth Stock Investment Fund（中國工商銀行－諾安價值增長股票證券投資基金）	Other	0.42	50,000,000	50,000,000		Unknown
China Construction Bank - Changsheng Tongqing Detachable Stock Investment Fund（中國建設銀行股份有限公司－長盛同慶可分離交易股票型證券投資基金）	Other	0.42	49,999,962	19,999,962		Unknown

Notes:

(1) H Shares held by HKSCC NOMINEES LIMITED were shares held on behalf of various customers.

(2) BRIT is a wholly-owned subsidiary of CSRG. Save as the above, the Company is not aware of any connections among the aforesaid shareholders.

(3) According to Implementation Measures on the Transfer of Certain State-owned Shares in Domestic Stock Market for Replenishing National Social Security Fund, which was promulgated in 2009, the holders of the State-owned shares of the Company transferred such number of state-owned shares as equivalent to 10% of shares actually issued and listed under the IPO to the NSSF. Therefore, a portion of shares held by BRIT were frozen during the reporting period.

(3) Shareholding of the top 10 holders of shares not subject to trading moratorium

Unit: Share

Name of Shareholders	Number of shares not subject to trading moratorium held	Type of share
HKSCC NOMINEES LIMITED	2,018,066,840	Overseas listed foreign shares
China Construction Bank - Great Wall Brand Selective Stock Investment Fund (中國建設銀行 — 長城品牌優選股票型證券投資基金)	64,371,102	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China - South Longyuan Industrial Subject Stock Investment Fund (中國工商銀行-南方隆元產業主題股票型證券投資基金)	62,500,000	Ordinary shares denominated in RMB
China Construction Bank - China AMC Advantage. Growth Stock Fund（中國建設銀行 — 華夏優勢增長股票型證券投資基金）	54,999,748	Ordinary shares denominated in RMB
China Construction Bank - Fortune SGAM Industrial Selected Investment Fund（中國建設銀行 — 華寶興業行業精選股票型證券投資基金）	51,916,604	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China - Lion Value Growth Stock Investment Fund（中國工商銀行 — 諾安價值增長股票證券投資基金）	50,000,000	Ordinary shares denominated in RMB
China Construction Bank - Changsheng Tongqing Detachable Stock Investment Fund（中國建設銀行股份有限公司 — 長盛同慶可分離交易股票型證券投資基金）	49,999,962	Ordinary shares denominated in RMB
Bank of China - Dacheng Blue Chip. Steady Securities Investment Fund（中國銀行 —大成藍籌穩健證券投資基金）	44,102,827	Ordinary shares denominated in RMB
Huaxi Securities Co.,Ltd（華西證券有限責任公司）	43,219,084	Ordinary shares denominated in RMB
China Resources Shenzhen International Investment Trust Co., Ltd. - Chongyang Phase III Stock Investment Collective Fund Trust Program (華潤深國投信託有限公司 — 重陽3期證券投資集合資金信託計劃)	41,640,979	Ordinary shares denominated in RMB
Connections or parties acting in concert among the aforesaid shareholders	The Company is not aware of any connections among the aforesaid shareholders.	

(4) Shareholdings of the top 10 holders of shares subject to trading moratorium and the terms of the trading moratorium

Unit: Share

			Release of trading moratorium		
No.	Name of holders of shares subject to trading moratorium	Number of shares subject to trading moratorium held	Expiry date of trading moratorium	No. of additional shares available for listing and trading	Trading moratorium
1	CSRG	6,422,914,285	18 August 2011	6,422,914,285	Promoter shareholder undertook that the A shares of the Company held by it would be subject to a moratorium period of 36 months from the date of A shares listing
2	Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)	295,714,286	18 August 2014	295,714,286	Implementation Measures on the Transfer of Certain State-owned Shares in Domestic Stock Market for Replenishing National Social Security Fund
3	BRIT	97,371,429	18 August 2011	97,371,429	Promoter shareholder undertook that the A shares of the Company held by it would be subject to a moratorium period of 36 months from the date of A shares listing

2. Shareholding Interests of Directors, Supervisors and Senior Management Members

As at 31 December 2010, none of the Directors, Supervisors and Senior Management of the Company had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code by the Directors or Supervisors.

As at 31 December 2010, none of the Directors, Supervisors and Senior Management or their spouses or children under the age of 18 was granted any equity securities or warrants of the Company.

3. Substantial Shareholders' Interests and Short Positions in the Company

As at 31 December 2010, the persons set out in the table below had an interest or short position in the Company's shares as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Capacity	H Share or A Share	Nature of Interest	Number of H Shares or A Shares held	Percentage of H share or A share held in the total issued H shares or total issued A shares (%)	Percentage of total share capital of the Company (%)
CSRG *(Note 1)*	Beneficial owner	A Shares	Long position	6,523,085,714	66.45	55.09
JPMorgan Chase & Co.	Beneficial owner	H Shares	Long position	163,811,032	8.09	1.38
	Investment Manager		Short position	5,000	0.00	0.00
	Custodian - corporation/ Approved lending agent		Lending pool	117,411,032	5.80	0.99
National Council for Social Security Fund *(Note 2)*	Beneficial owner	H Shares	Long position	184,000,000	9.09	1.55

Notes:

1. CSRG holds 97,371,429 A shares of the Company through its wholly-owned subsidiary, BRIT.
2. The Company issued a total of 1.84 billion overseas listed foreign invested shares (H Shares) (after the exercise of over-allotment option in full). In accordance with the relevant provisions of reduction of state-owned shares, the Company's shareholders of State-owned legal person shares, namely CSRG and BRIT, transferred such number of state-owned legal person shares equivalent to 10% of the total H Shares offered at the H Share offering, or 184 million shares, to the NSSF. Such State-owned shares were converted into H Shares on a 1:1 basis.
3. Information disclosed hereby is based on the information available on the website of the Hong Kong Stock Exchange at www.hkex.com.hk.

Save as disclosed above, as far as the Directors are aware, as at 31 December 2010, no other person had interests and/or short positions in the shares or underlying shares (as the case may be) of the Company which were required to be recorded in the register pursuant to section 336 of Part XV of the SFO, or was otherwise a substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company.

4. PARTICULARS OF CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

(1) Controlling shareholder

Unit: RMB0'000

Name	Legal representative	Registered capital	Establishment date	Principal Operations
CSRG	Zhao Xiaogang	705,549.40	2 July 2002	Design, manufacture and repair of rail vehicles, rapid transit vehicles, electrical and mechanical equipment and components, electronic and electric appliance, and environmental protection related products; equipment leasing; sales of the above related products; technical services and information consulting; industrial investment; assets entrusted management; import and export business; construction equipment installation; sales of chemical materials (excluding dangerous chemicals), and building materials.

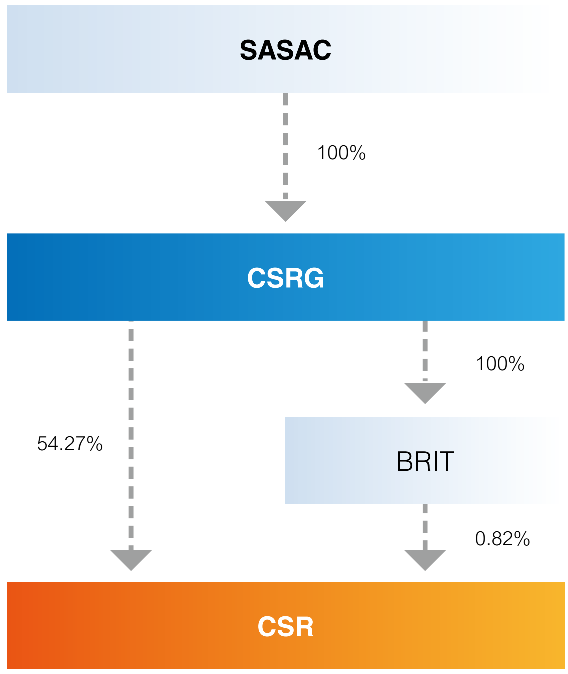
(2) Ultimate controller

Name of ultimate controlling shareholder: SASAC of the State Council.

(3) Changes in the controlling shareholder and the ultimate controller

There was no change in the controlling shareholder and the ultimate controller of the Company during the reporting period.

(4) Framework of ownership and controlling relationship between the Company and the ultimate controller



(5) Other corporate shareholders with over 10% shareholdings

Save for HKSCC NOMINEES LIMITED, there were no other corporate shareholders holding over 10% shares of the Company as at the end of the reporting period.

(IV) SUFFICIENT PUBLIC FLOAT

As at the last practicable date prior to the printing of this annual report, according to all public information and as far as the Directors are aware, the Directors believe that the Company has sufficient public float which satisfies the minimum public float requirement under Rule 8.08 of the Hong Kong Listing Rules.

(V) PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

(VI) ISSUANCE OF SHARES BY SUBSIDIARIES

In June 2009, Times New Materials, a non-wholly owned subsidiary of the Company, proposed to issue and place not more than 60,000,000 A shares to CSR ZELRI and not more than nine other qualified investors by way of a non-public offering and placement. CSR ZELRI agreed to subscribe not less than 40% of the new A shares to be issued by Times New Material. According to the relevant PRC laws, the subscription price shall not be less than RMB13.55 per share. The board of directors of Times New Materials was authorized by the shareholders' general meeting to finalize the issue size and the subscription price according to the proposed proceeds and the subscription applications by the target subscribers. The non-public issue was completed on 18 May 2010 and the net proceeds of RMB800,294,000 raised therefrom would be used for certain production projects of Times New Materials. CSR ZELRI subscribed for a total of 12.4 million new A Shares of Times New Material (or 40.26% of the total new A Shares of Times New Material issued pursuant to the non-public issue). The total consideration paid by CSR ZELRI for the subscription was RMB337.032 million. Upon completion of the non-public issue, the Company, through CSR ZELRI and other subsidiaries of the Company, controls a total of approximately 38.69% of the total voting right at the general meetings of Times New Material, and the Company will continue to maintain its controlling status in Times New Material.

Report Of Supervisory Committee

During the reporting period, all members of the first session of the Supervisory Committee have exercised supervision on the Company's operation, financial position and the performance of duties by the Board and the Senior Management in 2010 with a view to protect the corporate interests and shareholders' interests in accordance with relevant requirements of the Company Law, the Articles of Association and the Rules of Procedures for the Meetings of the Supervisory Committee of CSR Corporation Limited. All members of the Supervisory Committee fully completed the work of the Supervisory Committee in 2010 diligently.

(I) OPERATION OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the reporting period, the Supervisory Committee carried out field inspection on the Company's connected transactions and use of proceeds respectively, and reviewed the Company's 2009 annual report, and first quarterly report, interim report and third quarterly report of 2010 in accordance with the requirement of the Article of Association and the Rules of Procedures for the Meetings of the Supervisory Committee and by reference to the actual circumstances.

1. Attendance of the meetings of the Supervisory Committee during 2010

In 2010, the Supervisory Committee convened five meetings in total, at which various resolutions were considered and approved. All five meetings were held in compliance with the Company Law and the Articles of Association. Major contents of the meetings are as follows:

Name of meeting	Time	Agenda
The 11th meeting of the first session of the Supervisory Committee	21 April 2010	1. The Proposal in relation to the 2009 Working Report of the Supervisory Committee of the Company 2. The Proposal in relation to the 2009 Annual Report of the Company 3. The Proposal in relation to the 2010 First Quarterly Report of the Company 4. The Proposal in relation to the 2009 Final Accounts of the Company 5. The Proposal in relation to the 2009 Profit Distribution Plan of the Company 6. The Proposal in relation to the A-share Connected Transactions of the Company in 2010 7. The Proposal in relation to the H-share Connected Transactions of the Company in 2010 8. The Proposal in relation to the Specific Report on Deposit and Actual Use of Proceeds Raised from A Share Offering of the Company in 2009 9. The Proposal in relation to the Audit Report on the Use of Proceeds of the Company in 2009 10. The Proposal in relation to the Self-assessment Report of the Board on Internal Control of the Company 11. The Proposal in relation to 2009 Social Responsibility Report of the Company
The 12th meeting of the first session of the Supervisory Committee	10 August 2010	1. The Proposal in relation to the 2010 Interim Report of the Company 2. The Proposal in relation to the Specific Report on Deposit and Actual Use of Proceeds Raised from A Share Offering of the Company in the First Half of Year 2010
The 13th meeting of the first session of the Supervisory Committee	27 September 2010	1. The Proposal in relation to Verification of the Name list of Participants of the Share Options Incentive Scheme
The 14th meeting of the first session of the Supervisory Committee	28 October 2010	1. The Proposal in relation to the 2010 Third Quarterly Report of the Company
The 15th meeting of the first session of the Supervisory Committee	27 December 2010	1. The Proposal in relation to the Determination of Candidates for Shareholder Representative Supervisors of the Second Session of Supervisory Committee of the Company 2. The Proposal in relation to the Connected Transaction Agreement Entered into Between the Company and CSRG

2. Attendance of Relevant Meetings of the Company for 2010

During the reporting period, all members of the Supervisory Committee attended one general meeting and six Board meetings (as non-voting participants) of the Company, and have supervised the legal compliance, voting procedures and Directors' attendance with respect to the general meeting and Board meetings.

(II) OPINIONS OF THE SUPERVISORY COMMITTEE ON THE RELEVANT MATTERS OF THE COMPANY IN 2010

Through attending the general meeting and Board meeting, and carrying out special independent inspections, the Supervisors exercised its supervision function on the duty performance of Directors and Senior Management of the Company.

1. Independent opinions on the lawful operation of the Company

In accordance with the laws and regulations of the relevant listing places, the Supervisory Committee has duly overseen and examined, among other things, the convening procedures and resolutions of Board meetings, implementation by the Board of the resolutions passed at general meetings, performance by Senior Management of their duties and the establishment and consistent implementation of the sound internal control system of the Company.

The Supervisory Committee is of the view that the Board and Senior Management of the Company have acted in strict compliance with the Company Law and the Articles of Association and other relevant regulations and rules of the listing places, performed their duties with integrity and diligence and implemented the resolutions of, and exercised the powers granted by, the general meetings. The operations and decisions made were in compliance with the laws and regulations and the Articles of Association. In examining the financial position of the Company and overseeing the performance by the Directors and Senior Management of their duties, the Supervisory Committee is not aware of any act in breach of laws and regulations, the Articles of Association and the rules and regulations of the Company.

2. Independent opinions on inspection of the Company's financial position

During the reporting period, the Supervisory Committee supervised and inspected the connected transactions and use of proceeds of the Company and its major subsidiaries, and carefully considered and issued the written inspection opinion on the 2009 Annual Report, the 2009 Profit Distribution Proposal, the 2010 First Quarterly Report, the 2010 Interim Report and the 2010 Third Quarterly Report of the Company.

