IMPORTANT

If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

CHINA SOUTH LOCOMOTIVE & ROLLING STOCK CORPORATION LIMITED
中國南車股份有限公司

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering :	**1,600,000,000 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Public Offer Shares :	**160,000,000 H Shares (subject to adjustment)**
Number of International Offer Shares :	**1,440,000,000 H Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price :	**HK$2.76 per Hong Kong Public Offer Share (payable in full on application and subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%)**
Nominal Value :	**RMB1.00 per Share**
Stock Code :	**1766**

Joint Global Coordinators and Joint Bookrunners

(in alphabetical order)

CICC
CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED

MACQUARIE CAPITAL

Joint Sponsors and Joint Lead Managers

(in alphabetical order)

CICC
CHINA INTERNATIONAL CAPITAL CORPORATION (HONGKONG) LIMITED

MACQUARIE CAPITAL

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus (the "Prospectus"), having attached thereto the documents specified in "Appendix X—Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement among the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or about 14 August 2008 and, in any event, by 19 August 2008. The Offer Price will be not more than HK$2.76 and is currently expected to be not less than HK$2.49. Applicants for Hong Kong Public Offer Shares are required to pay, on application, the maximum offer price of HK$2.76 for each Hong Kong Public Offer Share together with a brokerage of 1.0%, a SFC transaction levy of 0.004%, and a Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK$2.76 as finally determined.

The Joint Global Coordinators (on behalf of the Underwriters, and with our consent) may reduce the indicative Offer Price range below that stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares".

If, for whatever reason, we and the Joint Global Coordinators (on behalf of the Underwriters) are not able to agree on the Offer Price, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, Hong Kong Public Offer Shares are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the H Shares commences on the Hong Kong Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this Prospectus. It is important that you refer to that section for further details.

The H Shares have not been, and will not be, registered under the U.S. Securities Act and may not be offered or sold or otherwise transferred within the United States except pursuant to Rule 144A or another exemption from registration under the U.S. Securities Act.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks associated with investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of our H Shares. Such differences and risks are set out in the section headed "Risk Factors" and in "Appendix VI—Summary of Principal Legal and Regulatory Provisions" to this Prospectus.

8 August 2008

EXPECTED TIMETABLE(1)

Application lists open(2)	11:45 a.m. on Wednesday, 13 August 2008
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Wednesday, 13 August 2008
Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**(3)	11:30 a.m. on Wednesday, 13 August 2008
Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 13 August 2008
Latest time to give **electronic application instructions** to HKSCC(4)	12:00 noon on Wednesday, 13 August 2008
Application lists close	12:00 noon on Wednesday, 13 August 2008
Expected Price Determination Date(5)	Thursday, 14 August 2008
Announcement of Offer Price(6)	Friday, 15 August 2008
Announcement of ● the level of applications in the Hong Kong Public Offering; ● the level of indications of interest in the International Placing; and ● the basis of allotment of the Hong Kong Public Offer Shares to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before	Wednesday, 20 August 2008
Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the website of the Hong Kong Stock Exchange at **www.hkex.com.hk** and the Company's website at **www.csrgc.com.cn** (see paragraph headed "**Publication of Results**" in the section headed "How to Apply for Hong Kong Public Offer Shares")	Wednesday, 20 August 2008
Despatch of H Share certificates and refund cheques on or before(7)(8)(9)	Wednesday, 20 August 2008
Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on	Thursday, 21 August 2008

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(1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering". If there is any change in this expected timetable, an announcement will be published in the South China Morning Post in English and in the Hong Kong Economic Times in Chinese.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Wednesday, 13 August 2008, the application lists will not open on that day. Further information is set out in "How to Apply for Hong Kong Public Offer Shares—Effect of Bad Weather on the Opening of the Application Lists".

(3) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(4) Applicants who apply for Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC should refer to "How to Apply for Hong Kong Public Offer Shares—III. Applying by Giving Electronic Application Instructions to HKSCC".

(5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Thursday, 14 August 2008 and, in any event, by Tuesday, 19 August 2008. If, for any reason, the Offer Price is not agreed by Tuesday, 19 August 2008, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(6) The Offer Price will be announced as soon as practicable after determination, which announcement is currently expected to be made on Friday, 15 August 2008.

(7) Applicants who apply for 1,000,000 or more Hong Kong Public Offer Shares and have indicated in their Application Forms that they wish to collect share certificates (if applicable) and refund cheques (if applicable) in person may do so from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 20 August 2008 or any other date notified by our Company in the newspapers as the date of despatch of share certificates/refund cheques. Applicants being individuals who opt for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar. Uncollected share certificates and refund cheques will be despatched by ordinary post to the addressees specified in the relevant Application Forms at the applicants' own risk. Further information is set out in "How to Apply for Hong Kong Public Offer Shares".

(8) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the initial price per Hong Kong Public Offer Share payable on application. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque.

(9) H Share certificates will only become valid certificates of title provided that the Hong Kong Public Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of their H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

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You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from that contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this Prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read this Prospectus in its entirety before you decide to invest in the Hong Kong Public Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in the section headed "Risk Factors".

OVERVIEW

We are one of the largest rolling stock manufacturers and solutions providers in the world, offering a wide range of rolling stock products and services. We were also the largest rolling stock manufacturer and solutions provider in China in terms of revenue in 2007. We provide our customers with innovative solutions and systems in the research and development, manufacturing, sales, refurbishment and leasing of rolling stock, including locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as other businesses that utilize proprietary rolling stock technologies. During the three years ended 31 December 2007, we occupied 51.1% and 80.0% of the PRC domestic market share for locomotive production and MU production in terms of production volume, respectively, as well as 50.9% and 51.8% of the PRC domestic market share for locomotive refurbishment and freight wagon refurbishment in terms of refurbishment volume, respectively. Building on our market-leading position in the rolling stock market in China, we also export our products to more than 30 countries and regions in the world.

The growing demand for rolling stock is driven primarily by the rapid development of the rail vehicle market in China which increases the need for new vehicles as well as vehicle upgrade and refurbishment services. Another key driver is the growth of the rapid transit market due to urbanization and China's rapid economic growth. We develop, manufacture and sell a full range of rolling stock that can be divided into five principal product lines:

- *Locomotives*: We own China's largest research and development and manufacturing facility for electric locomotives in terms of 2006 production volume, which is also one of the world's leading research and development and manufacturing facilities for electric locomotives. Our locomotives include electric and diesel locomotives for passenger and freight trains. We use world-leading technologies in the manufacture of four-axle, six-axle and eight-axle electric and diesel locomotives. We have worked with the government to set industry standards for the domestic electric and diesel locomotive markets since these locomotives were produced in China. In addition, we own and operate a number of facilities in China where we refurbish, upgrade and maintain various types of locomotives. We also provide leasing services for our locomotives.
- *Passenger carriages*: We are one of China's two major developers and manufacturers of passenger carriages. Our passenger carriages comprise rail vehicles that are mainly used for passenger transportation, including seating coaches, berth sleeping cars, dining cars, power generation cars and double-deck passenger carriages. We are the exclusive developer and manufacturer of technologically advanced passenger carriages specifically designed for plateau railways. These advanced passenger carriages are used on the Qinghai-Tibet Railway Line, the highest plateau railway in the world. In addition, we own and operate a number of facilities in China where we refurbish, upgrade and maintain passenger carriages.

- *Freight wagons*: We own one of the world's leading research and development and manufacturing facilities for freight wagons. Our freight wagons mainly consist of open top wagons, flat wagons, box wagons, tank wagons, hopper wagons and other special purpose vehicles. In the PRC domestic market, we offer the most comprehensive series of freight wagon products that accommodate a wide range of freight transportation needs. We have successfully manufactured heavy-hauling freight wagons that can each carry a weight of more than 160 tonnes as well as freight wagons with 40-tonne axle loads. We also actively sell our products in the international freight wagon market. From 2006 to early 2008, we entered into agreements to export in total 110 ore-transporting hopper wagons as well as 976 ore-transporting wagons, which have high axle loads. Our heavy-hauling freight wagons are the most commonly used freight wagons on China's main freight rail lines, such as the Daqin Railway Line, China's first electrified coal-dedicated freight rail line.

- *Multiple units*: We offer MUs with maximum operating speeds of up to 200 km/h, over 200 km/h and over 300 km/h. In recent years, we have been focusing on the development and production of electric multiple units, or EMUs, and we own an EMU manufacturing facility where we use world-leading technologies to manufacture EMUs. We manufacture MUs and related subsystems and components, which are widely used on existing railway lines. Along with our joint venture enterprise, we supplied 47 of the 52 high-speed EMUs that commenced operation at the beginning of CR's sixth round of speed increases in April 2007. Building upon our technologies used to manufacture EMUs with speeds over 200 km/h, we developed the next generation of high-speed EMUs with speeds over 300 km/h and successfully manufactured China's first high-speed EMUs with speeds over 300 km/h through CSR Sifang Co., Ltd. at the end of 2007. We are currently developing high-speed EMUs with speeds of 350 km/h and above, which will begin commercial production in 2010.