The Supervisory Committee is of the view that the financial reports of the Company gave a truthful, fair and complete view of the Company's financial position and operating results. Ernst & Young Hua Ming and Ernst & Young have audited and issued standard unqualified audit report on the annual financial report.

3. Independent opinions on actual use of the latest raised proceeds by the Company

During the reporting period, the Company has utilized the proceeds in accordance with its commitments in the Prospectus.

The Supervisory Committee is of the view that the utilisation of proceeds was in compliance with the relevant laws and regulations in the PRC and the Articles of Association, without any actions detrimental to the interests of the Company and the shareholders. The Supervisory Committee of the Company will continue to supervise and inspect the progress of relevant projects.

4. Independent opinions on asset acquisitions and disposals by the Company

During the reporting period, no insider dealing or any act detrimental to the interests of the shareholders that may cause any loss to the Company's assets was discovered in the Company's acquisitions or disposals of assets.

5. Independent opinions on connected transactions of the Company

The Supervisory Committee is of the view that the connected transactions of the Company during 2010 were carried out on a fair and just basis. No act in prejudice to the interests of the Company and the shareholders was discovered.

6. Independent opinions on the assessment of internal control of the Company

The Supervisory Committee has reviewed the Self-assessment Report of the Board on Internal Control of the Company and raised no objection to it.

Chairman of the Supervisory Committee
Wang Yan

March 2011

Significant Events

(I) MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration during the year.

(II) MATTERS RELATED TO BANKRUPTCY AND REORGANISATION

The Company was not involved in any events relating to bankruptcy or reorganisation during the year.

(III) EQUITY INTERESTS IN OTHER LISTED COMPANIES AND FINANCIAL INSTITUTIONS HELD BY THE COMPANY

1. Securities investment

Unit: HKD

Stock Variety	Stock Code	Stock Short Name	Initial Investment Amount	Number of Shares held *(share)*	Carrying Amount at the End of the Reporting Period	Percentage in Securities Investment held by the Company *(%)*	Gain or Loss Occurred in the Reporting Period
Shares listed on the Hong Kong Stock Exchange	01618.HK	MCC	38,484,429	6,000,000	20,580,000	100	(6,960,000)

2. Equity interests in other listed companies held by the Company

Unit: RMB

Stock Code	Stock Short Name	Initial Investment Amount	Percentage in the Share Capital of the Company Invested *(%)*	Carrying Amount at the End of the Reporting Period	Gain or Loss Occurred in the Reporting Period	Changes in Owner's Equity in the Reporting Period	Accounting Items	Source of Equity Interest
601328	Bank of Communications	477,657.60	—	2,564,360.52	120,434.30	(2,864,659.00)	Financial assets available for-sale	Purchase

Note: the equity interest held by the Company represents less than 1% of the share capital of Bank of Communications

3. Equity interests in non-listed financial enterprises held by the Company

Unit: RMB

Name of institution	Initial Investment Amount	Number of Shares held *(share)*	Percentage in the Share Capital of the Company Invested *(%)*	Carrying Amount at the End of the Reporting Period	Gain or Loss Occurred in the Reporting Period	Changes in Owner's Equity in the Reporting Period	Accounting Items	Source of Equity Interest
Jiangsu Bank	74,400.00	74,400	—	74,400.00	—	—	Long-term equity investment	Purchase
Huarong Xiangjiang Bank Corporation Limited	770,000.00	700,000	—	550,000.00	—	—	Long-term equity investment	Purchase
Donghai Securities Co., Ltd.	19,483,800.00	20,000,000	1.20	19,483,800.00	—	—	Long-term equity investment	Purchase

Note: 1. During the reporting period, Zhuzhou City Commercial Bank, in which the Company held equity interest, was reorganized and renamed as Huarong Xiangjiang Bank Corporation Limited.

2. The Company's equity interests in Jiangsu Bank and Huarong Xiangjiang Bank Corporation Limited represent less than 1% of their respective share capital.

4. Shares in other listed companies traded by the Company

Buy/ Sell	Stock Name	Number of Shares at the Beginning of the Reporting Period *(share)*	Number of Shares Bought/Sold during the Reporting Period *(share)*	Number of Shares at the end the Reporting Period *(share)*	Amount of Funds Used *(RMB)*	Investment Income *(RMB)*
Sell	Bank of Communications	994,274	526,325	467,949	—	2,417,230.88
Sell	Dingsheng Tiangong	1	1	—	—	2.56

(IV) ACQUISITIONS AND DISPOSALS OF ASSETS OR MERGER BY ABSORPTION BY THE COMPANY DURING THE REPORTING PERIOD

The Company was not involved in any acquisition or disposal of assets or merger by absorption during the reporting period.

(V) THE COMPANY'S IMPLEMENTATION OF SHARE OPTION INCENTIVE SCHEME AND ITS EFFECTS

The 20th meeting of the first session of the Board was held on 27 September 2010, at which the proposals in relation to the Revocation of Stock Appreciation Rights Plans of CSR Corporation Limited and the Share Option Scheme of the Company (draft) were considered and approved. The 23rd meeting of the first session of the Board was held on 7 March 2011, at which the proposals in relation to, among others, the Share Option Scheme of the Company (revised draft) were considered and approved. The Share Option Scheme of the Company has been approved by relevant authorities but is still subject to the consideration and approval by shareholders at the general meetings of the Company.

(VI) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Trusts, contracts and lease arrangements which contribute 10% or more of the total profit of the Company for the period

(1) Trust

The Company did not enter into any trust arrangement during the year.

(2) Contract

The Company did not act as a contractor during the year.

(3) Lease arrangement

The Company did not have any lease arrangement during the year.

2. Guarantees

Unit: RMB'000

Guarantees provided by the Company to external parties (excluding guarantees provided by the Company in favour of its subsidiaries)	
Total guarantees amount provided during the reporting period (excluding guarantees provided by the Company in favour of its subsidiaries)	—
Total guarantees balance at the end of the reporting period (excluding guarantees provided by the Company in favour of its subsidiaries)	—

Guarantees provided by the Company in favour of its subsidiaries	
Total guarantee amount provided to the Company's subsidiaries during the reporting period	2,021,220
Total guarantee balance provided to the Company's subsidiaries at the end of the reporting period	2,886,598

Aggregate guarantee amount provided by the Company (including guarantees provided by the Company in favour of its subsidiaries)	
Total guarantee amount	2,886,598
Percentage of total guarantee amount to net assets of the Company *(%)*	15.00%
including:	
Amount of guarantees provided in favour of shareholders, ultimate controller and their related parties	—
Amount of guarantees directly or indirectly provided in favour of parties with gearing ratio over 70%	1,834,507
Portion of the total guarantee amount in excess of 50% of net assets	—
Total amount of the three above-stated guarantees	1,834,507

Note: Percentage of total guarantee amount to net assets of the Company equals the ratio of the guarantee amount over equity attributable to owners of the Company.

During the reporting period, total guarantee amount provided by the Company in favour of its subsidiaries was RMB2,021 million. As at 31 December 2010, total guarantee balance was RMB2,887 million, representing 15% of the net assets. Out of such guarantee balance, RMB2,805 million and RMB82 million were provided to the Company's wholly-owned subsidiaries and non wholly-owned subsidiaries respectively. As far as guarantee type is concerned, out of the RMB2,887 million of guarantee balance in total, RMB2,571 million was provided by way of bank acceptance drafts, RMB155 million was provided by way of letters of guarantee and letters of credit, RMB36 million was provided by way of factoring guarantees and RMB125 million was provided by way of loan guarantees.

During the reporting period, the Company did not provide any guarantees in favour of its shareholders, ultimate controller and their related parties; all guarantees provided by the Company were in favour of its wholly-owned subsidiaries and non wholly-owned subsidiaries. As at the end of the reporting period, the guarantee balance provided by the Company in favour of its wholly-owned and non wholly-owned subsidiaries with gearing ratio over 70% was RMB1,835 million. Approval procedures have been complied with at the Board meetings and the general meetings as required by the Articles of Associations in respect of the guarantees provided by the Company in favour of its wholly-owned and non wholly-owned subsidiaries with gearing ratio over 70%.

3. Entrusted Investment

The Company did not entrust any investment which was discloseable during the reporting period.

4. Other Material Contracts

During the reporting period, CSR Zhuzhou, a wholly-owned subsidiary of Company, won the bid for a project of 590 units of high-powered A/C six-axle 7,200kW electric locomotives (大功率交流傳動六軸7200kW電力機車), details of which were set out in the Company's announcement published on China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily and the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 17 July 2010.

During the reporting period, CSR Zhuzhou (a wholly-owned subsidiary of Company), BST (a joint venture of the Company), CSR Sifang Co., Ltd (a non wholly-owned subsidiary of Company) and CSR Qishuyan (a wholly-owned subsidiary of Company) have entered into material contracts with their customers, respectively. For details, please refer to Company's announcements published on China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily and the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 24 July 2010, 3 August 2010, 15 September 2010 and 1 December 2010, respectively.

(VII) PERFORMANCE OF UNDERTAKINGS

1. CSRG, the controlling shareholder of the Company, made the following undertakings in the Prospectus:

(1) The lock-up undertaking in respect of the shares held by CSRG in the Company is as follows: within 36 months from the date of listing of the Company's A Shares on the Shanghai Stock Exchange, CSRG will not transfer or authorize others to manage its shareholdings in the Company, nor will the Company acquire such shares.

(2) The undertaking made by CSRG in respect of restructuring of South Huiton is as follows: there should be a proposed restructuring in CSRG's shareholdings and relevant assets in South Huiton. This includes but not limit to CSRG's proposed acquisition of South Huiton's assets in relation to the freight wagon businesses. CSRG will transfer the abovementioned assets in relation to the freight wagon businesses acquired from South Huiton to the Company within three months from the date of CSRG's acquisition of such assets. The transfer price will be determined through negotiation based on the result of the assets valuation. The above transfer of assets is subject to necessary review procedures pursuant to the requirements of the domestic and overseas regulatory bodies.

(3) The non-competition undertakings are as follows:

i) CSRG undertakes that CSRG will not and will, through legal procedures, procure its wholly-owned and non wholly-owned subsidiaries not to engage in any businesses which might directly compete with the Company's current operating businesses;

ii) Subject to the aforesaid undertaking i), should CSRG (including its wholly-owned and non wholly-owned subsidiaries or other associates) operate any products or provide any services that might be in competition with the principal products or services of the Company in the future, CSRG has agreed to grant the Company pre-emptive rights to acquire the assets or the entire equity interests in such subsidiaries related to such products or services from CSRG;

iii) Subject to the aforesaid undertaking i), CSRG may develop advanced and lucrative projects in the future which fall within the Company's business scope, but it should grant pre-emptive right to the Company to purchase any achievements on such projects for operation under the same terms of transfer;

iv) CSRG Group should indemnify the Company for its actual losses due to the losses arising from the failure in fulfilling the undertakings i) to iii) as described above.

During the reporting period, CSRG, the controlling shareholder of the Company, fully complied with its undertakings as stated above. On 29 January 2011, the Company issued an announcement in relation to the undertaking made by CSRG to South Huiton, stating that it received from CSRG the letter regarding the undertaking made by CSRG in respect of restructuring of South Huiton. Relevant details are as follows: 1. CSRG confirms that it designates the Company as its sole platform for its research and development, manufacturing, sale, repair and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key components as well as other businesses that utilise proprietary rolling stock technologies; and 2. CSRG plans to, in five years or so, dispose of its equity interest in South Huiton by way of merger and acquisition of assets and/or reorganization and/or other means, and CSRG may transfer the acquired assets which relate to the freight wagons business to the Company after acquiring the relevant assets of South Huiton.

2. Commitment on building ownership issues

As disclosed in the Prospectus, the Company has not yet obtained proper property ownership certificates for 326 properties with a total gross floor area of 282,019.03 square meters, mainly because they have not been granted property ownership certificates by the local government authorities due to the implementation of the "Leaving the City and Entering the Suburb" policy in Shijiazhuang and the changes in urban planning in Chengdu area. In respect of those properties in Shijiazhuang, Shijiazhuang Administration of Urban and Rural Planning(石家莊市城鄉規劃局)has issued the Explanation on the Area Planning of CSR Shijiazhuang Rolling Stock Works and pointed out that it would, due to urban planning, not accept any applications for the planning permit in respect of any properties without property ownership certificates. In respect of those properties in Chengdu, Chengdu Administration of Urban Planning(成都市規劃管理局) has issued the Explanation on the Road Planning in the Area of CSR Chengdu Locomotive & Rolling Stock Works and pointed out that two municipal roads planned would run through the land of the area of the works based on the need of urban development. Application of property ownership certificates for such properties was temporarily on hold according to the request of the local governments. Apart from the above two subsidiaries which were unable to obtain the property ownership certificates due to objective reasons, property ownership certificates have been obtained with respect to all remaining properties.

(VIII) PUNISHMENTS AND RECTIFICATIONS OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS AND ULTIMATE CONTROLLER

During the year, none of the Company, its Directors, Supervisors, Senior Management members, shareholders or ultimate controller was subject to any investigation, administrative punishment or criticism by CSRC or any condemnation by any stock exchanges.

(IX) NOTES ON OTHER MATERIAL EVENTS

On 1 July 2010, CSRG increased its shareholding in the Company for the first time by 2,000,000 shares ("Increase of Shareholding") and proposed to continue to increase its shareholding in the Company, either in its own name or through parties acting in concert with it, via the trading system of the Shanghai Stock Exchange in the coming 12 months ("Period of Further Increase") by up to an aggregated number of A shares not exceeding 2% of the total issued share capital of the Company (including those shares purchased in the Increase of Shareholding). The aggregate amount to be utilized in such increase of shareholding in the Company should not exceed RMB1,000 million (including the capital invested in the Increase of Shareholding). CSRG undertook that it will not dispose any share it holds in the Company during the Period of Further Increase and within the statutory period.

During the reporting period, CSRG continued to increase its shareholding in the Company by 800,000 shares. As at 31 December 2010, CSRG held a total of 6,425,714,285 shares of the Company, representing approximately 54.27% of the total issued share capital of the Company.

Independent Auditors' Report

To the shareholders of CSR Corporation Limited
(Registered in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of CSR Corporation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 97 to 179, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

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

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2011

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**63,912,435**	45,620,751
Cost of sales		**(52,944,731)**	(38,453,741)
Gross profit		**10,967,704**	7,167,010
Other income and gains	5	**617,718**	695,961
Selling and distribution costs		**(1,980,348)**	(1,132,661)
Administrative expenses		**(5,785,762)**	(4,263,779)
Other expenses, net	6	**(449,081)**	(144,179)
PROFIT FROM OPERATIONS		**3,370,231**	2,322,352
Finance costs	7	**(316,572)**	(264,758)
Share of profits and losses of associates and jointly-controlled entities		**611,794**	343,743
PROFIT BEFORE TAX	6	**3,665,453**	2,401,337
Income tax expense	10	**(415,482)**	(285,155)
PROFIT FOR THE YEAR		**3,249,971**	2,116,182
Attributable to:			
Owners of the parent		**2,531,437**	1,678,153
Non-controlling interests		**718,534**	438,029
		3,249,971	2,116,182
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	13	**21.4 cents**	14.2 cents
– Diluted		**21.4 cents**	14.2 cents
OTHER COMPREHENSIVE INCOME			
Available-for-sale assets:			
Changes in fair value		**(2,866)**	6,801
Reclassification adjustments for gains included in profit or loss — gain on disposal	5	**(2,417)**	(5,917)
Income tax effect		**942**	248
Exchange differences on translation of foreign operations		**(29,675)**	10,100
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(34,016)**	11,232
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,215,955**	2,127,414
Total comprehensive income attributable to:			
Owners of the parent		**2,507,725**	1,683,754
Non-controlling interests		**708,230**	443,660
		3,215,955	2,127,414

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

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**17,065,727**	13,509,207
Prepaid land lease payments	15	**3,972,366**	3,469,812
Goodwill	16	**48,879**	52,544
Other intangible assets	17	**409,129**	439,780
Investments in jointly-controlled entities	19	**894,129**	782,798
Investments in associates	20	**214,953**	56,604
Available-for-sale investments	21	**25,598**	31,117
Deferred tax assets	10	**287,119**	183,440
Other non-current assets	22	**523,569**	26,198
Total non-current assets		**23,441,469**	18,551,500
CURRENT ASSETS			
Inventories	23	**17,733,284**	11,415,069
Trade receivables	24	**11,124,351**	6,638,161
Bills receivable	25	**1,709,935**	999,097
Prepayments, deposits and other receivables	26	**4,966,921**	4,640,365
Financial assets at fair value through profit or loss	27	**17,512**	24,248
Tax recoverable		**46,148**	78,361
Pledged deposits	28	**755,154**	1,618,367
Cash and cash equivalents	28	**13,770,897**	11,273,147
Total current assets		**50,124,202**	36,686,815
CURRENT LIABILITIES			
Trade payables	29	**17,971,521**	13,676,189
Bills payable	30	**6,912,763**	4,975,387
Other payables and accruals	31	**11,103,047**	7,597,602
Interest-bearing bank and other borrowings	32	**5,777,951**	3,193,345
Defined benefit obligations	33	**166,260**	174,010
Tax payable		**301,381**	186,194
Provision for warranties	34	**296,749**	215,094
Government grants	35	**132,684**	48,783
Total current liabilities		**42,662,356**	30,066,604
NET CURRENT ASSETS		**7,461,846**	6,620,211
TOTAL ASSETS LESS CURRENT LIABILITIES		**30,903,315**	25,171,711

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	**4,203,724**	2,171,866
Defined benefit obligations	33	**1,761,150**	1,969,740
Provision for warranties	34	**411,696**	144,724
Government grants	35	**671,540**	549,118
Deferred tax liabilities	10	**12,899**	11,903
Other non-current liabilities		**1,556**	3,209
Total non-current liabilities		**7,062,565**	4,850,560
NET ASSETS		**23,840,750**	20,321,151
EQUITY			
Equity attributable to owners of the parent			
Share capital	36	**11,840,000**	11,840,000
Reserves		**6,930,585**	5,016,568
Proposed final dividend	12	**473,600**	473,600
		19,244,185	17,330,168
Non-controlling interests		**4,596,565**	2,990,983
Total equity		**23,840,750**	20,321,151

Zhao Xiaogang
Director

Zheng Changhong
Director

Year ended 31 December 2010

	Attributable to owners of the parent									
	Share capital *RMB'000*	Capital reserve *RMB'000*	Available-for-sale investment revaluation reserve *RMB'000*	Common statutory reserve fund *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained earnings *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2010	11,840,000	2,803,842	6,153	149,754	(3,340)	2,060,159	473,600	17,330,168	2,990,983	20,321,151
Total comprehensive income for the year	—	—	(4,341)	—	(19,371)	2,531,437	—	2,507,725	708,230	3,215,955
Capital contribution from/acquisition of non-controlling shareholders *(Note1)*	—	—	—	—	—	—	—	—	1,021,426	1,021,426
Dilution of non-controlling interests/excess of the cost of acquisition of additional interests in subsidiaries over the acquirers' additional interests in the carrying value of identifiable net assets *(Note2)*	—	(120,108)	—	—	—	—	—	(120,108)	120,108	—
Dividends paid to the shareholders	—	—	—	—	—	—	(473,600)	(473,600)	(244,182)	(717,782)
Proposed final 2010 dividend	—	—	—	—	—	(473,600)	473,600	—	—	—
Transfer from retained earnings	—	—	—	138,904	—	(138,904)	—	—	—	—
At 31 December 2010	11,840,000	2,683,734*	1,812*	288,658*	(22,711)*	3,979,092*	473,600	19,244,185	4,596,565	23,840,750

* These reserve accounts comprise the consolidated reserves of RMB6,930,585,000 (2009: RMB5,016,568,000) in the consolidated statement of financial position.

Note 1: In the year 2010, Zhuzhou Times New Material Technology Co., Ltd issued additional equity offering for the Group and some non-controlling shareholders, which caused non-controlling interests to increase RMB463,220,000;

In the year 2010, the Group established a subsidiary, named Guangzhou CSR Rail Transportation Company Limited, together with Guangdong Railway Construction Investment Group Co., Ltd, which caused non-controlling interests to increase RMB196,000,000;

In the year 2010, the Group established a subsidiary, named Guangzhou CSR Rolling Equipment Company Limited, together with Guangzhou City Subway Company, which caused non-controlling interests to increase RMB119,520,000;

In the year 2010, the Group and non-controlling shareholders of Hunan CSR Times Electric Bus Limited Company ("CTEB") injected capital into CTEB, which caused non-controlling interests to increase RMB123,400,000;

In the year 2010, the Group and the non-controlling shareholder of Shijiazhuang Guoxiang Transportation Company Limited ("SGT") injected capital into SGT, which caused non-controlling interests to increase RMB58,700,000;

Note 2: The dilution loss included RMB128 million which arose from the additional equity offering by Zhuzhou Times New Material Technology Co., Ltd in 2010.

Year ended 31 December 2009

	Attributable to owners of the parent									
	Share capital	Capital reserve	Available-for-sale investment revaluation reserve	Common statutory reserve fund	Exchange fluctuation reserve	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	11,840,000	2,799,676	5,021	59,047	(7,809)	946,313	378,880	16,021,128	2,621,449	18,642,577
Total comprehensive income for the year	—	—	1,132	—	4,469	1,678,153	—	1,683,754	443,660	2,127,414
Capital contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	74,913	74,913
Excess of acquirer's additional interest in the net carrying value of acquirer's' identifiable net assets over the cost of acquisition of additional interests in subsidiaries	—	4,166	—	—	—	—	—	4,166	(4,166)	—
Dividends paid to the shareholders	—	—	—	—	—	—	(378,880)	(378,880)	(144,873)	(523,753)
Proposed final 2009 dividend	—	—	—	—	—	(473,600)	473,600	—	—	—
Transfer from retained earnings	—	—	—	90,707	—	(90,707)	—	—	—	—
At 31 December 2009	11,840,000	2,803,842	6,153	149,754	(3,340)	2,060,159	473,600	17,330,168	2,990,983	20,321,151

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,665,453**	2,401,337
Adjustments for:			
Depreciation of items of property, plant and equipment	6	**1,091,971**	849,880
Impairment of items of property, plant and equipment	6	**26,371**	276
Amortisation of prepaid land lease payments	6	**79,670**	71,455
Amortisation of other intangible assets	6	**110,216**	91,756
Impairment of other intangible assets	6	**131,628**	—
Loss on disposal of items of property, plant and equipment, net	6	**42,542**	30,882
Loss on disposal of other intangible assets, net	6	**17,239**	1,415
Gain on disposal of items of prepaid land lease payments	6	**(1,678)**	(11,705)
Provision against obsolete inventories	6	**81,402**	85,240
Impairment of trade receivables	6	**124,667**	73,658
Impairment of other receivables	6	**35,875**	46,364
Interest income	5	**(91,632)**	(102,652)
Dividend income	5	**(148)**	(3,488)
Finance costs	7	**316,572**	264,758
Share of profits and losses of associates and jointly-controlled entities		**(611,794)**	(343,743)
Gain on disposal of investment in an associate	5	**(233)**	—
Gain on disposal of investment in a jointly-controlled venture	5	**(28,859)**	—
Loss on equity investments at fair value through profit or loss	6	**6,736**	9,644
Gain on disposal of listed equity investments, at fair value	5	**(2,417)**	(5,917)
Gain on disposal of unlisted equity investments, at cost less impairment	5	**—**	(358)
		4,993,581	3,458,802
Increase in inventories		**(6,395,968)**	(3,118,468)
Increase in trade receivables, bills receivable and prepayments, deposits and other receivables		**(5,475,848)**	(1,772,566)
Decrease/(increase) in pledged deposits		**863,213**	(960,774)
Increase in trade payables, bills payable and other payables and accruals		**9,884,640**	6,971,005
Decrease in defined benefit obligations		**(216,340)**	(198,790)
Increase in provision for warranties		**348,627**	190,346
Increase in other non-current assets		**(8,569)**	—
Cash generated from operations		**3,993,336**	4,569,555
Interest received		**91,632**	102,652
Income tax paid		**(368,794)**	(269,403)
Net cash inflow from operating activities		**3,716,174**	4,402,804

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment, excluding interest capitalised		**(5,072,483)**	(4,207,150)
Acquisition of prepaid land lease payments		**(625,785)**	(404,238)
Purchases of other intangible assets		**(238,410)**	(167,932)
Investments in associates		**(181,604)**	(48,356)
Purchases of available-for-sale investments		**(585)**	—
Purchases of financial assets at fair value through profit or loss		**—**	(34,597)
Purchases of financial instruments classified as other receivables		**(50,000)**	(93,391)
Investment in setting up a new entity		**(200,000)**	—
Dividends received from a jointly-controlled entity		**230,500**	76,996
Dividends received from available-for-sale investments		**148**	3,788
Interest on financial instruments included in other receivables		**1,521**	3,125
Proceeds from disposal of an Investments in associates		**4,596**	—
Proceeds from disposal of an interest in a jointly-controlled entity		**32,856**	—
Proceeds from disposal of prepaid land lease payments		**36,640**	15,495
Proceeds from disposal of items of property, plant and equipment		**117,721**	66,908
Proceeds from disposal of items of other intangible assets		**7,825**	704
Proceeds from disposal of available-for-sale investments		**3,238**	6,871
Proceeds from disposal of financial assets at fair value through profit or loss		**—**	100,831
Proceeds from disposal of financial instruments classified as other receivables		**—**	300,000
Decrease/(increase) in non-pledged deposits with original maturity of three months or more when acquired		**212,366**	(242,791)
Receipt of government grants		**93,107**	82,420
Net cash flows used in investing activities		**(5,628,349)**	(4,541,317)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(7,425,951)**	(16,642,601)
Capital contributions from non-controlling shareholders		**1,046,838**	43,695
Purchase of non-controlling interests		**(51,627)**	(76,633)
Dividends paid to non-controlling shareholders		**(670,985)**	(145,683)
Interest paid		**(269,024)**	(266,532)
Distribution to shareholders		**—**	(378,880)
Proceeds from bank and other borrowings		**9,545,772**	15,576,534
Proceeds from issuance of bonds		**2,500,000**	2,000,000
Bond issue expense		**(14,000)**	(6,210)
Net cash flows from financing activities		**4,661,023**	103,690
Effect of exchange rates on cash flows		**(38,732)**	—
Net increase/(decrease) in cash and cash equivalents		**2,710,116**	(34,823)
Cash and cash equivalents at beginning of year		**10,998,084**	11,032,907
Cash and cash equivalents at end of year		**13,708,200**	10,998,084

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**14,878**	7,328
Other intangible assets	17	**20,581**	7,687
Investments in subsidiaries	18	**23,142,666**	19,780,616
Available-for-sale investments	21	**678**	678
Other non-current assets	22	**362,184**	—
Total non-current assets		**23,540,987**	19,796,309
CURRENT ASSETS			
Prepayments, deposits and other receivables	26	**6,658,856**	3,730,880
Pledged deposits	28	**4,344**	8,358
Cash and cash equivalents	28	**4,590,430**	4,333,843
Total current assets		**11,253,630**	8,073,081
CURRENT LIABILITIES			
Other payables and accruals	31	**7,201,719**	4,970,682
Interest-bearing bank and other borrowings	32	**2,380,000**	600,000
Defined benefit obligations	33	**1,530**	1,473
Total current liabilities		**9,583,249**	5,572,155
NET CURRENT ASSETS		**1,670,381**	2,500,926
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,211,368**	22,297,235
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	**4,100,000**	2,100,000
Defined benefit obligations	33	**14,630**	15,932
Total non-current liabilities		**4,114,630**	2,115,932
Net assets		**21,096,738**	20,181,303
EQUITY			
Share capital	36	**11,840,000**	11,840,000
Reserves	36	**8,783,138**	7,867,703
Proposed final dividend	12	**473,600**	473,600
Total equity		**21,096,738**	20,181,303

Zhao Xiaogang
Director

Zheng Changhong
Director

1. CORPORATE INFORMATION AND REORGANISATION

The Company was registered in the People's Republic of China ("PRC") on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. The Company's A shares were listed on the Shanghai Stock Exchange on 18 August 2008 and the Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 21 August 2008. The details of the A shares and H shares' issuance are set out in note 36.

The address of the Company's registered office is No.16 Central West Fourth Ring Road, Haidian District, Beijing, the PRC.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the research and development, manufacturing, sale and refurbishment of locomotives, passenger carriages, freight wagons, multiple units and metro cars, as well as other businesses that utilise proprietary rolling stock technologies.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is CSR Group (formerly named as China South Locomotive and Rolling Stock Industry (Group) Corporation)("CSRG"), a state-owned enterprise established in the PRC, which is under the control of the State-owned Asset Supervision and Administration Commission of the State Council (the "SASAC").

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

Basis of consolidation

Basis of consolidation from 1 January 2010

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

Basis of consolidation prior to 1 January 2010

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

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

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

(a) IFRS 1 (Revised) — *First-time Adoption of IFRSs*

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of IFRSs, the amendments do not have any financial impact on the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(b) IFRS 1 Amendments — *Amendments to IFRS 1 First-time Adoption of IFRSs — Additional Exemptions for First-time Adopters*

The IFRS 1 Amendments provide relief from the full retrospective application of IFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of IFRSs, the amendments do not have any financial impact on the Group.