- *Rapid transit vehicles*: We were the largest manufacturer of rapid transit vehicles in China in terms of total new bid value of contracts in 2007. We were successful in bidding on sales and purchase contracts totaling approximately RMB12.0 billion, which accounted for more than 60% of the total new bid value of contracts in China in the same year. Our rapid transit vehicles consist of metro cars used on subway systems and light rail cars used on light rail systems. Major cities and municipalities in China, such as Beijing, Shanghai, Shenzhen, Guangzhou and Nanjing, have already purchased our technologically sophisticated rapid transit vehicles for their rapid transit systems. We have developed advanced linear motor technologies for metro cars and have applied these technologies on the No. 4 Line and No. 5 Line of the Guangzhou Metro. Historically, we provided only core components and control systems for the metro cars of the Hong Kong MTR. In the first quarter of 2008, we entered into an agreement to provide 22 rapid transit vehicles for Hong Kong's MTR.

SUMMARY

The following table sets forth the sales and service revenue generated from each of our product lines and their respective percentage of total revenue for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2005		2006		2007		2007		2008	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million) (unaudited)	%	(RMB million)	%
Locomotives . . .	6,681.1	33.8	7,173.5	31.2	7,086.1	26.5	1,279.3	21.1	1,722.1	26.2
Passenger carriages	2,922.2	14.8	3,416.2	14.8	3,408.0	12.7	991.8	16.4	803.8	12.2
Freight wagons	7,184.7	36.3	8,073.3	35.0	9,193.3	34.3	2,341.8	38.6	2,161.8	32.8
Multiple units . .	74.2	0.4	1,113.4	4.8	2,679.7	10.0	663.4	10.9	791.9	12.0
Rapid transit vehicles	1,215.4	6.1	1,227.2	5.3	1,699.1	6.3	268.2	4.4	245.5	3.7
Others	1,706.9	8.6	2,043.4	8.9	2,737.3	10.2	521.3	8.6	861.0	13.1
Total	19,784.5	100.0	23,047.0	100.0	26,803.5	100.0	6,065.8	100.0	6,586.1	100.0

Our brand names, "CSR" and "南車", are widely recognized in both domestic and overseas markets. Over the years, our rolling stock products have been exported to over 30 countries and regions, including the United States, Australia and Brazil. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, our revenue generated from overseas sales amounted to approximately RMB1,659.6 million, RMB1,777.1 million, RMB1,929.2 million, RMB605.8 million and RMB301.7 million, respectively, representing 8.4%, 7.7%, 7.2%, 10.0% and 4.6% of our total revenue, respectively.

Our research and development efforts enable us to continuously introduce innovative and technologically advanced products for our rail-related business and new businesses, such as alternative energy generation and its applications. We have utilized our core technologies and knowledge in electric power conversion and diesel engines to introduce the first hybrid-powered bus in China as well as to commence production of wind power generators in 2007. Through the combined efforts of our centralized research and development institutes and laboratories, we develop and improve essential rolling stock components, including bogies, traction motors, diesel engines and on-board electric control systems, all of which are used in the manufacture of most of our products. In addition, we improve manufacturing technologies to enhance the quality and increase the production of all of our rolling stock products. Through our five state-accredited research and development centers, which we own and operate, we participate in the establishment of domestic industry standards.

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, our total revenue amounted to RMB19,784.5 million, RMB23,047.0 million, RMB26,803.5 million, RMB6,065.8 million and RMB6,586.1 million, respectively, and our profit attributable to equity holders of the Company during the same periods amounted to RMB407.1 million, RMB544.8 million, RMB613.0 million, RMB101.5 million and RMB367.6 million, respectively.

OUR COMPETITIVE STRENGTHS

- We are a leader in the domestic rolling stock industry, occupying a dominant position in the rapidly growing rolling stock market in China.
- We offer a comprehensive portfolio of rolling stock products that meets the demands of the rapidly developing rolling stock market.
- We possess leading technologies and strong research and development capabilities.

- Our full range of services and comprehensive customer relationship management program enable us to strengthen further and develop our existing customer base.
- Our brand names are well-recognized in both the domestic and overseas markets.
- Our experienced and capable management and our highly skilled professional workforce ensure our development and continued success.

OUR BUSINESS STRATEGIES

As China's economy continues its rapid growth and urbanization becomes increasingly widespread, demand for rail transportation and rapid transit is also expected to increase. Our goal is to enhance our overall competitiveness and to develop into an industry-leading, internationally recognized rolling stock manufacturer. In order to achieve these objectives, we will focus on the following strategic initiatives:

- Solidify our market-leading position in China's rolling stock industry and expand our market share;
- Optimize our product mix and services and actively develop new business areas using rolling stock related technologies;
- Further expand our global presence and market share in overseas markets through the enhancement of our brand recognition and development of our overseas operations;
- Promote and accelerate our continued development through capital operations; and
- Continue to improve the management efficiency of our business operations and facilities as well as to optimize our human resources to enhance our competitiveness.

SUMMARY HISTORICAL COMBINED FINANCIAL INFORMATION

Selected Historical Consolidated Financial Information

The following tables present our selected historical consolidated financial information for the periods indicated. The selected consolidated income statement information, cash flow information and other selected financial information for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, and the selected consolidated balance sheet information as of 31 December 2005, 2006 and 2007 and 31 March 2008 are derived from, and should be read in conjunction with, the consolidated financial information set forth in the Accountants' Report included as Appendix I to this Prospectus.

The consolidated financial information is prepared in accordance with the IFRS.

	Year ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	(RMB million)	**(RMB million)**	**(RMB million)**	**(RMB million) (unaudited)**	**(RMB million)**
Selected consolidated income statement information					
Revenue	19,784.5	23,047.0	26,803.5	6,065.8	6,586.1
Cost of sales	(17,094.8)	(19,803.2)	(22,785.0)	(5,221.3)	(5,387.7)
Gross profit	2,689.7	3,243.8	4,018.5	844.5	1,198.4
Other income and gains	174.3	173.7	430.1	61.2	225.6
Selling and distribution costs	(348.0)	(453.0)	(641.1)	(108.4)	(147.8)
Administrative expenses	(1,728.4)	(1,953.3)	(2,633.7)	(544.4)	(587.3)
Other expenses, net	(28.2)	(30.4)	(103.8)	(45.7)	(52.3)
Finance costs	(190.2)	(294.9)	(314.4)	(70.3)	(119.4)
Share of profits and losses of associates and jointly-controlled entities	24.7	26.2	192.3	15.2	32.7
Profit before tax	593.9	712.1	947.9	152.1	549.9
Tax	(99.2)	(70.4)	(73.2)	(36.9)	(142.6)
Profit for the year/period	494.7	641.7	874.7	115.2	407.3
Attributable to:					
Equity holders of the Company	407.1	544.8	613.0	101.5	367.6
Minority interests	87.6	96.9	261.7	13.7	39.7

	As of 31 December			As of 31 March
	2005	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Selected consolidated balance sheet information				
Non-current assets				
Lease prepayments[1]	863.3	940.9	2,804.1	2,790.6
Available-for-sale investments	81.7	109.4	82.3	50.0
Listed equity investments, in the PRC, at fair value	0.9	4.4	49.1	16.8
Unlisted equity investments, at cost less impairment	80.8	105.0	33.2	33.2
Other non-current assets	7,677.2	8,337.1	8,013.1	8,403.8
Total non-current assets	8,622.2	9,387.4	10,899.5	11,244.4
Current assets				
Cash and cash equivalent	2,887.5	5,320.8	7,792.5	3,386.8
Other current assets	10,906.8	11,636.1	13,998.9	16,863.4
Total current assets	13,794.3	16,956.9	21,791.4	20,250.2
Current liabilities				
Total current liabilities	15,073.9	16,079.0	21,682.7	20,221.7
Net current (liabilities)/assets[2]	(1,279.6)	877.9	108.7	28.5
Non-current liabilities				
Total non-current liabilities	4,223.0	4,881.0	4,627.3	4,484.3
Net assets	3,119.6	5,384.3	6,380.9	6,788.6
Equity				
Equity attributable to equity holders of the Company	2,598.9	3,461.1	4,311.0	4,679.7
Minority interests	520.7	1,923.2	2,069.9	2,108.9
Total equity	3,119.6	5,384.3	6,380.9	6,788.6

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(1) The lease prepayments increased by 198.0%, or RMB1,863.2 million, from RMB940.9 million in the year ended 31 December 2006 to RMB2,804.1 million in the year ended 31 December 2007, mainly due to land cost of RMB1,769.8 million injected into us by relevant government authorities pursuant to the Reorganization.

(2) We had net current liabilities of RMB1,279.6 million as of 31 December 2005, primarily due to the significant amount of short-term borrowings we used to finance our long-term assets. We had net current assets of RMB877.9 million as of 31 December 2006, mainly due to the initial public offering, or IPO, of one of our indirectly-owned subsidiaries, CSR Times Electric, in December 2006, with resulting net proceeds of RMB2,087.2 million.

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million) (unaudited)	(RMB million)
Selected consolidated cash flow information					
Net cash inflow/(outflow) from operating activities	559.1	1,711.5	1,438.8	(2,191.9)	(2,918.6)
Net cash (outflow) from investing activities	(1,313.3)	(1,168.0)	(2,349.2)	(213.6)	(220.4)
Net cash inflow/(outflow) from financing activities	1,508.0	1,997.4	2,502.6	(174.2)	(495.3)

Other Selected Financial Information

The following table sets forth a full quantitative reconciliation of EBITDA to its most direct comparable IFRS measures, profit for the year/period and the calculation of EBITDA margin.

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million) (unaudited)	(RMB million)
Other selected financial information					
Profit for the year/period	494.7	641.7	874.7	115.2	407.3
Add/ (less)					
Tax	99.2	70.4	73.2	36.9	142.6
Share of profits and losses of associates and jointly-controlled entities	(24.7)	(26.2)	(192.3)	(15.2)	(32.7)
Finance costs	190.2	294.9	314.4	70.3	119.4
Depreciation, impairment and amortization	570.2	635.2	723.1	175.2	186.1
EBITDA(1)	1,329.6	1,616.0	1,793.1	382.4	822.7
Revenue	19,784.5	23,047.0	26,803.5	6,065.8	6,586.1
EBITDA margin(2)	6.7%	7.0%	6.7%	6.3%	12.5%

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(1) EBITDA refers to earnings before minority interests, income tax, share of profits and losses of associates and jointly-controlled entities, finance costs, depreciation and impairment of property, plant and equipment and amortization and impairment of lease prepayments and other intangible assets as they are computed. EBITDA is not a measure of financial performance under the IFRS. We have presented EBITDA data in this Prospectus as we believe EBITDA is a useful supplement to cash flow data because it enables us to measure operating performance and provide a general indicator of the ability to service and incur debt as well as to internally fund capital expenditures. EBITDA is not a standard measure and should not be considered in isolation or construed as an alternative to net income or income from operations, or as an indicator of our operating performance or other combined operations or cash flow data prepared in accordance with the IFRS, or as an alternative to cash flow as a measure of liquidity. EBITDA does not consider any fluctuation or legal requirements of the business that may require us to conserve and allocate funds for purposes other than debt services for funding of capital expenditure. EBITDA measures presented in this Prospectus may not be comparable to similarly entitled measures of other companies.

(2) EBITDA margin represents EBITDA as a percentage of our revenue as computed.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2008

The following sets forth certain preliminary unaudited profit forecast data for the year ending 31 December 2008. See "Appendix III—Profit Forecast".

The statistics in the following table do not give effect to the A Share Offering and are based on the assumptions that (i) the Global Offering is completed and 1,600,000,000 H Shares are newly issued in the Global Offering, (ii) the Over-allotment Option is not exercised, and (iii) 8,600,000,000 Shares are issued and outstanding following the completion of the Global Offering:

Forecast consolidated net profit attributable to equity holders of the Company for the year ending 31 December 2008(1)	not less than RMB1,360.0 million
Unaudited pro forma forecast earnings per share on a fully diluted basis(2)(3)	not less than RMB0.16 (HK$0.18)

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(1) The bases on which the above profit forecast has been prepared are summarized in Appendix III.

(2) The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 and assuming that the Global Offering had been completed as of 1 January 2008 and a total of 8,600,000,000 Shares were in issue during the entire year. This calculation does not take into account shares which may be issued pursuant to the A Share Offering and assumes that the Over-allotment Option will not be exercised.

(3) The unaudited pro forma forecast earnings per Share is converted into Hong Kong dollars at the PBOC Rate of RMB0.8744 to HK$1.00 prevailing on 29 July 2008.

The statistics in the following table are based on the assumptions that (i) the A share Offering is completed and 3,000,000,000 A Shares are newly issued in the A Share Offering, (ii) the Global Offering is completed and 1,600,000,000 H Shares are newly issued in the Global Offering, (iii) the Over-allotment Option is not exercised, and (iv) 11,600,000,000 Shares are issued and outstanding following the completion of the A Share Offering and Global Offering:

Forecast consolidated net profit attributable to equity holders of the Company for the year ending 31 December 2008 (1)	not less than RMB1,360.0 million
The unaudited pro forma forecast earnings per Share on a fully diluted basis(2)(3)	not less than RMB0.12 (HK$0.13)

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(1) The bases on which the above profit forecast has been prepared are summarized in Appendix III.

(2) The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 and assuming that the Global Offering had been completed as of 1 January 2008 and a total of 11,600,000,000 Shares were in issue during the entire year. This calculation assumes the issuance of 3,000,000,000 A Shares pursuant to the A Shares Offering and assumes that the Over-allotment Option will not be exercised.

(3) The unaudited pro forma forecast earnings per Share is converted into Hong Kong dollars at the PBOC Rate of RMB0.8744 to HK$1.00 prevailing on 29 July 2008.

GLOBAL OFFERING

The Global Offering consists of:

- the offer by us of initially 160,000,000 H Shares, or Hong Kong Public Offer Shares, for subscription by the public in Hong Kong, referred to in this Prospectus as the Hong Kong Public Offering; and
- the offer by us of initially 1,440,000,000 H Shares, or International Offer Shares, in the international offering, referred to in this Prospectus as the International Offering, consisting of the offering of our H Shares: (i) in the United States to QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act of 1933, as amended, or the Securities Act; and (ii) outside the United States in reliance on Regulation S under the Securities Act.

The number of Hong Kong Public Offer Shares and International Offer Shares, or together, H Shares, is subject to adjustment and reallocation as described in “Structure of the Global Offering”.

At any time from the date we sign the International Placing Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Global Coordinators, as representatives of the International Underwriters, have an option to purchase up to an additional 240,000,000 H Shares from us, representing 15% of the initial size of the Global Offering, at the Offer Price, solely to cover over-allotments in the International Offering.

OFFER STATISTICS

The statistics in the following table do not give effect to the A Share Offering and are based on the assumptions that: (i) the Global Offering is completed and 1,600,000,000 H Shares are newly issued in the Global Offering; (ii) the Over-allotment Option is not exercised; and (iii) 8,600,000,000 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK$2.49 per H Share	**Based on an Offer Price of HK$2.76 per H Share**
Market capitalization of our Shares(1)	HK$21,414.0 million	HK$23,736.0 million
Prospective price/earnings multiple		
(a) pro forma fully diluted(2)	13.8 times	15.3 times
(b) weighted average(3)	12.1 times	13.5 times
Unaudited pro forma adjusted consolidated net tangible asset per Share(4)	HK$1.02	HK$1.07

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(1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised. The calculation of market capitalization is based on 8,600,000,000 Shares expected to be issued and outstanding following the Global Offering.

(2) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share for the year ending 31 December 2008 on a pro forma fully diluted basis at the respective Offer Prices of HK$2.49 and HK$2.76 per H Share. This calculation does not take into account Shares which may be issued pursuant to the A Share Offering and assumes that the Over-allotment Option will not be exercised.

(3) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share for the year ending 31 December 2008 on a weighted average basis at the respective Offer Prices of HK$2.49 and HK$2.76 per H Share.

(4) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in Appendix II and based on 8,600,000,000 Shares expected to be issued and outstanding following the Global Offering. The calculations do not give effect to the A Share Offering.

The statistics in the following table are based on the assumptions that: (i) the A Share Offering is completed and 3,000,000,000 A Shares are newly issued in the A Share Offering; (ii) the Global Offering is completed and 1,600,000,000 H Shares are newly issued in the Global Offering; (iii) the Over-allotment Option is not exercised; and (iv) 11,600,000,000 Shares are issued and outstanding following the completion of the A Share Offering and the Global Offering:

	Based on an Offer Price of HK$2.49 per H Share	**Based on an Offer Price of HK$2.76 per H Share**
Total market capitalization of our Shares upon the completion of the A Share Offering and the Global Offering(1)	HK$28,884.0 million	HK$32,016.0 million
Prospective price/earnings multiple		
(a) pro forma fully diluted(2)	18.6 times	20.6 times
(b) weighted average(3)	13.9 times	15.4 times
Unaudited pro forma adjusted consolidated net tangible asset value per Share(4)	HK$1.36	HK$1.42

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(1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised. The calculation of market capitalization is based on 11,600,000,000 Shares expected to be issued and outstanding following the A Share Offering and the Global Offering.