(c) IFRS 2 Amendments — Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment does not have any financial impact on the Group.

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

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes do not have significant financial impact on the Group.

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

The change in accounting policy was applied prospectively and affected future acquisitions, loss of control and transactions with non-controlling interests and has no significant financial impact on the Group.

(e) IAS 39 Amendment — Amendment to IAS 39 Financial Instruments: *Recognition and Measurement — Eligible Hedged Items*

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment has no financial impact on the Group.

(f) IFRIC 17 *Distributions of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no financial impact on the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(g) IFRS 5 Amendments Included in *Improvements to IFRSs (issued in May 2008): Amendments to* IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*

In May 2008, the IASB issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at 31 December 2009, apart from the following:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no financial impact on the Group.

(h) *Improvements to IFRSs (issued April 2009)*

In April 2009, the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments has resulted in changes to accounting policies but does not have any financial impact on the Group.

IFRS 8 Operating Segments: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The adoption of this amendment has no financial impact on the Group's operating segment disclosure.

IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in future upon cash settlement and has no financial impact on the Group.

IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards do not have any financial impact on the Group:

IFRS 2 *Share-based Payment*
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
IAS 1 *Presentation of Financial Statements*
IAS 17 *Leases*
IAS 38 *Intangible Assets*
IAS 39 *Financial Instruments: Recognition and Measurement*
IFRIC 9 *Reassessment of Embedded Derivatives*
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

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

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

IFRS 1 Amendments — *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* permitted first-time adopters of IFRSs to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs that are included in Amendments to IFRS 7 Financial Instruments: *Disclosures — Improving Disclosures about Financial Instruments*, the amendments will have no effect on the Group.

IFRS 1 Amendments — *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time, and provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs. The amendments are unlikely to have any financial impact on the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRS 7 Amendments introduce more extensive and onerous quantitative and qualitative disclosure requirements on the transfer of financial assets. The amendments will affect the disclosures of the financial statements on the Group.

IFRS 9 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39. In October 2010, IASB added the requirements for classification and measurement of financial liabilities to IFRS 9. Most of the requirements were carried forward unchanged from IAS 39, and if unquoted equity instruments (and derivative assets linked to those investments) were not reliably measurable, IFRS 9 requires those derivatives to be measured at fair value rather than cost under IAS 39. The amendment is unlikely to have any financial impact on the Group.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt IFRS 9 from 1 January 2013. The adoption of the new standard is unlikely to have any significant financial impact on the Group.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011. The adoption will not have significant financial impact on the Group.

The IAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the IAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the IFRIC 14 Amendments from 1 January 2011. As the Group has not undertaken any such transaction, the adoption of the amendments will not have any financial impact on the Group.

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IAS 12 Amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when the investment property is measured using the fair value model in IAS 40 and introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Amendments is unlikely to have any material financial impact on the Group.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

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

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

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

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Associates

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

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

The results of associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses. When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for “Noncurrent assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Buildings	10–45 years
Plant, machinery and equipment	6–20 years
Motor vehicles	5–12 years
Computer equipment and others	5–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

Intangible assets (other than goodwill)

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

Purchased patents and technical know-how

Purchased patents and technical know-how are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 10 years.

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

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

Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at cost

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

Available-for-sale financial investments

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of other income. Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, and interest-bearing loans and borrowings.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

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

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

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

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

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

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement schemes organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefits payable to all existing and future retired employees under these plans and the Group has no further obligations for post-retirement benefits beyond the contributions made. The contributions to the schemes are recognised as and when incurred.

The Group implements a pension annuity plan, pursuant to which the Group pays contributions to the plan regularly and the Group has no further obligation thereto once the required contribution has been made. The contributions are recognised as employee benefit expenses when incurred.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Pension obligations (Continued)

In addition, the Group also pays supplemental pension subsidies to retiree employees. As detailed in note 33 below, these supplemental pension payables were assessed using the projected unit credit actuarial cost method; the cost of providing such subsidies is charged to profit or loss so as to spread the service cost over the average lives of such former employees, in accordance with the actuarial reports which contained full valuations of the plans for each of the relevant accounting periods.

These supplemental pension obligations are 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 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 profit or loss over the employees' expected average vesting period.

Termination and early retirement benefits

Termination and early retirement benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Borrowing costs

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

Dividends

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

Foreign currencies

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

De facto control over subsidiaries

The Group's management exercises its critical judgement when determining whether the Group has de facto control over an entity by evaluating its influence over the entity which includes, but is not limited to:

(i) the ability to exercise de facto control in the shareholders' meetings or equivalent governing body of the investee;

(ii) the ability to govern the financial and operational decision of the investee;

(iii) the ability to appoint or remove the majority of the members of the board of directors or equivalent governing body of the investee;

(iv) the ability to cast the majority of votes of the board of directors.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Employee retirement benefits

The Group has recognised the employee retirement benefit obligations as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, the growth rate of the benefits and other factors. The deviation from the actual result and the actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amount of employee retirement benefit obligations. The carrying amount of employee retirement benefits at 31 December 2010 was RMB1,927,410,000 (2009: RMB2,143,750,000).

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2010 was RMB287,119,000 (2009: RMB183,440,000).

Impairment of receivables

The Group recognises provision based on the judgement of recovery of accounts receivable. Bad debt provision is required to be recognised when there are indications that the receivable cannot be recovered. Recognition of bad debt provision requires the use of judgement and estimates. If the revised estimates deviate from the current estimates, then any difference arising from changes of accounting estimates will affect the carrying value of debtors in the relevant accounting periods. The net carrying amounts of trade receivables and prepayments, deposits and other receivables at 31 December 2010 were RMB11,124,351,000 (2009: RMB6,638,161,000) and RMB4,966,921,000 (2009: RMB4,640,365,000), respectively.

Write-down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventory analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. The net carrying amount of inventories at 31 December 2010 was RMB17,733,284,000 (2009: RMB11,415,069,000).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was RMB48,879,000 (2009: RMB52,544,000). More details are given in note 16.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment, the provision of rolling stock products and services as well as other businesses that utilise proprietary rolling stock technologies. Therefore, no analysis by operating segment is presented.

Products and services

Revenue from external customers

	2010	2009
	RMB'000	*RMB'000*
Rail transportation products and their extent products and services	**63,912,435**	45,620,751

Geographical information

Revenue from external customers

	2010	2009
	RMB'000	*RMB'000*
Mainland China	**61,575,154**	44,242,933
Other countries and regions	**2,337,281**	1,377,818
	63,912,435	45,620,751

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

Non-current assets

	31 December 2010	31 December 2009
	RMB'000	*RMB'000*
Mainland China	**22,798,716**	18,192,108
Other countries and regions	**321,467**	144,835
	23,120,183	18,336,943

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

Information about a major customer

Revenue, net of sales tax, generated from a single customer which amounted to more than 10% of the Group's revenue for the year ended 31 December 2010 was RMB37,341,280,000 (2009: RMB25,878,098,000). The state-owned entities are not identified as a group of customers under common control by the directors of the Company.

Note: The Ministry of Railways and entities invested and managed by local railway departments are regarded as a single customer by the directors of the Company.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	Note	**2010** **RMB'000**	2009 RMB'000
Revenue			
Sale of goods and services		**63,912,435**	45,620,751
Other income			
Interest income		**91,632**	102,652
Dividend income		**148**	3,488
Profit from sales of scrap materials		**56,132**	63,299
Value-added tax refunds		**42,865**	157,146
Government grants	35	**373,997**	299,961
Total		**564,774**	626,546
Gains			
Fair value gains:			
Listed equity investment included in available-for-sale investments (transfer from equity on disposal)		**2,417**	5,917
Gain on disposal of unlisted equity investments included in available-for sale investments, stated at cost		**—**	358
Gain on disposal of an investment in an associate		**233**	—
Gain on disposal of an investment in a jointly-controlled venture		**28,859**	—
Others		**21,435**	63,140
Total		**52,944**	69,415
		617,718	695,961

6. PROFIT BEFORE TAX

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

	Notes	**2010** **RMB'000**	2009 RMB'000
Cost of inventories sold		**52,944,731**	38,453,741
Depreciation of items of property, plant and equipment	14	**1,091,971**	849,880
Amortisation of prepaid land lease payments	15	**79,670**	71,455
Amortisation of other intangible assets	17	**110,216**	91,756
Provision against obsolete inventories *		**81,402**	85,240
Auditors' remuneration		**12,000**	12,000
Provision for warranties	34	**705,046**	293,126
Minimum lease payments under operating leases:			
Plant and machinery		**28,969**	30,802
Land and buildings		**40,763**	24,409
Research and development costs		**2,443,728**	1,696,357
Less: amount capitalised		**(2,321)**	(16,609)
		2,441,407	1,679,748
Staff costs (including directors' and supervisors' remuneration wages, salaries and other employees' benefits)		**5,415,071**	4,061,144
Contribution to government-operated pension schemes		**599,116**	506,972
Contribution to annuity pension schemes		**85,493**	56,811
Defined benefit obligations — interest costs		**(9,270)**	47,860
		6,090,410	4,672,787
Included in other expenses, net:			
Impairment of trade receivables	24	**124,667**	73,658
Impairment of other receivables	26	**35,875**	46,364
Exchange losses/(gains), net		**65,701**	(6,355)
Loss on disposal of items of property, plant and equipment, net		**42,542**	30,882
Loss on disposal of items of other intangible assets, net		**17,239**	1,415
Loss on equity investments at fair value through profit or loss		**6,736**	9,644
Gain on disposal of items of prepaid land lease payments		**(1,678)**	(11,705)
Impairment of items of property, plant and equipment	14	**26,371**	276
Impairment of other intangible assets	17	**131,628**	—
		449,081	144,179

* Included in "Cost of sales" on the face of the consolidated statement of comprehensive income for the years ended 31 December 2009 and 31 December 2010.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2010 RMB'000	2009 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**345,954**	270,766
Interest on bills discounted	**4,420**	643
Less: Interest capitalised in construction in progress	**(33,802)**	(6,651)
Total	**316,572**	264,758

8. DIRECTORS' AND SUPERVISORS' REMUNERATION AND BENEFIT CONTRIBUTIONS

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Govering the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2010 RMB'000	2009 RMB'000
Fees	**770**	895
Other emoluments:		
Salaries	**1,038**	1,539
Performance-related bonuses	**1,925**	1,606
Social security contribution other than pension*	**192**	207
Pension scheme contributions**	**164**	173
	3,319	3,525

* The social security contributions other than pension represented the Company's statutory contributions directly to the PRC government, and are determined based on a certain percentage of the salaries of the directors and supervisors.

** The pension scheme contributions represented the Company's statutory contributions to a defined contribution pension scheme organised by the PRC government, and are determined based on a certain percentage of the salaries of the directors and supervisors.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION AND BENEFIT CONTRIBUTIONS (CONTINUED)

The names of the directors and supervisors and their remuneration and benefit contributions for the year are as follows:

Year ended 31 December 2010

	Fees	Salaries	Performance-related bonuses	Social security contribution other than pension	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Mr. Zhao Xiaogang	—	167	437	34	29	667
Mr. Zheng Changhong	—	167	437	34	29	667
Mr. Tang Kelin	—	142	399	34	29	604
Mr. Liu Hualong	—	142	399	34	29	604
	—	618	1,672	136	116	2,542
Independent non-executive directors:						
Mr. Zhao Jibin	151	—	—	—	—	151
Mr. Yang Yuzhong	166	—	—	—	—	166
Mr. Chen Yongkuan	152	—	—	—	—	152
Mr. Dai Deming	157	—	—	—	—	157
Mr. Tsoi, David	144	—	—	—	—	144
	770	—	—	—	—	770
Supervisors:						
Mr. Wang Yan	—	—	—	—	—	—
Mr. Li Jianguo	—	198	130	22	19	369
Mr. Qiu Wei	—	222	123	34	29	408
	—	420	253	56	48	777
	770	1,038	1,925	192	164	4,089

8. DIRECTORS' AND SUPERVISORS' REMUNERATION AND BENEFIT CONTRIBUTIONS (CONTINUED)

The names of the directors and supervisors and their remuneration and benefit contributions for the year are as follows: (Continued)

Year ended 31 December 2009

	Fees	Salaries	Performance-related bonuses	Social security contribution other than pension	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Mr. Zhao Xiaogang	—	167	434	31	26	658
Mr. Zheng Changhong	—	167	434	31	26	658
Mr. Tang Kelin	—	142	369	31	26	568
Mr. Liu Hualong	—	142	369	31	26	568
	—	618	1,606	124	104	2,452
Independent non-executive directors:						
Mr. Zhao Jibin	173	—	—	—	—	173
Mr. Yang Yuzhong	188	—	—	—	—	188
Mr. Chen Yongkuan	170	—	—	—	—	170
Mr. Dai Deming	182	—	—	—	—	182
Mr. Tsoi, David	182	—	—	—	—	182
	895	—	—	—	—	895
Supervisors:						
Mr. Wang Yan	—	338	—	31	26	395
Mr. Li Jianguo	—	314	—	31	26	371
Mr. Qian Yi	—	262	—	20	17	299
Mr. Qiu Wei	—	7	—	1	—	8
	—	921	—	83	69	1,073
	895	1,539	1,606	207	173	4,420

No emoluments were paid by the Group to any of the directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

There was no arrangement under which a director or a supervisor of the Company waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year are neither directors nor supervisors.

Details of the remuneration paid to the above non-director and non-supervisor highest paid employees during the year are as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Salaries	**765**	665
Performance-related bonuses	**5,466**	3,785
Social security contribution other than pension	**296**	125
Pension scheme contributions	**742**	109
	7,269	4,684

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

	Number of employees	
	2010	2009
RMB500,001 to RMB1,000,000	**—**	5
RMB1,000,001 to RMB1,500,000	**3**	—
RMB1,500,001 to RMB2,000,000	**2**	—
	5	5

10. INCOME TAX

The major components of income tax expense included in profit or loss are:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Current income tax	**516,194**	406,898
Deferred income tax	**(100,712)**	(121,743)
Total tax charge for the year	**415,482**	285,155

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 25% is applied to the Group for the years ended 31 December 2010 and 2009, except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the years.

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the years ended 31 December 2010 and 2009.