(2) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share for the year ending 31 December 2008 on a pro forma fully diluted basis at the respective Offer Prices of HK$2.49 and HK$2.76 per H Share, assuming that the A Share Offering and the Global Offering had been completed on 1 January 2008 and a total of 11,600,000,000 Shares were issued and outstanding during the entire year.

(3) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share for the year ending 31 December 2008 on a weighted average basis at the respective Offer Prices of HK$2.49 and HK$2.76 per H Share.

(4) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in Appendix II and based on 11,600,000,000 Shares expected to be issued and outstanding following the A Share Offering and the Global Offering. The calculation is based on the assumption that 3,000,000,000 new A Shares will be issued in the A Share Offering and the resulting net proceeds (after deduction of estimated fees and expenses payable by the Company) of approximately RMB6.12 billion (based on the offer price of RMB2.10 per A Share) and approximately RMB6.35 billion (based on an offer price of RMB2.18 per A Share) from the A Share Offering.

DIVIDEND POLICY

After the completion of the Global Offering, the Company will distribute dividends in accordance with PRC Company Law and its Articles of Association.

The Company may distribute dividends by way of cash or other means. For holders of H Shares, cash dividend payments, if any, will be declared by our Board in Renminbi and paid in Hong Kong dollars. The proposal relating to the dividend distribution will be subject to shareholders' approval, and will also depend on various factors, including its financial conditions, results of operations, cash flows, the dividends distributed from its subsidiaries, future prospects and other factors deemed to be important by our Board.

Upon the successful completion of the A Share Offering and the Global Offering, the dividends may only be paid out of the audited distributable profits. Upon the completion of the Global Offering, we will prepare our financial statements in accordance with PRC GAAP, the IFRS and other relevant regulations. The Company will determine the amount of distributable profits based on after-tax profits as set forth in two financial statements under PRC GAAP and the IFRS, whichever is lower, after allowances have been made for the recovery of accumulated losses, if any, and allocations to statutory funds and other discretionary funds, if any, that we are required to make. Any distributable profits that are not distributed in any given year will be retained, and will be made available for distribution in subsequent years.

On 4 March 2008, the Company's shareholders, CSRG and BRIT, resolved that all of the Company's shareholders will be entitled to all of the Company's distributable profits generated from 1 January 2008. However, due to the possible time difference between our A Share Offering and the Global Offering, the Company's shareholders further resolved that:

(i) if the date of the listing of our H Shares is within the three-month period after the date of the listing of our A Shares, the shareholders of the Company, including A Share holders, CSRG, BRIT and H Share holders, will be entitled to the Company's distributable profits generated from 1 January 2008 to the date of the completion of the Global Offering;

(ii) if our H Shares are not listed within the three-month period after the date of the listing of our A Shares, the Company will distribute its distributable profits generated from 1 January 2008 to the then A Share holders, CSRG and BRIT according to the Company's dividend policy and the distribution proposal as approved by its shareholders' meeting to be convened for such purpose.

Considering our present financial position, and subject to PRC Company Law, the Articles of Association and the foregoing distribution policies, and in the absence of any circumstances which may reduce the amount of distributable profits, the Company currently intends to distribute to its shareholders not less than 25% of its distributable profits for the years ending 31 December 2008 and 31 December 2009. However, the Company cannot assure you that it will distribute the above dividends. In addition, the Company's future dividend distribution may be subject to other relevant regulations and any financing agreements that our Company may enter into.

After the proposal for the Company's dividend distribution has been approved at a shareholders' meeting, the Board is required to complete the dividend (or shares) distribution within two months in accordance with PRC Company Law and the Articles of Association.

PRE-ESTABLISHMENT DISTRIBUTION AND SPECIAL DIVIDEND

In accordance with the "Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment" (Cai Qi [2002] 313) issued by the MOF and the Restructuring Agreement, and pursuant to the resolution passed at the Company's shareholders' meeting on 4 March 2008, it was resolved that the Company is to make a distribution of the net profits attributable to CSRG (as set forth in the combined statements) for the period from 30 June 2007 (our asset valuation date) to 28 December 2007 (the date on which the Company was incorporated) to CSRG (the "Pre-establishment Distribution"). In addition, pursuant to the same resolution, it was resolved that the Company makes a special distribution to CSRG, as its shareholder, in an amount equal to the net profits of the Company (as set forth in the combined statements) for the period from 29 December 2007 (the day after the incorporation date of the Company) to 31 December 2007 (the "Special Dividend"). We did not make any other dividend distribution from 1 January 2008 to the date of this Prospectus.

The net profits of the Company for the Pre-establishment Distribution and the Special Dividend in aggregate were determined based on the audited accounts prepared in accordance with PRC GAAP for the twelve months ended 31 December 2007, after giving effect to the relevant adjustments. The total amount of the Pre-establishment Distribution and the Special Dividend is RMB327.8 million and was paid to CSRG in April 2008.

The holders of H Shares are not entitled to share the Pre-establishment Distribution or Special Dividend. In addition, any distributable profits available for distribution to the Company's shareholders after the Global Offering will exclude the Special Dividend paid to CSRG.

The Company is required to make dividend distribution on its distributable profits for the period from 30 June 2007 to 28 December 2007, the date of its incorporation, under the mandatory provisions of the regulations issued by the MOF. The Company decided to distribute the Special Dividend based on its commercial discretion. You should not rely on the Special Dividend as an indication of the Company's future dividend distribution policy or practice.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$3,944.2 million, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming an initial public Offer Price of HK$2.625 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. We intend to use these net proceeds for the following purposes:

- A maximum of 27%, or approximately HK$1,064.9 million (equivalent to approximately RMB931.2 million), is expected to be used to acquire advanced foreign research and development, manufacturing and laboratory equipment to develop world-class rolling stock manufacturing facilities;
- A maximum of 59%, or approximately HK$2,327.1 million (equivalent to approximately RMB2,034.8 million), is expected to be used to import critical components, including electric components for six-axle high-powered AC electric locomotives, which would facilitate the domestic production of complete rolling stock units; and
- A maximum of 14%, or approximately HK$552.2 million (equivalent to approximately RMB482.8 million), is expected to be used to import key foreign technologies for rail vehicles to upgrade the quality and efficiency of our products, design and manufacturing.

To the extent that the net proceeds of the Global Offering derived from unused capital are not immediately applied to the above purposes, we intend to deposit the proceeds in interest-bearing bank accounts, such as short-term savings accounts or basic short-term money market instruments, with licensed commercial banks and/or authorized financial institutions. Proceeds from the Global Offering will not be remitted into or used to fund any projects or facilities in the PRC.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, our Company will receive net proceeds of approximately HK$4,154.2 million. The additional net proceeds of approximately HK$210.0 million will be allocated to the above purposes on a pro rata basis. In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive net proceeds of approximately HK$4,798.0 million and the additional net proceeds of approximately HK$643.8 million arising from the exercise of the Over-allotment Option will also be allocated to the above purposes on a pro rata basis.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, our Company will receive net proceeds of approximately HK$3,734.3 million. The reduced net proceeds of approximately HK$209.9 million will be deducted to the above purposes on a pro rata basis. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive net proceeds of approximately HK$4,315.1 million and the additional net proceeds of approximately HK$580.8 million arising from the exercise of the Over-allotment Option will also be allocated to the above purposes on a pro rata basis.

We will not use any of the proceeds of the Global Offering to fund activities that a U.S. corporation would be prohibited from undertaking under sanctions administered by OFAC or ISA.

RISK FACTORS

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterized as: (i) risks relating to our business operations; (ii) risks relating to our industry; (iii) risks relating to the People's Republic of China; and (iv) risks relating to the Global Offering. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial may develop and become material and could also harm our businesses, financial condition and results of operations.

Risks Relating to Our Business Operations

- We generate a significant portion of our revenue from a limited number of customers. As such, the loss of one or more of our customers or significantly reduced purchases by these customers could adversely affect our business, financial condition and results of operations.
- We may realize profit lower than expected if the overall risks or costs of our contracts exceed our estimates.
- We may be a party to litigation. Successful claims against us may adversely affect our operating results and financial condition.
- Insurance coverage for our business, products and properties may not be sufficient.
- We rely on specific suppliers to provide certain raw materials and key components necessary for our operations, and the inability to obtain such raw materials and key components at acceptable prices and quality levels in a timely manner could negatively affect our business and results of operations.
- We may experience substantial fluctuations in raw material and energy costs.
- We may be held liable for any damages or losses incurred in connection with or arising from the use of our products.
- We may incur significant liabilities as a result of any failure to comply with the applicable environmental, health and safety laws and regulations, as well as applicable license and permit requirements.
- Our operations and growth prospects may be adversely affected by constraints in production capacity. In addition, we may be negatively affected if any of our manufacturing facilities fail to operate efficiently and competitively.
- We may experience delays in collecting on trade and bills receivable from our customers, which may adversely affect our cash flow and working capital, financial condition and operating results.
- We may not be able to expand into markets outside of China as planned.
- We may not be able to develop new products or keep pace with advancements in technology.
- Our substantial research and development expenditures may not produce successful results or a product mix that will adequately meet the needs of our customers.
- We cannot assure you that our products or research and development efforts will not lead to intellectual property disputes. In addition, failure to adequately protect our intellectual property rights could negatively affect our market share, business and financial condition.

- Our growth is highly dependent on our continuing ability to attract and retain qualified personnel, including key members of our management team.
- Any loss of or significant reduction in the preferential tax treatment we currently enjoy in China may negatively affect our financial condition.
- As our Company has a limited operating history as an independent entity after the Restructuring, we may face difficulties in integrating our business operations and coordinating among our different subsidiaries.
- We currently participate in several joint ventures with other international companies in the rolling stock manufacturing industry. A material dispute with any of the joint venture partners or a disruption in the businesses of any of our joint venture companies could result in the potential termination of the relevant joint venture agreement, and may adversely affect our financial condition and results of operations.
- The interests of our Parent Company may differ from those of other shareholders, which may adversely affect our business and financial condition.
- Any failure to raise sufficient capital for our business and operations in a timely manner may adversely affect our financial condition and results of operations.
- Our levels of indebtedness and interest payment obligations may adversely affect our business.
- Our historical results and dividend policy may not be indicative of our future results and dividend policy.
- Our operations are subject to operating hazards, adverse weather conditions, natural disasters and occupational hazards.
- We have not obtained valid title or rights to use certain properties that we occupy, or the relevant permits to undertake construction or expansion projects on these properties.

Risks Relating to Our Industry

- The cyclical nature of our industry may expose us to potentially significant fluctuations in our financial condition and results of operations.
- Any decrease in public spending on, or any change in the public procurement policies or industry standards relating to, rail transportation or rapid transit projects could impact our business.
- We are experiencing increased competition from foreign and PRC domestic competitors within the PRC rolling stock market, which could negatively impact our market share in the industry.
- We may be adversely affected by competition from other modes of transportation in China.

Risks Relating to the People's Republic of China

- Economic slowdowns or downturns may lead to reduced demand for our products.
- The political, economic and social conditions, laws, regulations and policies in China could affect our businesses and results of operations.

- Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect our financial condition, results of operations and ability to pay dividends.
- The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.
- It may be difficult to effect service of process upon us or our Directors or executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.
- Holders of our H Shares may become subject to PRC taxation.
- The occurrence of an epidemic may have a material adverse effect on our business, financial condition and results of operations.
- Payment of dividends is subject to restrictions under PRC law.
- The new labor law in the PRC and increases in labor costs may adversely affect our business and our profitability.

Risks Relating to the Global Offering

- We will have completed an A Share Offering prior to the H Share Offering. There are significant differences in the characteristics of the A share and H share markets, and in the information released by us in our A Share Offering and the Global Offering.
- Future sales or perceived sales of substantial amounts of our H Shares, A Shares or other securities relating to our H Shares or A Shares in the public market, including any future offerings, or a decline in the market price of our A Shares could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and our shareholders may experience dilution in their holdings.
- There has been no prior public market for our H Shares. The liquidity and market price of the H Shares following the Global Offering may be volatile.
- As the Offer Price is higher than the net tangible book value per share of our Company, holders of the H Shares will experience immediate dilution.
- Disposal of the H Shares by NSSF or transfer of Shares held on our domestic share register into H Shares following the listing of the H Shares may result in an increase in the number of H Shares available on the market and may affect the price of the H Shares.
- Shareholders' interests may be diluted as a result of additional equity fund-raising.
- Forward-looking information included in this Prospectus may prove inaccurate.
- We cannot guarantee the accuracy of facts, forecasts and other statistics from official government publications with respect to China, China's economy and China's rolling stock industry contained in this Prospectus.
- Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media relating to us and/or the Global Offering.

A Share Offering

We announced our A Share Offering on 28 July 2008. The A Share Offering comprises an offering of not more than 3,000,000,000 A Shares for subscription, with no over-allotment. Assuming 3,000,000,000 A Shares are issued pursuant to the A Share Offering, the A Shares offered represent 30% of our total share capital before the Global Offering (but as enlarged by the A Share Offering), or 25.86% of our total share capital immediately after the Global Offering assuming that the Over-allotment Option is not exercised. See "Future Plans and Use of Proceeds". Our A Shares and H Shares will rank *pari passu* with each other in all material respects other than the exceptions described in the section headed "Share Capital—Ranking". See "Appendix VII—The A Share Offering" for further details of the A Share Offering.

DEFINITIONS

In this Prospectus, the following terms have the following meanings unless the context otherwise requires. Certain technical terms are explained in the section headed "Glossary" in this Prospectus.

"A Share Listing"	the listing of the A Shares of the Company on the Shanghai Stock Exchange;
"A Share Offering"	the proposed offer of the Company of A Shares in the PRC, which is expected to be completed before the H Share Listing;
"A Share Prospectus"	the prospectus to be issued by the Company in relation to the A Share Offering on or about 15 August 2008;
"A Share(s)"	the Domestic Shares of par value RMB1.00 each, which are to be issued in the PRC by the Company for transaction and subscription in Renminbi and listed on the Shanghai Stock Exchange;
"Application Form(s)"	white application form(s), yellow application form(s) and green application form(s) or where the context so requires, any of them, relating to the Hong Kong Public Offering of the Global Offering;
"Articles of Association" or "Articles"	the articles of association adopted by the Company, a summary of which is set forth in the paragraph headed "Summary of Articles of Association" included in Appendix VIII to this Prospectus;
"Asset Transfer Agreement"	the agreement dated 30 December 2007 entered into between CSRG and our Company relating to the asset transfer arising from the Restructuring.
"Associated Companies"	entities that are neither subsidiaries nor Jointly-controlled Entities in which the Company has a long-term interest of no less than 20% of the equity voting rights and over which it is in a position to exercise significant influence;
"Associates"	companies or persons under the meaning ascribed thereto under the Hong Kong Listing Rules;
"Board" or "Board of Directors"	the Board of Directors of the Company;
"BRIT"	Beijing Railway Industry Trade Company (北京鐵工經貿公司), established on 2 April 1993 in Beijing, China, which is wholly-owned by CSRG and is one of our promoters. Its principal businesses include, among other things, property management, hotel management and equity management;

"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong;
"CAGR"	compound annual growth rate;
"CCASS"	the Central Clearing and Settlement System established and operated by the HKSCC;
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant;
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant;
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation;
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant;
"CICC"	China International Capital Corporation Limited;
"CICC (HK)"	China International Capital Corporation (Hong Kong) Limited;
"CIETAC"	China International Economic and Trade Arbitration Commission;
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Company Law" or "PRC Company Law"	Company Law of the PRC (中華人民共和國公司法), as adopted at the Fifth Session of the Standing Committee of the Eighth NPC on 29 December 1993, effective from 1 July 1994, as amended, supplemented or otherwise modified from time to time;
"connected person"	has the meaning ascribed to it under the Hong Kong Listing Rules;
"controlling shareholder"	has the meaning ascribed thereto under the Hong Kong Listing Rules and unless the context requires otherwise, refers to CSRG;
"CNRG"	China Northern Locomotive & Rolling Stock Industry (Group) Corporation (中國北方機車車輛工業集團公司), a