10. INCOME TAX (CONTINUED)

A reconciliation of the income tax expense applicable to profit before tax at the respective applicable rate for the Company and its subsidiaries to the income tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	Group			
	2010		2009	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**3,665,453**		2,401,337	
Tax at the applicable tax rate	**916,363**	**25.0**	600,334	25.0
Entities subject to lower statutory income tax rates	**(358,671)**	**(9.8)**	(230,144)	(9.6)
Adjustments in respect of current tax of the previous year	**(20,278)**	**(0.6)**	1,919	0.1
Profit and losses of associates and jointly-controlled entities	**(142,452)**	**(3.9)**	(82,779)	(3.4)
Expenses not deductible for tax *(note 1)*	**174,202**	**4.8**	103,895	4.3
Prior year tax losses utilised	**(16,685)**	**(0.5)**	(17,107)	(0.7)
Income not subject to tax *(note 2)*	**—**	**—**	(18,297)	(0.8)
Tax losses not recognised	**35,895**	**1.0**	76,832	3.2
Others *(note 3)*	**(172,892)**	**(4.7)**	(149,498)	(6.2)
	415,482	**11.3**	285,155	11.9
Share of tax attributable to associates and jointly-controlled entities included in "Share of profits and losses of associates and jointly-controlled entities" on the face of the consolidated statement of comprehensive income	**129,211**		53,652	

Notes:

(1) Expenses not deductible for tax mainly comprised impairment for debtors and inventories.

(2) Income not subject to tax mainly comprised certain VAT refunds which are not subject to income tax.

(3) Others mainly comprised income tax benefits on locally purchased machinery, research and development expenditure, etc.

10. INCOME TAX (CONTINUED)

The deferred income tax of the Group is analysed as follows:

	Group			
	Consolidated statement of financial position As at 31 December		**Consolidated statement of comprehensive income Year ended 31 December**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred income tax assets:				
Warranty claims provision	**100,295**	51,978	**(48,317)**	(27,988)
Assets impairment	**23,273**	19,824	**(3,449)**	(15,480)
Tax losses	**431**	1,990	**1,559**	(1,990)
Wages payable	**3,917**	5,438	**1,521**	(3,727)
Accrued expenses	**46,749**	61,675	**14,926**	(51,085)
Government grants	**54,631**	42,535	**(12,096)**	(22,663)
Unrealised profits in inventories	**57,823**	—	**(57,823)**	—
Gross deferred income tax assets	**287,119**	183,440		
Deferred income tax liabilities:				
Fair value adjustments arising from available-for-sale financial assets	**—**	(942)	**(942)**	(248)
Fair value adjustments arising from acquisition of subsidiaries	**(6,478)**	(8,492)	**(2,014)**	(384)
Depreciation difference	**(6,421)**	(2,469)	**3,952**	2,469
Gross deferred income tax liabilities	**(12,899)**	(11,903)		
			(102,683)	(121,096)
Represented by:				
Deferred income tax credited to profit or loss			**(100,712)**	(121,743)
Deferred tax credited to other comprehensive income during the year			**(942)**	(248)
Exchange realignment			**(1,029)**	895
			(102,683)	(121,096)

The Group also has tax losses arising in Mainland China of RMB814,237,000 (2009: RMB733,389,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB1,389,035,000 (2009: RMB907,074,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The dividends for the years ended 31 December 2010 and 2009 are set out below:

	2010	2009
	RMB'000	*RMB'000*
Proposed final		
— RMB4.0 cents (2009: RMB4.0 cents) per ordinary share	**473,600**	473,600

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 11,840,000,000 (2009: 11,840,000,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of basic earnings per share is based on:

	2010	2009
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**2,531,437**	1,678,153
Shares		
Weighted average number of domestic shares in issue during the year used in the calculation of basic earnings per share	**11.84 billion**	11.84 billion

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

14. PROPERTY, PLANT AND EQUIPMENT

31 December 2010

		Group					
	Notes	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2010:							
Cost		6,557,500	7,718,512	632,298	1,061,563	2,663,780	18,633,653
Accumulated depreciation and impairment		(1,440,410)	(2,837,303)	(371,144)	(474,271)	(1,318)	(5,124,446)
Net carrying amount		5,117,090	4,881,209	261,154	587,292	2,662,462	13,509,207
At 1 January 2010, net of accumulated depreciation and impairment		5,117,090	4,881,209	261,154	587,292	2,662,462	13,509,207
Additions		207,167	393,057	108,328	78,915	4,054,982	4,842,449
Transfer from construction in progress		2,064,134	2,057,784	59,293	154,449	(4,335,660)	—
Disposals		(40,581)	(80,732)	(26,793)	(2,502)	(8,744)	(159,352)
Depreciation	6	(247,617)	(667,882)	(47,132)	(129,340)	—	(1,091,971)
Impairment	6	(9,412)	(15,641)	—	(742)	(576)	(26,371)
Exchange realignment		(27)	(4,137)	(16)	(2)	(4,053)	(8,235)
At 31 December 2010, net of accumulated depreciation and impairment		7,090,754	6,563,658	354,834	688,070	2,368,411	17,065,727
At 31 December 2010:							
Cost		8,767,713	9,965,073	744,009	1,236,399	2,368,987	23,082,181
Accumulated depreciation and impairment		(1,676,959)	(3,401,415)	(389,175)	(548,329)	(576)	(6,016,454)
Net carrying amount		7,090,754	6,563,658	354,834	688,070	2,368,411	17,065,727

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

31 December 2009

		Group					
	Notes	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2009:							
Cost		4,721,370	5,870,091	590,653	921,774	2,549,508	14,653,396
Accumulated depreciation and impairment		(1,288,554)	(2,369,881)	(331,457)	(419,837)	(1,565)	(4,411,294)
Net carrying amount		3,432,816	3,500,210	259,196	501,937	2,547,943	10,242,102
At 1 January 2009, net of accumulated depreciation and impairment		3,432,816	3,500,210	259,196	501,937	2,547,943	10,242,102
Additions		121,394	384,333	20,263	145,129	3,552,167	4,223,286
Transfer from construction in progress		1,769,376	1,561,094	32,761	52,398	(3,415,629)	—
Disposals		(31,255)	(49,563)	(4,012)	(2,204)	(25,119)	(112,153)
Depreciation	6	(175,241)	(517,617)	(47,054)	(109,968)	—	(849,880)
Impairment	6	—	(276)	—	—	—	(276)
Exchange realignment		—	3,028	—	—	3,100	6,128
At 31 December 2009, net of accumulated depreciation and impairment		5,117,090	4,881,209	261,154	587,292	2,662,462	13,509,207
At 31 December 2009:							
Cost		6,557,500	7,718,512	632,298	1,061,563	2,663,780	18,633,653
Accumulated depreciation and impairment		(1,440,410)	(2,837,303)	(371,144)	(474,271)	(1,318)	(5,124,446)
Net carrying amount		5,117,090	4,881,209	261,154	587,292	2,662,462	13,509,207

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2010

	Company Computer equipment and others ***RMB'000***
At 1 January 2010:	
Cost	**21,748**
Accumulated depreciation and impairment	**(14,420)**
Net carrying amount	**7,328**
At 1 January 2010, net of accumulated depreciation and impairment	**7,328**
Additions	**10,759**
Disposals	**(77)**
Depreciation	**(3,132)**
At 31 December 2010, net of accumulated depreciation and impairment	**14,878**
At 31 December 2010:	
Cost	**31,837**
Accumulated depreciation and impairment	**(16,959)**
Net carrying amount	**14,878**

At 31 December 2009

	Company Computer equipment and others *RMB'000*
At 1 January 2009:	
Cost	20,660
Accumulated depreciation and impairment	(11,197)
Net carrying amount	9,463
At 1 January 2009, net of accumulated depreciation and impairment	9,463
Additions	1,783
Disposals	(62)
Depreciation	(3,856)
At 31 December 2009, net of accumulated depreciation and impairment	7,328
At 31 December 2009:	
Cost	21,748
Accumulated depreciation and impairment	(14,420)
Net carrying amount	7,328

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, capitalisation rates ranging from 5.11% to 5.71% have been applied to the expenditure on individual assets.

All of the Group's buildings are located in the PRC.

The details of the above property, plant and equipment pledged to secure general banking facilities granted to the Group are set out in note 32 below.

15. PREPAID LAND LEASE PAYMENTS

		Group	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Carrying amount at 1 January, net of accumulated amortisation		**3,469,812**	3,112,164
Additions		**617,186**	432,891
Disposals		**(34,962)**	(3,788)
Amortisation	6	**(79,670)**	(71,455)
Carrying amount at 31 December		**3,972,366**	3,469,812

The leasehold lands are held under medium term leases and are situated in the PRC.

The details of the above prepaid land lease payments pledged to secure general banking facilities granted to the Group are set out in note 32 below.

16. GOODWILL

	Group	
	2010	2009
	RMB'000	*RMB'000*
Cost, net of accumulated impairment:		
At beginning of year	**52,544**	48,115
Exchange realignment	**(3,665)**	4,429
At end of year	**48,879**	52,544
Cost	**48,879**	52,544
Net carrying amount	**48,879**	52,544

17. OTHER INTANGIBLE ASSETS

		Group		
	Notes	Patents and technical know-how *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
31 December 2010:				
At 1 January 2010, net of accumulated amortisation and impairment		**293,900**	**145,880**	**439,780**
Additions		**140,293**	**98,117**	**238,410**
Disposals		**(23,917)**	**(1,147)**	**(25,064)**
Amortisation	6	**(66,518)**	**(43,698)**	**(110,216)**
Impairment	6	**(131,628)**	**—**	**(131,628)**
Exchange realignment		**(2,153)**	**—**	**(2,153)**
At 31 December 2010,net of accumulated amortisation and impairment		**209,977**	**199,152**	**409,129**
At 31 December 2010:				
Cost		**589,062**	**301,932**	**890,994**
Accumulated amortisation and impairment		**(379,085)**	**(102,780)**	**(481,865)**
Net carrying amount		**209,977**	**199,152**	**409,129**
31 December 2009:				
At 1 January 2009, net of accumulated amortisation and impairment		283,944	79,212	363,156
Additions		70,382	97,550	167,932
Disposals		(2,119)	—	(2,119)
Amortisation	6	(60,874)	(30,882)	(91,756)
Exchange realignment		2,567	—	2,567
At 31 December 2009, net of accumulated amortisation and impairment		293,900	145,880	439,780
At 31 December 2009:				
Cost		510,753	227,226	737,979
Accumulated amortisation and impairment		(216,853)	(81,346)	(298,199)
Net carrying amount		293,900	145,880	439,780

17. OTHER INTANGIBLE ASSETS (CONTINUED)

	Company Computer software RMB'000
31 December 2010:	
At 1 January 2010, net of accumulated amortisation and impairment	**7,687**
Additions	**15,243**
Amortisation	**(2,349)**
At 31 December 2010, net of accumulated amortisation and impairment	**20,581**
At 31 December 2010:	
Cost	**23,633**
Accumulated amortisation and impairment	**(3,052)**
Net carrying amount	**20,581**
31 December 2009:	
At 1 January 2009, net of accumulated amortisation and impairment	722
Additions	7,530
Amortisation	(565)
At 31 December 2009, net of accumulated amortisation and impairment	7,687
At 31 December 2009:	
Cost	8,390
Accumulated amortisation and impairment	(703)
Net carrying amount	7,687

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	*RMB'000*
Unlisted investments, at cost	**22,883,666**	19,536,616
Loans to subsidiaries	**259,000**	244,000
	23,142,666	19,780,616

The loans to the subsidiaries are unsecured, bear interest at relevant market rates and the repayment terms are over three years. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
CSR Zhuzhou Electric Locomotive Co., Ltd. 南車株洲電力機車有限公司	PRC 31 August 2005	RMB3,474,025,800	100.0	—	Manufacturing, selling and repairing of locomotives
CSR Ziyang Locomotive Co., Ltd. 南車資陽機車有限公司	PRC 12 May 2006	RMB793,356,334	99.6	—	Manufacturing, selling and repairing of locomotives
CSR Qingdao Sifang Locomotive and Rolling Stock Co., Ltd. 南車青島四方機車車輛股份有限公司	PRC 22 July 2002	RMB3,103,712,300	97.2	—	Manufacturing , selling and repairing of locomotives
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. 南車株洲電力機車研究所有限公司	PRC 9 September 1992	RMB2,381,710,000	100.0	—	Investment holding
CSR Sifang Rolling Stock Co., Ltd. 南車四方車輛有限公司	PRC 4 September 1980	RMB287,095,500	100.0	—	Repairing locomotives and rolling stock
CSR Investment & Leasing Co., Ltd. 南車投資租賃有限公司	PRC 26 April 1999	RMB300,000,000	100.0	—	Trading and investment holding
CSR Yangtze Rolling Stock Co., Ltd. 南車長江車輛有限公司	PRC 14 September 2006	RMB2,096,718,300	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. 南車戚墅堰機車車輛工藝研究所有限公司	PRC 15 May 1992	RMB1,250,000,000	100.0	—	Research and development of train-related products

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Company at 31 December 2010 are as follows: (Continued)

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
CSR Shijiazhuang Rolling Stock Co., Ltd. 南車石家莊車輛有限公司	PRC 28 June 2007	RMB195,854,000	100.0	—	Repairing locomotives and rolling stock
CSR Chengdu Locomotive & Rolling Stock Co., Ltd. 南車成都機車車輛有限公司	PRC 28 June 2007	RMB339,971,941	100.0	—	Repairing locomotives and rolling stock
CSR Nanjing Puzhen Rolling Stock Co., Ltd. 南車南京浦鎮車輛有限公司	PRC 27 June 2007	RMB1,180,780,000	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Erqi Co., Ltd. 南車二七車輛有限公司	PRC 28 June 2007	RMB379,305,828	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Meishan Co., Ltd. 南車眉山車輛有限公司	PRC 28 June 2007	RMB272,008,600	100.0	—	Manufacturing and selling of rolling stock
CSR Luoyang Locomotive Co., Ltd. 南車洛陽機車有限公司	PRC 27 June 2007	RMB358,689,000	100.0	—	Repairing locomotives and rolling stock
CSR Qishuyan Locomotive Co., Ltd. 南車戚墅堰機車有限公司	PRC 26 June 2007	RMB942,610,557	100.0	—	Manufacturing, selling and repairing of locomotives
CSR (Hong Kong) Co., Ltd. 中國南車(香港)有限公司	PRC 7 April 2008	HKD400,000,000	100.0	—	Investment company
CSR Zhuzhou Electric Co., Ltd. 南車株洲電機有限公司	PRC 14 April 2004	RMB453,700,000	100.0	—	Manufacturing and selling of electric motors

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Company at 31 December 2010 are as follows: (Continued)

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Zhuzhou CSR Times Electric Co., Ltd. 株洲南車時代電氣股份有限公司	PRC 26 September 2005	RMB1,084,255,637	—	56.2	Manufacturing of train-bore systems and components
Zhuzhou Times New Material Technology Co., Ltd *(i)* 株洲時代新材料科技股份有限公司	PRC 24 May 1994	RMB235,155,200	—	24.3	Manufacturing and selling of polymer compounds, etc.
Dynex Power Inc.	Canada	CAD37,050,933	—	75.0	Manufacturing and selling of power semiconductors and integrated circuit products

(i) The directors are of the opinion that the Group obtained de facto control over Zhouzhou Times New Material Technology Co., Ltd. ("ZTNM") as the Group obtained a majority in the board of the directors of ZTNM and held 38.70% of the voting rights in shareholder meetings of ZTNM.