	PRC state-owned enterprise established in July 2002 as a result of the reorganization of LORIC and is under the supervision of SASAC;
“CNRG Group”	CNRG and its subsidiaries;
“CR”	China Railways, operated by the railway bureaus under supervision and direct control of the MOR;
“CR Bureaus”	the railway transportation enterprises under the MOR;
“CSR” or “the Company”	China South Locomotive & Rolling Stock Corporation Limited, a joint stock limited liability company established in the PRC on 28 December 2007;
“CSR Chengdu”	CSR Chengdu Locomotive & Rolling Stock Co., Ltd. (南車成都機車車輛有限公司), a company established under the laws of the PRC with limited liability on 28 June 2007 and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, refurbishment of locomotives and passenger carriages;
“CSR Feb. 7th”	CSR Feb. 7th Rolling Stock Co., Ltd. (南車二七車輛有限公司), a company established under the laws of the PRC with limited liability on 28 June 2007 and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, manufacturing and refurbishment of freight wagons;
“CSR Group”	CSR and its subsidiaries;
“CSR Luoyang”	CSR Luoyang Locomotive Co., Ltd. (南車洛陽機車有限公司), a company established under the laws of the PRC with limited liability on 27 June 2007 and a wholly-owned subsidiary of CSR. Its principal business include, among other things, refurbishment of locomotives;
“CSR Meishan”	CSR Meishan Rolling Stock Co., Ltd. (南車眉山車輛有限公司), a company established under the laws of the PRC with limited liability on 28 June 2007 and a wholly-owned subsidiary of CSR. Its principal business include, among other things, manufacturing of freight wagons;
“CSR Puzhen”	CSR Nanjing Puzhen Rolling Stock Co., Ltd. (南車南京浦鎮車輛有限公司), a company established under the laws of the PRC with limited liability on 27 June 2007

	and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, manufacturing of passenger carriages, MUs and rapid transit vehicles and refurbishment of passenger carriages;
"CSR Qishuyan"	CSR Qishuyan Locomotive Co., Ltd. (南車戚墅堰機車有限公司), a company established under the laws of the PRC with limited liability on 26 June 2007 and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, research and development, manufacturing and refurbishment of diesel locomotives;
"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), a company established under the laws of the PRC on 15 May 1992, which was converted into a limited liability company on 25 January 2008, and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, research of key manufacturing techniques and new materials of rolling stocks;
"CSR Shijiazhuang"	CSR Shijiazhuang Rolling Stock Co., Ltd. (南車石家莊車輛有限公司), a company established under the laws of the PRC with limited liability on 28 June 2007 and a wholly-owned subsidiary of CSR. Its principal business include, among other things, refurbishment of freight wagons;
"CSR Sifang Co., Ltd."	CSR Sifang Locomotive & Rolling Stock Co., Ltd. (南車四方機車車輛股份有限公司), a joint stock limited liability company established under the laws of the PRC on 22 July 2002, the share capital of which is held as to 90.04% by the Company, 4.73% by Qingdao Ultimate Transportation Equipment Co., Ltd., 2.95% by China Railway Materials Commercial Corporation, 1.18% by Guangzhou Zhongche Railway Sales & Leasing Co., Ltd., 0.94% by Fujian Haipeng Trading Co., Ltd., 0.12% by Southwest Jiaotong University and 0.04% by Zhongtie Science & Technology Development Corp. Each of the shareholders is an independent third party. Its principal businesses include, among other things, research and development and manufacture of MUs, passenger carriages and rapid transit vehicles as well as provision of EMUs and high-end passenger carriages refurbishment services;

"CSR Sifang Ltd."	CSR Sifang Rolling Stock Co., Ltd. (南車四方車輛有限公司), a company established under the laws of the PRC with limited liability on 4 September 1980 and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, refurbishment of railway passenger carriages, manufacture of high-end railway passenger carriages and EMUs;
"CSR Times Electric"	Zhuzhou CSR Times Electric Co., Ltd. (株洲南車時代電氣股份有限公司), a joint stock limited liability company established under the laws of the PRC on 26 September 2005, whose H shares are listed on the Hong Kong Stock Exchange, the share capital of which is held as to 54.38% by CSR ZELRI, 0.92% by CSR Zhuzhou, 0.87% by New Leap, 0.87% by CSR Qishuyan Locomotive & Rolling Stock Works (中國南車集團戚墅堰機車車輛廠), 0.90% by China Railway Large Maintenance Machinery Co., Kunming (昆明中鐵大型養路機械集團有限公司), an independent third party, and 42.06% by public shareholders. Its principal businesses include, among other things, development, manufacturing and sale of train power converters, auxiliary power supply equipment and control systems for trains for urban rail systems;
"CSR Xiangfan"	CSR Xiangfan Locomotive Co., Ltd. (南車襄樊機車有限公司), a company established under the laws of the PRC with limited liability on 27 June 2007 and a wholly-owned subsidiary of CSR. Its principal business include, among other things, refurbishment of locomotives;
"CSR Yangtze"	CSR Yangtze Rolling Stock Co., Ltd. (南車長江車輛有限公司), a company established under the laws of the PRC with limited liability on 14 September 2006 and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, manufacturing and refurbishment of freight wagons;
"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), a company established under the laws of the PRC on 9 September 1992, which was converted into a limited liability company on 15 January 2008, and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, research and manufacture of railway electric powered motors and control technology and related electric equipment;

"CSR Zhuzhou"	CSR Zhuzhou Electric Locomotive Co., Ltd. (南車株洲電力機車有限公司), a company established under the laws of the PRC with limited liability on 31 August 2005, the share capital of which is held as to 69.01% by the Company, 16.31% by CSR ZELRI, 13.05% by New Leap and 1.63% by Zhuzhou Lince Group Co., Ltd. (株洲聯誠集團有限責任公司), an independent third party. Its principal businesses include, among other things, research and development and manufacture of railway electric locomotive, MUs, rapid transit vehicles as well as motors, electric appliances and converters of locomotives and rapid transit vehicles;
"CSR Ziyang"	CSR Ziyang Locomotive Co., Ltd. (南車資陽機車有限公司), a company established under the laws of the PRC with limited liability on 12 May 2006, the share capital of which is held as to 81.04% by the Company, 12.08% by New Leap and 6.88% by SASAC of Ziyang Municipal Government, an independent third party. Its principal business include, among other things, manufacturing of locomotives;
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets;
"CSRG"	China South Locomotive & Rolling Stock Industry (Group) Corporation (中國南方機車車輛工業集團公司) a large-scale wholly state-owned enterprise approved by the State Council, which was established on 2 July 2002, and is the controlling shareholder and one of the promoters of our Company;
"CSRG Group"	CSRG and its subsidiaries, excluding CSR Group;
"Director(s)"	the Director(s) of the Company, including all executive, non-executive and independent non-executive Directors;
"Domestic Shares"	ordinary shares in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and fully paid up in Renminbi by PRC nationals and/or PRC incorporated entities;
"Eleventh Five-Year Plan"	the Eleventh Five-Year Plan for National Economic and Social Development (2006-2010) promulgated by the State Council at the Tenth National People's congress in 2006;

"Ernst & Young"	Ernst & Young, our reporting accountants;
"GDP"	gross domestic product (all references to the GDP growth rates are the actual growth rates as opposed to nominal growth rates of GDP);
"Global Offering" or "H Share Offering"	the Hong Kong Public Offering and the International Offering;
"Green application form(s)"	the application form(s) to be completed by White Form eIPO Service Provider designated by the Company.
"H Shares"	overseas-listed foreign invested shares of par value RMB1.00 each in the ordinary share capital of the Company, which are to be subscribed for and traded in HK dollars and for which an application has been made for the granting of listing, and permission to deal, on the Hong Kong Stock Exchange;
"H Share Listing"	the listing of the Offer Shares on the Main Board of the Hong Kong Stock Exchange;
"H Share Registrar"	Computershare Hong Kong Investor Services Limited;
"HK$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong;
"HKIAC"	Hong Kong International Arbitration Centre;
"HKSCC"	Hong Kong Securities Clearing Company Limited;
"HKSCC Nominees"	HKSCC Nominees Limited;
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time);
"Hong Kong Public Offering"	the initial offer by the Company of 160,000,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering") for cash at the Offer Price (plus brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee), on and subject to the terms and conditions described in this Prospectus and the Application Forms as further described in the section

	headed "Structure of the Global Offering—The Hong Kong Public Offering";
"Hong Kong Public Offer Shares"	the H Shares offered for subscription pursuant to the Hong Kong Public Offering;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting—Hong Kong Underwriters" of this Prospectus;
"Hong Kong Underwriting Agreement" ..	the underwriting agreement relating to the Hong Kong Public Offering which was entered into among the Company and the Hong Kong Underwriters on 7 August 2008;
"IFRS"	International Financial Reporting Standards promulgated by the International Accounting Standards Board ("IASB"); IFRS includes the International Accounting Standards ("IAS") and their interpretations;
"ISA"	the United States Iran Sanctions Act of 1996, as amended in August 2001 and September 2006, and effective until December 2011;
"Independent Third Party(ies)"	person(s) or company(ies) which is(are) independent of the Directors, promoters, Controlling Shareholders, Substantial Shareholders and the chief executives (such terms as defined in the Hong Kong Listing Rules) of the Company and its subsidiaries;
"International Offer Shares"	the H Shares offered pursuant to the International Offering;
"International Offering"	offer and sale of the International Offer Shares to institutional, professional and other investors, as further described in the section headed "Structure of the Global Offering" in this Prospectus;
"International Underwriters"	the underwriters of the International Offering, who are expected to enter into the International Placing Agreement;
"International Placing Agreement"	the underwriting agreement relating to the International Offering, which is expected to be entered into among the Company and the International Underwriters on or around 14 August 2008;