The English names of certain companies above represent the best efforts of the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2010. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2010 *RMB'000*	2009 *RMB'000*
Share of net assets	**894,129**	782,798

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

Particulars of the principal jointly-controlled entities of the Group as at 31 December 2010 are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Bombardier Sifang (Qingdao) Transportation Ltd. 青島四方龐巴迪鐵路運輸設備有限公司	PRC 27 November 1998	US$44,120,000	—	50.0	Manufacturing andselling of locomotives and rolling stock
Zhuzhou Shiling Traffic Equipment Co., Ltd. 株洲時菱交通設備有限公司	PRC 8 April 2005	US$14,000,000	—	50.0	Manufacturing and selling of locomotive accessories
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd. 青島四方川崎車輛技術有限公司	PRC 4 April 2005	US$1,400,000	11.0	39.0	Manufacturing and selling of railway and urban mass transit vehicles
Siemens Traction Equipment Ltd. Zhuzhou 株洲西門子牽引設備有限公司	PRC 28 November 1998	RMB128,989,000	—	50.0	Manufacturing and selling of locomotive accessories
Zhuzhou High-tech Investment & Guaranty, Co., Ltd. 株洲南車時代高新投資擔保有限責任公司	PRC 28 December 2007	RMB100,000,000	—	50.0	Providing investment and consulting services

The English names of certain companies above represent the best efforts of the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the principal jointly-controlled entities of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

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

	2010 **RMB'000**	2009 RMB'000
Share of the jointly-controlled entities' net assets:		
Current assets	**6,531,818**	4,966,501
Non-current assets	**478,350**	389,108
Current liabilities	**(6,015,841)**	(4,572,504)
Non-current liabilities	**(100,198)**	(307)
Net assets	**894,129**	782,798
Share of the jointly-controlled entities' revenue and profit:		
Revenue	**3,634,206**	3,186,834
Expenses	**(2,902,420)**	(2,800,046)
Profit before tax	**731,786**	386,788
Tax	**(134,290)**	(51,786)
Profit after tax	**597,496**	335,002

20. INVESTMENTS IN ASSOCIATES

	Group **2010** **RMB'000**	2009 RMB'000
Share of net assets	**214,953**	56,604

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

Company name	**Place and date of incorporation/ establishment and place of operations**	**Paid-up capital**	**Percentage of equity interests attributable to the Company Direct**	**Indirect**	**Principal activities**
Beijing Times Wharton Technology Co., Ltd 北京時代沃頓科技有限公司	PRC 16 January 2007	RMB26,000,000	—	38.0	Manufacturing of chemical materials
Shijiazhuang Guoxiang Precision Machinery Co., Ltd. 石家庄國祥精密機械有限公司	PRC 1 August 2001	RMB12,000,000	—	40.0	Manufacturing of precise machinery
Huaneng Tieling Wind Power Co., Ltd. 華能鐵嶺風力發電有限公司	PRC 29 December 2009	RMB98,500,000	—	25.0	Wind power generation
Huaneng Panjin Wind Power Co., Ltd. 華能盤錦風力發電有限公司	PRC 17 September 2009	RMB541,080,000	—	25.0	Wind power generation
Huaneng Tieling Daxing Wind Power Co., Ltd. 華能鐵嶺大興風力發電有限公司	PRC 28 June 2010	RMB163,960,000	—	25.0	Wind power generation

The English name of the company above represents the best effort of the management of the Company in directly translating the Chinese name of this company as no English name has been registered.

The above table lists the principal associates of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of the Group's associates extracted from their audited financial statements or management accounts:

	2010	2009
	RMB'000	*RMB'000*
Share of the associates' net assets:		
Current assets	**468,988**	34,694
Non-current assets	**295,737**	24,066
Current liabilities	**(453,421)**	3,053
Non-current liabilities	**(87,262)**	(3,937)
Non-controlling interests	**(9,089)**	(1,272)
Net assets	**214,953**	56,604
Share of the associates' revenue and profit:		
Revenue	**1,391,901**	85,155
Expenses	**(1,370,624)**	(74,091)
Profit before tax	**21,277**	11,064
Tax	**(6,223)**	(1,866)
	15,054	9,198
Non-controlling interests	**(756)**	(457)
Profit after tax	**14,298**	8,741

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at cost less impairment	**23,033**	23,033	**678**	678
Listed equity investments, in the PRC, at fair value	**2,565**	8,084	**—**	—
	25,598	31,117	**678**	678

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB2,866,000 (2009: the gross gain RMB6,801,000), of which RMB2,417,000 (2009: RMB5,917,000) was reclassified from other comprehensive income to profit or loss for the year.

21. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Unlisted equity investments

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

Listed equity investments

The fair value of the listed equity investments is determined by reference to published price quotations in an active market.

22. OTHER NON-CURRENT ASSETS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Investments prepayment	**326,580**	—	**362,184**	—
Land lease prepayment	**132,929**	—	**—**	—
Long-term prepaid expenses	**21,247**	23,499	**—**	—
Property, plant and equipment prepayments	**33,782**	—	**—**	—
Long-term receivables	**8,569**	—	**—**	—
Construction materials	**462**	2,699	**—**	—
	523,569	26,198	**362,184**	—

23. INVENTORIES

	Group	
	2010	2009
	RMB'000	*RMB'000*
Cost, net of provision		
Raw materials	**4,885,581**	4,026,279
Work in progress	**7,172,961**	5,093,284
Finished goods	**5,674,742**	2,295,506
	17,733,284	11,415,069

The details of the above inventories pledged to secure general banking facilities granted to the Group are set out in note 32 below.

24. TRADE RECEIVABLES

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**11,579,958**	6,989,343
Impairment	**(455,607)**	(351,182)
	11,124,351	6,638,161

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 6 months	**9,002,616**	5,117,702
6 months to 1 year	**1,283,911**	906,955
Over 1 year	**837,824**	613,504
	11,124,351	6,638,161

An aged analysis of the trade receivables that are neither individually or collectively considered to be impaired, is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**9,595,824**	5,235,740
Past due but not impaired		
— Less than 3 months past due	**197,208**	163,507
— 3 to 6 months past due	**72,923**	259,131
— Over 6 months past due	**13,313**	112,837
	9,879,268	5,771,215

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

Receivables that were past due but not impaired relate to some independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

24. TRADE RECEIVABLES (CONTINUED)

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

		Group	
		2010	2009
	Note	***RMB'000***	*RMB'000*
At 1 January		**351,182**	293,109
Impairment loss recognised	6	**124,667**	73,658
Amount written off as uncollectible		**(20,242)**	(17,051)
Exchange realignment		**—**	1,466
At 31 December		**455,607**	351,182

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB105,711,000 (2009: RMB111,786,000) with a carrying amount before provision of RMB224,214,000 (2009: RMB210,038,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to recovered.

	Group	
	2010	2009
	RMB'000	*RMB'000*
Trade receivables denominated in:		
United States Dollars	**277,139**	151,938
Hong Kong Dollars	**24,760**	2,088
Euros	**21,537**	67,733
Canadian Dollars	**29,531**	39,925
Australian Dollars	**9,061**	9,244
Japanese Yen	**9,072**	934
Great Britain Pounds	**—**	289
Singapore Dollars	**—**	23
	371,100	272,174

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
CSRG and its subsidiaries, excluding the Group (the "CSRG Group")	**35,208**	32,843
Jointly-controlled entities	**167,508**	129,175
	202,716	162,018

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

The details of the above trade receivables pledged to secure general banking facilities granted to the Group are set out in note 32 below.

25. BILLS RECEIVABLE

The maturity profile of the bills receivable of the Group at the end of the reporting period is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 6 months	**1,709,935**	999,097
	1,709,935	999,097

The above balances are neither past due nor impaired.

The amounts due from the related parties of the Group included in bills receivable can be analysed as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
CSRG Group	**11,200**	—

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**3,045,926**	3,644,759	**—**	—
Deposits and other receivables	**1,920,995**	995,606	**6,658,856**	3,730,880
	4,966,921	4,640,365	**6,658,856**	3,730,880

Movements in provision for impairment of prepayments, deposits and other receivables are as follows:

		Group	
		2010	2009
	Note	***RMB'000***	*RMB'000*
At 1 January		**94,063**	53,476
Impairment loss recognised	6	**35,875**	46,364
Written off		**(13,193)**	(5,777)
At 31 December		**116,745**	94,063

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
CSRG Group	**8,642**	11,822	**—**	—
Jointly-controlled entities	**39,386**	242,657	**—**	—
Subsidiaries	**—**	—	**5,901,247**	2,858,514
	48,028	254,479	**5,901,247**	2,858,514

Except for the balances due from subsidiaries which bear interest at relevant market rates, the balances due from related parties are unsecured, interest-free and have no fixed terms of repayment.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	2009
	RMB'000	*RMB'000*
Listed equity investments, at market value	**17,512**	24,248

The above equity investments at 31 December 2010 were classified as held for trading. Fair value losses of RMB 6,736,000 were recognised in profit or loss for the year ended 31 December 2010 (2009: RMB9,644,000).

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**14,526,051**	12,891,514	**4,594,774**	4,342,201
Less: Pledged time deposits	**(755,154)**	(1,618,367)	**(4,344)**	(8,358)
Cash and cash equivalents in the consolidated statement of financial position	**13,770,897**	11,273,147	**4,590,430**	4,333,843
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(62,697)**	(275,063)		
Cash and cash equivalents in the consolidated statement of cash flows	**13,708,200**	10,998,084		

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances and time deposits denominated in				
— RMB	**13,389,503**	10,336,461	**3,952,194**	3,615,959
— United States Dollars	**507,400**	510,351	**394,371**	382,379
— Hong Kong Dollars	**543,436**	1,873,106	**248,206**	343,863
— Euros	**56,646**	18,914	**3**	—
— Canadian Dollars	**1,155**	148,742	**—**	—
— Other currencies	**27,911**	3,940	**—**	—
	14,526,051	12,891,514	**4,594,774**	4,342,201

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality.

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

Pledged bank balances and time deposits represented balances pledged to banks for the issuance of the Group's bills payable and letters of credit, and for the grant of bank loans to the Group. Further details of the bank loans are set out in note 32 below.

29. TRADE PAYABLES

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 6 months	**17,039,544**	12,619,417
6 months to 1 year	**426,635**	650,811
Over 1 year	**505,342**	405,961
	17,971,521	13,676,189

	Group	
	2010	2009
	RMB'000	*RMB'000*
Trade payables denominated in:		
Japanese Yen	**82,802**	31,761
United States Dollars	**31,178**	3,016
Hong Kong Dollars	**562**	11,356
Euros	**17,316**	1,656
Great Britain Pounds	**64**	39
Australian Dollars	**—**	12
Canadian Dollar	**7,494**	—
	139,416	47,840

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
CSRG Group	**9,624**	286,775
Jointly-controlled entities	**166,739**	92,029
	176,363	378,804

The above balances are unsecured, interest-free and repayable on similar credit terms to those offered by major suppliers of the Group.

30. BILLS PAYABLE

The maturity profile of the bills payable of the Group at the end of the reporting period is as follows:

	2010 RMB'000	2009 RMB'000
Within 6 months	**6,912,763**	4,975,387
	6,912,763	4,975,387

The amounts due to the related parties of the Group included in bills payable can be analysed as follows:

	2010 RMB'000	2009 RMB'000
CSRG Group	**13,154**	12,850
Jointly-controlled entities	**—**	17,592
	13,154	30,442

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

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Other payables	**1,836,259**	1,662,207	**7,115,351**	4,959,601
Advances from customers	**8,163,697**	5,174,616	**—**	—
Accruals	**1,103,091**	760,779	**86,368**	11,081
	11,103,047	7,597,602	**7,201,719**	4,970,682

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

	2010 RMB'000	2009 RMB'000
CSRG Group	**345,059**	4,683
Jointly-controlled entities	**100,930**	100,000
	445,989	104,683

The above balances are unsecured, interest-free and have no fixed terms of repayment.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group					
	2010			2009		
	Effective interest rate per annum (%)	**Maturity**	***RMB'000***	Effective interest rate per annum (%)	Maturity	*RMB'000*
Current						
Bank loans						
— Secured	**2.28-5.56**	**2011**	**1,177,705**	2.22-7.20	2010	986,326
— Unsecured	**0.36-5.56**	**2011**	**4,083,710**	1.86-5.60	2010	2,204,078
Short term bond						
— Unsecured	**3.18**	**2011**	**500,000**	—	—	—
Current portion of long term bank loans						
— Secured	**3.23-6.56**	**2011**	**751**	3.23-7.12	2010	1,955
— Unsecured	**5.27**	**2011**	**778**	Interest-free	2010	778
Other loans						
— Secured	**—**	**—**	**—**	4.80-5.46	2010	44
— Unsecured	**interest-free**	**2011**	**15,007**	Interest-free	2010	164
			5,777,951			3,193,345
Non-current						
Bank loans						
— Secured	**0.20-6.56**	**2012-2035**	**16,022**	Interest-free -7.12	2011-2035	37,234
— Unsecured	**interest-free -5.27**	**2012-2019**	**172,702**	Interest-free	2011-2019	104,578
Long term bond						
— Unsecured	**4.08-4.18**	**2012-2013**	**4,000,000**	4.18	2012	2,000,000
Other loans						
— Secured	**—**	**—**	**—**	5.46-5.94	2011-2014	5,050
— Unsecured	**0.30-6.40**	**2012**	**15,000**	Interest-free -0.3	2011-2012	25,004
			4,203,724			2,171,866
			9,981,675			5,365,211

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	Company					
	2010			2009		
	Effective interest rate per annum (%)	Maturity	RMB'000	Effective interest rate per annum (%)	Maturity	RMB'000
Current						
Bank loans						
— Unsecured	**3.51-5.81**	**2011**	**2,380,000**	4.37	2010	600,000
Non-current						
Bank loans						
— Unsecured	**5.13**	**2012**	**100,000**	5.13	2012	100,000
Long term bonds						
— Unsecured	**4.08-4.18**	**2012-2013**	**4,000,000**	4.18	2012	2,000,000
			4,100,000			2,100,000
			6,480,000			2,700,000

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**5,262,944**	3,193,137	**2,380,000**	600,000
In the second year	**161,602**	26,619	**—**	—
In the third to fifth years, inclusive	**18,433**	105,140	**100,000**	100,000
Beyond five years	**8,689**	10,053	**—**	—
	5,451,668	3,334,949	**2,480,000**	700,000
Short term bonds repayable:				
Within one year or on demand	**500,000**	—	**—**	—
Long term bonds repayable:				
In the second year	**2,000,000**	—	**2,000,000**	—
In the third to fifth years, inclusive	**2,000,000**	2,000,000	**2,000,000**	2,000,000
	4,000,000	2,000,000	**4,000,000**	2,000,000
Other borrowings repayable:				
Within one year or on demand	**15,007**	208	**—**	—
In the second year	**10,000**	15,046	**—**	—
In the third to fifth years, inclusive	**5,000**	15,008	**—**	—
	30,007	30,262	**—**	—

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

The above secured bank loans and other banking facilities were secured by certain assets and their carrying values are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Property, plant and equipment	**71,493**	158,764	**—**	—
Prepaid land lease payments	**24,592**	21,273	**—**	—
Time deposits and bank balances	**8,364**	1,618,367	**—**	—
Inventories	**6,520**	57,527	**—**	—
Trade receivables	**623,970**	259,855	**—**	—
	734,939	2,115,786	**—**	—

Interest-bearing bank and other borrowings denominated in:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Euros	**—**	9,935
United States Dollars	**88,330**	63,917
Great British Pounds	**3,071**	96,021
Japanese Yen	**74,311**	14,381
	165,712	184,254

33. DEFINED BENEFIT OBLIGATIONS

In addition to the monthly contributions to various defined contribution pension schemes regulated by the PRC government, the Group provided supplementary pension subsidies and early retirement benefits to certain qualified employees. The amounts of employee benefit obligations recognised in the statement of financial position represent the present value of the unfunded obligations.