"IPO"	Initial Public Offering;
"Jointly-controlled Entities"	jointly-controlled ventures in which none of the participating parties has unilateral control over the economic activities of such ventures;
"Joint Global Coordinators"	CICC and Macquarie;
"Joint Sponsors" or "Joint Lead Managers"	CICC (HK) and Macquarie;
"Latest Practicable Date"	29 July 2008;
"Listing Date"	the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange;
"LORIC"	China National Railways Locomotive and Rolling Stock Industrial Corporation (中國鐵路機車車輛工業總公司), a state-owned enterprise initially established under the name of MOR Locomotive and Rolling Stock Industrial Corporation (鐵道部機車車輛工業總公司) in February 1986, being the predecessor of CSRG and CNRG;
"Macquarie"	Macquarie Capital Securities Limited;
"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former PRC Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems of the PRC on 27 August 1994;
"Ministry of Commerce" or "MOFCOM"	the Ministry of Commerce of the People's Republic of China (中華人民共和國商務部);
"Ministry of Communications" or "MOC"	the Ministry of Communications of the People's Republic of China (中華人民共和國交通運輸部);
"Ministry of Finance" or "MOF"	the Ministry of Finance of the People's Republic of China (中華人民共和國財政部);
"Ministry of Land and Resources" or "MLR"	the Ministry of Land and Resources of the People's Republic of China (中華人民共和國國土資源部);

DEFINITIONS

"Ministry of Railways" or "MOR"	the Ministry of Railways of the People's Republic of China (中華人民共和國鐵道部);
"NDRC"	the National Development and Reform Commission of the People's Republic of China (中華人民共和國國家發展和改革委員會), which was formerly known as the State Development Planning Commission;
"NERCC"	Zhuzhou National Engineering Research Centre of Converters (株洲變流技術國家工程研究中心), which was established on 29 January 1999;
"New Leap"	New Leap Transportation Equipment Investment & Leasing Co., Ltd. (新力搏交通裝備投資租賃有限公司), a company established under the laws of the PRC with limited liability on 26 April 1999 and a wholly-owned subsidiary of CSR. Its principal businesses include, among other things, investment and development of rolling stock projects;
"NPC"	the National People's Congress of the PRC;
"NSSF"	the National Council for Social Security Fund of the People's Republic of China (中華人民共和國全國社會保障基金理事會);
"OFAC"	the United States Treasury Department's Office of Foreign Assets Control;
"Offer Price"	the final Hong Kong dollar price per H Share (exclusive of brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) at which the H Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering, to be determined as further described in the section headed "Structure of the Global Offering—Pricing and allocation" in this Prospectus;
"Offer Shares"	the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with any additional H Shares issued and sold pursuant to the exercise of the Over-allotment Option;
"Our Company", "we" and "us"	CSR and, unless otherwise stated, its subsidiaries;
"Over-allotment Option"	the option to be granted by the Company to the International Underwriters to purchase up to 240,000,000 additional H Shares, at the Offer Price, which is exercisable from the date of the International Placing

	Agreement until 30 days after the last date for lodging of applications under the Hong Kong Public Offering;
"Parent Company"	CSRG;
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC;
"PBOC Rate"	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day's PRC inter-bank foreign exchange rates and with reference to prevailing exchange rates on the world financial markets;
"PRC" or "China" or the "People's Republic of China"	the People's Republic of China. Except where the context otherwise requires, references in this Prospectus to the PRC or China do not apply to Hong Kong SAR, Macau SAR or Taiwan Province;
"PRC GAAP"	the PRC Accounting Standards and its supplementary regulations;
"PRC National Audit Office" or "NAO"	National Audit Office of the People's Republic of China (中華人民共和國審計署);
"PRC National Bureau of the Statistics" or "Bureau of Statistics"	National Bureau of Statistics of the People's Republic of China (中華人民共和國國家統計局);
"PRC Railway" or "PRC Railways"	the mainline railway systems that are regulated by the MOR in the PRC;
"Price Determination Date"	the date, expected to be on or around 14 August 2008 but no later than 19 August 2008, on which the Offer Price in the Global Offering is fixed for the purposes of the Global Offering;
"Prospectus"	this prospectus in connection with the Hong Kong Public Offering;
"Province" or "province"	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC;

"QIBs"	qualified institutional buyers as defined in Rule 144A;
"Qingdao Sifang Kawasaki"	Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd. (青島四方川崎車輛技術有限公司), a company established under the laws of the PRC with limited liability on 4 April 2005, the share capital of which is held as to 11% by the Company, 39% by CSR Sifang Co., Ltd., 39% Kawasaki Heavy Industries Ltd. (日本川崎重工业株式会社), an independent third party, and 11% by ITOCHU Corporation (日本伊藤忠商事株式会社), an independent third party. Its principal businesses include, among other things, development, design, technical support and relevant import/export business of railway and urban mass transit vehicles;
"Regulation S"	Regulation S under the U.S. Securities Act;
"Restructuring"	the restructuring in preparation for the listing of the Company's H Shares on the Hong Kong Stock Exchange, the particulars of which are described in the sections entitled "Restructuring" and "Appendix IX—Statutory and General Information—Our Restructuring" in this Prospectus;
"Restructuring Agreement"	the agreement dated 7 January 2008 entered into between CSRG and the Company relating to the Restructuring;
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of the PRC;
"Rule 144A"	Rule 144A under the U.S. Securities Act;
"SAFE"	State Administration of Foreign Exchange of the People's Republic of China (中華人民共和國國家外匯管理局);
"SAIC" or "State Administration for Industry and Commerce"	the State Administration for Industry and Commerce of the People's Republic of China (中華人民共和國國家工商行政管理總局);
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會);
"SAT"	State Administration of Taxation of the People's Republic of China (中華人民共和國國家稅務總局);
"SAWS"	State Administration of Work Safety of the People's Republic of China (中華人民共和國國家安全生產監督管理總局);

“Securities Provisional Regulations”	the Provisional Regulations Concerning the Issue and Trading of Shares (股票發行與交易管理暫行條例) promulgated by the State Council on 22 April 1993, as amended, supplemented or otherwise modified from time to time;
“SEPA”	the Ministry of Environmental Protection of the People’s Republic of China (中華人民共和國環境保護部), which was formerly known as the State Environmental Protection Administration of the People’s Republic of China (中華人民共和國國家環境保護總局);
“SETC” or “State Economic and Trade Commission	the former State Economic and Trade Commission of the People’s Republic of China (原中華人民共和國國家經濟貿易委員會);
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shares”	shares of the Company of nominal value RMB1.00 each, comprising both Domestic Shares (including A Shares) and H Shares;
“South Huiton”	South Huiton Co., Ltd (南方匯通股份有限公司), a joint stock limited company established in the PRC, the A Shares of which are listed on the Shenzhen Stock Exchange and is owned as to 42.64% by CSRG. Its principal businesses are development and manufacturing of freight wagons as well as regionalized freight wagon refurbishment and other businesses which are unrelated to our core businesses;
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關于股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time;
“State”, “PRC Government” or “government”	the Government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and administration instrumentalities thereof;

“State Council”	State Council of the People’s Republic of China (中華人民共和國國務院);
“Substantial Shareholder”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“Supervisors”	the members of the Supervisory Committee of the Company;
“Tenth Five-Year Plan”	the Tenth Five-Year Plan for National Economic and Social Development (2001-2005) promulgated by the State Council at the Ninth National People’s Congress in 2001;
“TEUSA”	Times Electric USA, LLC, a wholly-owned subsidiary of CSR Times Electric, incorporated in the Commonwealth of Pennsylvania, U.S.A.;
“Track Record Period”	the period from 1 January 2005 to 31 March 2008, upon which our consolidated financial statements are based;
“Underwriters”	collectively, the Hong Kong Underwriters and the International Underwriters;
“Underwriting Agreements”	collectively, the Hong Kong Underwriting Agreement and the International Placing Agreement;
“UNIFE”	European Railway Industries;
“United States” or “U.S.”	the United States of America;
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;
“US$ or U.S. dollars”	United States dollars, the lawful currency of the United States;
“VAT”	value-added tax;
“White Form eIPO”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO **www.eipo.com.hk**;
“White Form eIPO Service Provider”	the White Form eIPO service provider designated by the Company, as specified on the designated website **www.eipo.com.hk**; and
“WTO”	the World Trade Organization.