Pursuant to the Reorganisation, the Group has terminated the supplementary pension subsidies to its employees who retired at normal retirement ages on 1 July 2007 and thereafter. In addition, the Group did not have any early retirement benefit plan available for its present employees subsequent to 30 June 2007.

The movements in the supplementary pension subsidies and early retirement benefit obligations recognised in the statement of financial position are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of the year	**2,143,750**	2,342,540	**17,405**	20,782
Interest cost recognised in administrative expenses	**(9,270)**	47,860	**435**	(1,290)
Amount paid	**(207,070)**	(246,650)	**(1,680)**	(2,087)
At the end of year	**1,927,410**	2,143,750	**16,160**	17,405

33. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

The provision for supplementary pension subsidies and early retirement benefits recognised in the statement of financial position is determined as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Present value of unfunded obligations	**1,928,560**	1,989,170	**15,090**	15,745
Unrecognised net actuarial gain	**(1,150)**	154,580	**1,070**	1,660
Defined benefit liabilities recognised	**1,927,410**	2,143,750	**16,160**	17,405
Portion classified as current liabilities	**(166,260)**	(174,010)	**(1,530)**	(1,473)
Non-current portion	**1,761,150**	1,969,740	**14,630**	15,932

The net expenses recognised in the profit or loss of the Group are analysed as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Interest cost	**(9,270)**	47,860

The above employee benefit obligations were determined based on actuarial valuation performed by Towers Perrin, an independent actuary, whose registered office is located at 1266 Nanjing West Road, 39/F, Plaza 66, Shanghai, the PRC, using the projected unit credit actuarial cost method and the material actuarial assumptions used in valuing these obligations are as follows:

	2010	2009
	%	%
Discount rate adopted	**4.00%**	3.50%
Healthcare cost trend	**8.00%**	8.00%
Cost of living adjustment for early retirees	**8.00%**	8.00%

The interest cost is charged in administrative expenses.

A one percentage point change in the assumed rate of increase in healthcare cost would have the following effects:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Increase in effect on interest cost	**2,850**	1,120
Decrease in effect on interest cost	**(2,400)**	(960)
Increase in effect on the defined benefit obligations	**71,270**	32,050
Decrease in effect on the defined benefit obligations	**(59,900)**	(27,290)

34. PROVISION FOR WARRANTIES

	Note	Group 2010 RMB'000	Group 2009 RMB'000
At beginning of year		**359,819**	169,472
Charged for the year	6	**705,046**	293,126
Utilised during the year		**(356,420)**	(102,780)
At end of year		**708,445**	359,818
Portion classified as :			
Current liabilities		**296,749**	215,094
Non-current liabilities		**411,696**	144,724

The above represents the warranty costs for repairs and maintenance, which are estimated based on prevailing after-sales service policies, the sales volume and the past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

35. GOVERNMENT GRANTS

	Note	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
At beginning of year		**597,901**	371,289	**—**	500
Received during the year		**580,320**	526,573	**—**	—
Recognised as other income and gains during the year	5	**(373,997)**	(299,961)	**—**	(500)
At end of year		**804,224**	597,901	**—**	—
Current portion		**(132,684)**	(48,783)	**—**	—
Non-current portion		**671,540**	549,118	**—**	—

36. EQUITY

Share capital

	Company			
	2010		2009	
		RMB'000		*RMB'000*
	Number of shares	**Nominal value**	Number of shares	Nominal value
Registered and fully paid				
— State-owned shares of RMB1.00 each	**6,520,285,714**	**6,520,286**	6,520,285,714	6,520,286
— A shares of RMB1.00 each	**3,295,714,286**	**3,295,714**	3,295,714,286	3,295,714
— H shares of RMB1.00 each	**2,024,000,000**	**2,024,000**	2,024,000,000	2,024,000
	11,840,000,000	**11,840,000**	11,840,000,000	11,840,000

During the prior year, 300,000,000 shares of A shares held by State-owned shareholders of the Company are requested to be transferred to the PRC National Council for Social Security Fund ("NSSF") for the reduction in State-owned shares. As at 31 December 2009, 295,714,286 shares held by CSRG had been transferred to NSSF. As at 31 December 2010, the transfer of the remaining 4,285,714 shares held by CSR Capital Company (formerly named as Beijing Railway Industry Trade Company) to NSSF has not been completed.

In the year 2010, CSRG bought 2,800,000 shares from A share market.

Equity movements

	Company					
	Share Capital	**Capital reserve**	**Common statutory reserve fund**	**Retained profits**	**Proposed final dividends**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	11,840,000	7,222,642	59,047	152,540	378,880	19,653,109
Total comprehensive income for the year	—	—	—	907,074	—	907,074
Transfer from profit	—	—	90,707	(90,707)	—	—
Dividends distributed to the shareholders	—	—	—	—	(378,880)	(378,880)
Proposed final 2009 dividend	—	—	—	(473,600)	473,600	—
At 31 December 2009	11,840,000	7,222,642	149,754	495,307	473,600	20,181,303
Total comprehensive income for the year	—	—	—	1,389,035	—	1,389,035
Transfer from profit	—	—	138,904	(138,904)	—	—
Dividends distributed to the shareholders	—	—	—	—	(473,600)	(473,600)
Proposed final 2010 dividend	—	—	—	(473,600)	473,600	—
At 31 December 2010	11,840,000	7,222,642	288,658	1,271,838	473,600	21,096,738

37. COMMITMENTS

OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases certain property, plant and equipment under operating lease arrangements negotiated for terms ranging from 1 to 15 years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2010	2009
	RMB'000	*RMB'000*
Within one year	**16,619**	26,796
In the second to fifth years, inclusive	**18,294**	39,936
More than five years	**4,947**	5,150
	39,860	71,882

(b) As lessee

The Group leases certain of its land and buildings and property, plant and equipment under operating lease arrangements negotiated for terms ranging from 1 to 15 years.

The Group's future minimum rental payables under non-cancellable operating leases in respect of land and buildings at the end of the reporting period are as follows:

	2010	2009
	RMB'000	*RMB'000*
Within one year	**26,343**	17,794
In the second to fifth years, inclusive	**69,650**	39,936
More than five years	**51,603**	72,266
	147,596	129,996

37. COMMITMENTS (CONTINUED)

CAPITAL COMMITMENTS

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

	2010 **RMB'000**	2009 RMB'000
Contracted, but not provided for:		
— Property, plant and equipment	**774,753**	1,726,671
— Prepaid land lease payments	**—**	56,512
— Other intangible assets	**7,020**	320,761
— Investments in setting up new entities *(Note)*	**1,660,000**	—
	2,441,773	2,103,944
Authorised, but not contracted for:		
— Property, plant and equipment	**461,608**	1,019,299
— Other intangible assets	**9,530**	—
	471,138	1,019,299

Note: Included the Company's investment of RMB910,000,000 in CSR Finance Co., Ltd, an entity to be established by the Company and CSRG.

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are not included in the above, is as follows:

	2010 **RMB'000**	2009 RMB'000
Contracted, but not provided for:		
— Property, plant and equipment	**93,084**	37,593

38. CONTINGENT LIABILITIES

As at 31 December 2010 and 2009, the Group had no significant contingent liabilities.

The Company had the following contingent liabilities not provided for in the financial statements at the end of the reporting period:

	Company	
	2010	2009
	RMB'000	*RMB'000*
Guarantees given to banks in connection with facilities granted to:		
Subsidiaries	**12,946,483**	13,820,519

As at 31 December 2010, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB2,886,598,000 (2009: RMB3,131,151,000).

39. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year.

In the opinion of the directors, the transactions below were conducted in the ordinary course of business of the Group and are in accordance with the terms agreed between the Group and its related parties.

	Group	
	2010	2009
	RMB'000	*RMB'000*
(a) Purchases of materials and components from:		
CSRG Group	**148,178**	690,449
Jointly-controlled entities	**946,101**	296,842
An associate	**33,855**	—
	1,128,134	987,291
(b) Sale of goods to:		
CSRG Group	**92,873**	72,460
Jointly-controlled entities	**632,103**	831,634
An associate	**89,786**	84,288
	814,762	988,382
(c) Purchase of property, plant and equipment from:		
CSRG Group	**—**	70

39. RELATED PARTY TRANSACTIONS (CONTINUED)

		Group	
		2010	2009
		RMB'000	*RMB'000*
(d)	Provision of services to:		
	CSRG Group	**8,329**	10,915
	Jointly-controlled entities	**13,379**	2,175
		21,708	13,090
(e)	Rental of property, plant and equipment from:		
	CSRG Group	**13,070**	12,830
(f)	Compensation of key management personnel of the Group:		
	Short term employee benefits	**6,164**	6,239
	Post-employment benefits	**164**	276
	Total compensation paid/payable to key management personnel	**6,328**	6,515

For the changes of key management personnel occurred during the year, the above compensation was based on the actual period of their tenure of office. Further details of directors' emoluments are included in note 8 to the financial statements.

(g) Commitments with related parties

The Group has the following commitments with related parties at the reporting period, which are contracted, but not included in the financial statements.

	2010
	RMB'000
Sale of goods to:	
Jointly-controlled entities	285,559
Purchase of materials and components from:	
Jointly-controlled entities	857,884

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

As at 31 December 2010

Financial assets

	Group			
	Loans and receivables	**Available-for-sale financial assets**	**Financial assets at fair value through profit or loss**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	—	25,598	—	25,598
Financial assets at fair value through profit or loss	—	—	17,512	17,512
Trade receivables	11,124,351	—	—	11,124,351
Bills receivable	1,709,935	—	—	1,709,935
Financial assets included in prepayments, deposits and other receivables	1,351,081	—	—	1,351,081
Pledged deposits	755,154	—	—	755,154
Cash and cash equivalents	13,770,897	—	—	13,770,897
Financial Assets included in other non-current assets	8,569	—	—	8,569
	28,719,987	25,598	17,512	28,763,097

40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2010

Financial liabilities

	Group Financial liabilities at amortised cost *RMB'000*
Trade payables	**17,971,521**
Bills payable	**6,912,763**
Financial liabilities included in other payables and accruals	**1,992,405**
Financial liabilities included in other non-current liabilities	**1,556**
Interest-bearing bank and other borrowings	**9,981,675**
	36,859,920

As at 31 December 2010

Financial assets

		Company	
	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Available-for-sale investments	**—**	**678**	**678**
Loans to subsidiaries *(note 18)*	**259,000**	**—**	**259,000**
Financial assets included in prepayments, deposit and other receivables	**6,658,856**	**—**	**6,658,856**
Pledged deposits	**4,344**	**—**	**4,344**
Cash and cash equivalents	**4,590,430**	**—**	**4,590,430**
	11,512,630	**678**	**11,513,308**

As at 31 December 2010

Financial liabilities

	Company Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	**7,194,731**
Interest-bearing bank and other borrowings	**6,480,000**
	13,674,731

40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2009

Financial assets

	Group			
	Loans and receivables *RMB'000*	**Available-for-sale financial assets** *RMB'000*	**Financial assets at fair value through profit or loss** *RMB'000*	**Total** *RMB'000*
Available-for-sale investments	—	31,117	—	31,117
Financial assets at fair value through profit or loss	—	—	24,248	24,248
Trade receivables	6,638,161	—	—	6,638,161
Bills receivable	999,097	—	—	999,097
Financial assets included in prepayments, deposits and other receivables	790,066	—	—	790,066
Pledged deposits	1,618,367	—	—	1,618,367
Cash and cash equivalents	11,273,147	—	—	11,273,147
	21,318,838	31,117	24,248	21,374,203

As at 31 December 2009

Financial liabilities

	Group Financial liabilities at amortised cost *RMB'000*
Trade payables	13,676,189
Bills payable	4,975,387
Financial liabilities included in other payables and accruals	1,716,470
Financial liabilities included in other non-current liabilities	3,209
Interest-bearing bank and other borrowings	5,365,211
	25,736,466

As at 31 December 2009

Financial assets

	Company		
	Loans and receivables *RMB'000*	**Available- for-sale financial assets** *RMB'000*	**Total** *RMB'000*
Available-for-sale investments	—	678	678
Loans to subsidiaries *(note 18)*	244,000	—	244,000
Financial assets included in prepayments, deposit and other receivables	3,730,880	—	3,730,880
Pledged deposits	8,358	—	8,358
Cash and cash equivalents	4,333,843	—	4,333,843
	8,317,081	678	8,317,759

40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2009

Financial liabilities

	Company Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	4,962,678
Interest-bearing bank and other borrowings	2,700,000
	7,662,678

41. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

The fair values of listed equity investments and financial assets at fair value through profit or loss are based on quoted market prices.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. But short-term and long-term bonds are included in interest-bearing bank and other borrowings, and the fair value of the short-term and long-term bonds is estimated using quoted market prices. The carrying amounts and fair values of the Group's interest-bearing bank and other borrowings are RMB9,981,675,000 (2009: RMB5,365,211,000) and RMB9,964,985,000 (2009: RMB5,365,065,000), respectively. The carrying amounts and fair values of the Company's interest-bearing bank and other borrowings are RMB6,480,000,000 (2009: RMB2,700,000,000) and RMB6,474,784,000 (2009: RMB2,708,914,000), respectively.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

41. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

Financial assets measured at fair value:

Group

As at 31 December 2010

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Available-for-sale investments:				
Equity investments	**2,565**	**—**	**—**	**2,565**
Equity investments at fair value through profit or loss	**17,512**	**—**	**—**	**17,512**
	20,077	**—**	**—**	**20,077**

As at 31 December 2009

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Available-for-sale investments:				
Equity investments	8,084	—	—	8,084
Equity investments at fair value through profit or loss	24,248	—	—	24,248
	32,332	**—**	**—**	**32,332**

During the years ended 31 December 2010 and 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

As at 31 December 2010 and 2009, the Company did not hold any financial instruments measured at fair value.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The board reviews and agrees on policies for managing each of these risks and they are summarised below:

Credit risk

Credit risk means the risk of loss in respect of a financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group only transacts with those third parties who are recognised as creditworthy. The Group's policy is to perform credit verification for all customers who have transactions with the Group. Further, credit limits, credit terms and sales methods are determined based on the credit ratings of customers.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

For sales under credit terms, a sales contract shall stipulate the payment term and credit amounts. The payment date should not exceed the credit term, and the credit amount in aggregate should not exceed the credit limit.

For cash on delivery sales, goods are only delivered after the completion of cash collection procedures.

In addition, the Group continuously monitors its trade receivable balance, insists that salespersons are responsible for cash collection, and persons who approve sales contracts are accountable for the collection of receivables. For receivables which are not collected in three years, the relevant personnel have the responsibility to make compensation so as to ensure that the Group will not be subject to material bad debt risk.

The Group's other financial assets include cash and cash equivalents, and other receivables. The credit risk of these financial assets arises from default of counterparties who transact with the Group, with a maximum exposure equal to the carrying amounts of these instruments.

The Group's principal customers are the Ministry of Railways and entities invested and managed by local railway departments. Since the Group only trades with third parties recognised to be creditworthy, no pledge of assets is required from the customers. Concentrations of credit risk are managed by customers.

Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate financing to repay the debts related to financial instruments. Liquidity risk may arise from liability to dispose of financial assets promptly, or arise from the counterparty who cannot repay its contracted debt obligations, or arise from liability to generate the expected cash flows.

The Group's objective is to maintain a balance between continuity and flexibility through measures such as bills settlement, loans and short term commercial paper, to adopt an appropriate combination of long term and short term financing, and to improve the financing structure.

The Group has already obtained banking facilities from various commercial banks for its working capital and capital expenditure.

The Group's management monitors the working capital position to ensure that there is adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of the Group's financial resources.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

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

As at 31 December 2010

	Group				
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Beyond five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	**5,961,526**	**2,339,754**	**2,105,776**	**9,021**	**10,416,077**
Trade payables	**17,971,521**	**—**	**—**	**—**	**17,971,521**
Bills payable	**6,912,763**	**—**	**—**	**—**	**6,912,763**
Financial liabilities included in other payables and accruals	**1,992,405**	**—**	**—**	**—**	**1,992,405**
Financial liabilities included in other non-current liabilities	**—**	**1,556**	**—**	**—**	**1,556**
	32,838,215	**2,341,310**	**2,105,776**	**9,021**	**37,294,322**

As at 31 December 2009

	Group				
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Beyond five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	3,335,652	131,265	2,202,552	10,421	5,679,890
Trade payables	13,676,189	—	—	—	13,676,189
Bills payable	4,975,387	—	—	—	4,975,387
Financial liabilities included in other payables and accruals	1,716,470	—	—	—	1,716,470
Financial liabilities included in other non-current liabilities	—	1,605	1,604	—	3,209
	23,703,698	132,870	2,204,156	10,421	26,051,145

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

Interest rate risk means the risk that the fair value or future cash flows 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).

	Group	
	Increase/(decrease) in basis points	**Increase/(decrease) in profit before tax**
		RMB'000
Year ended 31 December 2010	100	(22,718)
	(100)	22,718
Year ended 31 December 2009	100	(14,676)
	(100)	14,676

Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. The Group's foreign risk mainly arise from sales or purchases by operating units in currencies other than the units' functional currency and from net investments in foreign operations.

The Group's businesses are mainly located in the PRC and are mainly transacted and settled in Renminbi. Certain sales, purchases and borrowings are settled in foreign currencies. The fluctuation of the exchange rates of foreign currencies against Renminbi will affect the Group's results of operations.

The Group endeavours to reduce foreign currency risk to a minimum mainly by closely monitoring market exchange rate changes and actively adopting measures.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

For foreign business contracts under negotiation, the Group also requires price quotations to be based on the expected exchange rate changes. In negotiations, the Group also requires price quotations to be based on the expected exchange rate changes. When negotiating foreign business, the relevant terms should clearly state the scope of exchange rate fluctuations and the related risk to be borne by both the seller and buyer. For import activities, the relevant import entities are required to monitor the timing of settlement such that the appreciation of Renminbi can be utilised to reduce the cost of purchase.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Japanese Yen and US dollar exchange rates, 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). In the opinion of the directors, as the currency exposures arising from possible changes in other currencies will not have any significant financial impact on the Group, the relative sensitivity is not disclosed.

	Group	
	Increase/(decrease) in exchange rate	**Increase/(decrease) in profit before tax**
	%	*RMB'000*
Year ended 31 December 2010		
If Renminbi strengthens against Japanese Yen	**13.7**	**53,025**
If Renminbi weaken against Japanese Yen	**(13.7)**	**(53,025)**
If Renminbi strengthens against US Dollar	**3.1**	**(20,498)**
If Renminbi weaken against US Dollar	**(3.1)**	**20,498**

	Group	
	Increase/(decrease) in exchange rate	**Increase/(decrease) in profit before tax**
	%	*RMB'000*
Year ended 31 December 2009		
If Renminbi strengthens against Japanese Yen	13.2	29,788
If Renminbi weaken against Japanese Yen	(13.2)	(29,788)
If Renminbi strengthens against US Dollar	0.2	(1,134)
If Renminbi weaken against US Dollar	(0.2)	1,134

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the parent.

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its business. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirement and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at 31 December 2010 and 2009 were as follows:

	Group	
	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**9,981,675**	5,365,211
Trade payables	**17,971,521**	13,676,189
Bills payable	**6,912,763**	4,975,387
Other payables and accruals	**11,103,047**	7,597,602
Less: Cash and cash equivalents and pledged deposits	**(14,526,051)**	(12,891,514)
Net debt	**31,442,955**	18,722,875
Total capital	**19,244,185**	17,330,168
Capital and net debt	**50,687,140**	36,053,043
Gearing ratio	**62%**	52%

43. EVENTS AFTER THE REPORTING PERIOD

1 On 15 December 2010, CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd., a subsidiary of the Company, decided to establish a wholly-owned subsidiary, named as Tongliao CSR Wind Energy Equipment Technology Ltd., whose registered capital is RMB200,000,000. The capital injection and the related industrial and commercial registration were completed on 21 January 2011.

2 In November 2010, the Company signed an agreement to establish an entity, named as Guangzhou Electrical Locomotive Co., Ltd., together with Guangzhou Communication Investment Group Co., Ltd. ("GCIG") and Guangzhou Railway (Group) Corporation. Up to 23 November 2010, the Company and GCIG had completed the first capital injection of RMB 400,000,000, and the related industrial and commercial registration was completed on 1 March 2011.

3 On 7 March 2011, CSR Ziyang Locomotive Co., Ltd., a subsidiary of the Company, signed an investment agreement with Guangxi Yuchai Machinery Group Co., Ltd. and Sichuan Nanjun Automobile Co., Ltd., to incorporate an entity named as CSR Yuchai Sichuan Engine Co., Ltd. ("CSR Yuchai") with the registered capital of RMB300,000,000.

4 On 19 November 2010, the Company received "The Approval of Share Option Plan Established by CSR Corporation Limited" (State-owned Assets Allocation [2010] No.1298) from the SASAC, which agreed the Company to put the Share Option Plan into practice. In March 2011, the Company submitted the Share Option Plan (draft) to the China Securities Regulatory Commission for record, and there was no dissent. The Share Option Plan was approved by the board of the directors on 7 March 2011.

5 On 2 December 2010, ZTNM, the subsidiary of the Company, signed "The Distribution Agreement of Debt Financing Instruments of Non-financial Enterprises on the Inter-bank Bond Market" with China Everbright Bank Company Limited, to issue short-term bond of RMB500,000,000, and the financing plan was approved at the 17th meeting of the fifth session of the board of the directors of ZTNM on 16 March 2011.

6 On 7 March 2011, the proposal to issue short-term bond of no more than RMB5,000,000,000 was approved at the 23rd meeting of the first session of the board of the directors of the Company.

44. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised IFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2011.

Definitions

“Articles of Association”	the articles of association of the Company
“BRIT”	Beijing Railway Industry Trade Company (北京鐵工經貿公司)
“BST”	Bombardier Sifang (Qingdao) Transportation Ltd. (青島四方龐巴迪鐵路運輸設備有限公司)
“Changzhou Qifeng”	Changzhou Qifeng Machinery and Electronics Compnay Ltd. (常州齊豐機械電子有限公司)
“Company” or “CSR”	CSR Corporation Limited (中國南車股份有限公司)
“Company Law”	the Company Law of the People’s Republic of China
“CRGL”	China Railway Group Limited (中國中鐵股份有限公司)
“CSR Chengdu”	CSR Chengdu Locomotive & Rolling Stock Co., Ltd. (南車成都機車車輛有限公司)
“CSR Electric”	CSR Zhuzhou Electric Co., Ltd. (南車株洲電機有限公司)
“CSR Erqi”	CSR Erqi Co., Ltd. (南車二七車輛有限公司)
“CSR Hong Kong”	CSR (Hong Kong) Company Limited (中國南車(香港)有限公司)
“CSR Luoyang”	CSR Luoyang Locomotive Co., Ltd. (南車洛陽機車有限公司)
“CSR Meishan”	CSR Meishan Co., Ltd. (南車眉山車輛有限公司)
“CSR Puzhen”	CSR Nanjing Puzhen Rolling Stock Co., Ltd. (南車南京浦鎮車輛有限公司)
“CSR Qishuyan”	CSR Qishuyan Locomotive Co., Ltd. (南車戚墅堰機車有限公司)
“CSR Qishuyan Institute”	CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. (南車戚墅堰機車車輛工藝研究所有限公司)
“CSR Shijiazhuang”	CSR Shijiazhuang Rolling Stock Co., Ltd. (南車石家莊車輛有限公司)
“CSR Sifang”	CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. (南車青島四方機車車輛股份有限公司)
“CSR Sifang Ltd.”	CSR Sifang Rolling Stock Co., Ltd. (南車四方車輛有限公司)
“CSR Yangtze”	CSR Yangtze Rolling Stock Co., Ltd. (南車長江車輛有限公司)
“CSR ZELRI”	CSR Zhuzhou Electric Locomotive Research Institute Co.,Ltd. (南車株洲電力機車研究所有限公司)
“CSR Zhuzhou”	CSR Zhuzhou Electric Locomotive Co., Ltd. (南車株洲電力機車有限公司)
“CSR Ziyang”	CSR Ziyang Locomotive Co., Ltd. (南車資陽機車有限公司)
“CSRG”	CSR Group (中國南車集團公司)

"Group"	the Company and its subsidiaries
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Jilin Midas"	Jilin Midas Aluminum Industries Co. Ltd. (吉林麥達斯鋁業有限公司)
"KTK"	KTK Group Co., Ltd. (今創集團有限公司)
"KYB"	KYB Corporation, formerly known as Kayaba Industry Co., Ltd.
"Ministry of Railways"	the Ministry of Railways of the People's Republic of China
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"SAFE"	the State Administration of Foreign Exchange of the People's Republic of China
"Securities Law"	the Securities Law of the People's Republic of China
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"South Huiton"	South Huiton Co., Ltd. (南方匯通股份有限公司)
"Times New Materials"	Zhuzhou Times New Material Technology Co., Ltd. (株洲時代新材料科技股份有限公司
"Xi'an Kaitian"	Xi'an Kaitian Railway Traction Electric Apparatus Co., Ltd. (西安開天鐵路牽引電器有限公司)
"Ziyang Chenfeng"	Ziyang Chenfeng Electric Co., Ltd. (資陽晨風電氣有限公司)

Basic Information of the Company

CHINESE NAME	中國南車股份有限公司
ENGLISH NAME	CSR Corporation Limited (the “Company”, “CSR”, the Company and its subsidiaries collectively referred as the “Group”)
DATE OF BUSINESS REGISTRATION	28 December 2007
REGISTERED OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
BUSINESS ADDRESS OF THE HEAD OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
PRINCIPLE PLACE OF BUSINESS IN HONG KONG	Unit H, 41/F., Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong
LEGAL REPRESENTATIVE	Zhao Xiaogang
EXECUTIVE DIRECTORS	Zhao Xiaogang, Zheng Changhong Tang Kelin, Liu Hualong
INDEPENDENT NON-EXECUTIVE DIRECTORS	Zhao Jibin, Yang Yuzhong Chen Yongkuan, Dai Deming Tsoi, David
AUTHORIZED REPRESENTATIVES	Liu Hualong, Wong Kai Yan,Thomas
JOINT COMPANY SECRETARIES	Shao Renqiang, Wong Kai Yan,Thomas
QUALIFIED ACCOUNTANT	Wong Kai Yan, Thomas
SECRETARY TO THE BOARD	Shao Renqiang
SECURITIES REPRESENTATIVE	Zheng Sheng

TELEPHONE FOR INFORMATION INQUIRY	(8610) 5186 2188
FAX	(8610) 6398 4785
WEBSITE	www.csrgc.com.cn
E-MAIL ADDRESS	csr@csrgc.com
H SHARE REGISTRAR	Computerhsare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
PLACES OF LISTING	The Stock Exchange of Hong Kong Limited Shanghai Stock Exchange
STOCK NAME	CSR
STOCK CODE	1766 (Hong Kong) 601766 (Shanghai)
PRINCIPAL BANKERS	China Minsheng Banking Corp., Ltd. China CITIC Bank Corporation Limited Industrial and Commercial Bank of China Limited Bank of Communications Co., Ltd.

PRC INDEPENDENT AUDITORS	Ernst & Young Hua Ming *Certified Public Accountants* Level 16, Ernst & Young Tower (Tower E3), Oriental Plaza, No. 1 East Chang An Avenue, Dongcheng District, Beijing, the PRC
INTERNATIONAL INDEPENDENT AUDITORS	Ernst & Young *Certified Public Accountants* 18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
LEGAL ADVISERS	*As to Hong Kong laws:* Baker & McKenzie 23rd Floor, One Pacific Place, 88 Queensway, Central, Hong Kong *As to PRC laws:* Jia Yuan Law Firm F407 Ocean Plaza, 158 Fuxing Men Nei Avenue, Beijing, the PRC

CSR 中国南车

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

Stock Code: 1766

Address: No. 16, Sihuan Mid. Road, West Haidian District, Beijing
Post Code: 100036
Email: csr@csrgc.com
Website: www.csrgc.com.cn