GLOSSARY

This glossary contains explanations of certain technical terms used in this Prospectus in connection with our Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"AC"	alternating current, an electric current whose direction reverses cyclically;
"bogie"	an assembly which supports the wheels on a coach, freight wagon or locomotive. Each bogie usually holds two or three pairs of wheels;
"converter"	an electric device to change voltage, frequency, phase number and other capacity or characteristics of a power system. Different types of converters include rectifiers (AC—DC), inverters (DC—AC), AC converters and DC converters;
"DC"	direct current, an electric current whose direction is constant;
"diesel locomotive"	a locomotive powered by internal combustion engine. The majority of CR's locomotives contain internal combustion engines;
"DMU" or "diesel multiple units"	multiple units powered by diesel engine;
"electric locomotive"	a locomotive powered by electricity drawn from a power grid;
"electrified railway(s)"	railway with locomotives and MUs powered by electricity drawn from a power grid;
"EMU" or "electric multiple units"	multiple units powered by electricity;
"ERP"	enterprise resource planning;
"freight wagon"	a rail vehicle primarily used for carrying goods. Freight wagons can be specialized for railway construction, bridge construction and rail inspection;
"high-speed train"	a train with an operating speed exceeding 200 km/h;
"km"	kilometer;
"kW"	kilowatt;
"locomotive"	a driving vehicle that mobilizes passenger carriages and freight wagons but does not carry passengers or freight (also known as the head of a train);

"metro car"	a single train unit that can be arranged into a subway train and operated on subway lines, including powered vehicles and non-powered trailers;
"MUs" or "multiple units"	a fixed arrangement of cars which are equipped with driving carriages, non-powered trailers and occasionally, controlling carriages;
"non-railway" or "non-railway market"	business or market related to railway network other than CR network governed by the MOR and its CR bureaus;
"passenger carriage"	a car designed for the conveyance of passengers by rail and the provision of service, which is primarily used by a passenger train;
"rail vehicles"	locomotives, passenger carriages, freight wagons, MUs and large railway maintenance vehicles;
"rapid transit system"	urban mass rapid transit system, including subways and light rails;
"rolling stock"	refers to all types of rail vehicles and rapid transit vehicles including locomotives, passenger carriages, freight wagons, MUs, light rail cars and metro cars; and
"sq.m." or "m^2"	square meter.

We have included in this Prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

These forward-looking statements include, without limitation, statements relating to:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions of the rolling stock market in China and the world;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the market in which we operate;
- our ability to reduce costs;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in "Financial Information" with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical facts.

In some cases, we use the words "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "going forward", "intend", "ought to", "may", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and similar expressions to identify forward-looking statements.

These forward-looking statements are based on current plans and estimates, and apply only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to this cautionary statement.

You should carefully consider all of the information in this Prospectus including the risks and uncertainties described below before making an investment in our H Shares. You should pay particular attention to the fact that we are a company incorporated in the PRC, our business is primarily located in China and we are governed by a legal and regulatory environment that may differ from that which prevails in other countries and jurisdictions. We are not able to, for the time being, estimate the probability of these risks and the degree of their possible impact. Our business, financial condition or results of operations could be materially and adversely affected by any of the risks mentioned in this section. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment.

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterized as: (i) risks relating to our business operations; (ii) risks relating to our industry; (iii) risks relating to the People's Republic of China; and (iv) risks relating to the Global Offering. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial may develop and become material and could also harm our businesses, financial condition and results of operations.

RISKS RELATING TO OUR BUSINESS OPERATIONS

We generate a significant portion of our revenue from a limited number of customers. As such, the loss of one or more of our customers or significantly reduced purchases by these customers could adversely affect our business, financial condition and results of operations.

We earn a significant portion of our revenue from a limited number of customers. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, we generated 62.0%, 66.2%, 69.4% and 69.6% of our total revenue from our top five customers, respectively. Revenue from our largest customer, comprising the CR bureaus, the MOR and the enterprises under them, amounted to 54.7%, 58.3%, 61.7% and 61.6% of our revenue for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, respectively. Dependence on business from a limited number of customers could result in substantial risks to our operations. Although we constantly seek to expand our customer base, we believe we will continue to rely on a limited number of customers to generate the majority of our revenue due to the nature of our business.

Substantially all CR lines are operated by CR bureaus. Pursuant to the MOR's current policy, our largest customer has adopted a centralized procurement policy for rail vehicles, including our products. As such, we basically follow market pricing but face unique risks in our business transactions with the MOR. As our largest customer and the regulator of China's rail industry, the MOR has significant bargaining power over us due to its large amount of orders and long-standing relationship with us. Reductions in purchase orders from the CR bureaus, the MOR and the enterprises under them or their insistence on contractual terms that are unfavorable to us could adversely affect our business and financial condition.

We may realize profit lower than expected if the overall risks or costs of our contracts exceed our estimates.

A significant portion of our revenue is generated from fixed price contracts. These fixed price contracts include cost and risk estimates that take into consideration general economic conditions, the supply of materials, labor and appropriate technological requirements for each project. We cannot guarantee that these estimates will not change over the course of our projects due to inaccurate forecasts, unforeseen project difficulties and other related problems. Changes in the basis of our assumptions may result in cost overruns, which could have a negative impact on our profitability and results of operations.

We may be a party to litigation. Successful claims against us may adversely affect our operating results and financial condition.

During the course of normal operations, we and our subsidiaries may become involved in litigation. Lawsuits and claims in which we may become involved include those related to product defects, nonconforming or delayed delivery of goods and services, breach of contract and labor disputes. Failure to meet the schedule requirements of our contracts may also result in penalties for late completion. Successful claims against us may result in business interruptions and adversely affect our financial condition and results of operations. See "—We may be held liable for any damages or losses incurred in connection with or arising from the use of our products".

Insurance coverage for our business, products and properties may not be sufficient.

We purchase and maintain insurance policies in accordance with the needs of our business. However, we cannot guarantee that our insurance policies will provide adequate coverage should our Company face extraordinary occurrences that result in losses. Consistent with what we consider to be the customary practice in China, we do not carry any insurance for business interruption or loss of profit arising from accidents at any of our manufacturing facilities or other disruptions of our operations such as demonstrations and protests by residents living in close proximity to our facilities. In addition, we may experience difficulties in obtaining the insurance coverage we need, which could negatively affect our business, financial condition and results of operations.

Accidents or natural disasters may also result in significant property damage, disruption of our operations and personal injuries or fatalities, and our insurance coverage may be inadequate to cover such losses. In the event of an uninsured loss or a loss in excess of our insured limits, we could suffer damage to our reputation and/or lose all or a portion of our production capacity as well as future revenues expected to be generated by the relevant facilities. Any material loss not covered by our insurance could adversely affect our business, financial condition and results of operations.

We rely on specific suppliers to provide certain raw materials and key components necessary for our operations, and the inability to obtain such raw materials and key components at acceptable prices and quality levels in a timely manner could negatively affect our business and results of operations.

We procure certain raw materials and key components from a limited number of independent third-party suppliers. For certain imported raw materials and key components, we rely, to a certain degree, on limited supplies from certain international suppliers. We do not maintain significant inventories of raw materials and components. In addition, we do not have exclusive contracts with our suppliers and therefore, we may not be able to obtain necessary raw materials and components in the event of an overall increase in market demand for such materials and components. As a result, if any of our suppliers are unable to fulfill their contractual obligations with us in a timely manner, upon agreed terms or in a cost-effective manner, we may incur substantial costs and delays in our production.

We may experience substantial fluctuations in raw material and energy costs.

We are vulnerable to fluctuations in market prices for certain commodities, including steel, aluminum, copper and energy supplies. We use these raw materials and energy supplies in the production of our rolling stock products, and they represent a significant portion of our cost of sales. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, our raw materials consumed accounted for 78.3%, 79.2%, 81.9% and 81.3% of our production costs, respectively, and our energy costs accounted for 1.8%, 2.0%, 1.9% and 2.3% of our production costs, respectively. We purchase these raw materials and energy supplies from a limited number of third-party suppliers. If our supplies of steel, aluminum, copper and energy are disrupted, or if one or more of our current suppliers are unable, for any reason, to meet our requirements, we could experience cost increases, deterioration of service from our suppliers, or interruptions, delays or reductions in raw materials and energy supplies resulting in a failure to meet our customers' delivery schedules. Although we believe that viable alternate suppliers exist for steel, aluminum, copper, other raw materials and energy, any unanticipated supply interruptions could have an adverse effect on our Company.

In addition, our ability to pass increased costs related to steel, aluminum, copper, other raw materials and energy along to our customers may be limited by pressures from competition, customer resistance and price adjustment limitations in our product purchase contracts with our customers. Even if we are able to pass along all or a part of the cost increases related to raw materials and energy supplies, there is typically a lag of several months between the actual cost increase of raw materials and energy supplies and the corresponding price increase of our products. We cannot assure you that we will be able to recover the cost increases of steel, aluminum, copper, other raw materials and energy by raising our prices. Market prices for steel, aluminum, copper, other raw materials and energy, which have historically been cyclical and volatile, have a significant effect on our gross profit. For example, the price of 20 mm thick steel boards decreased by RMB2,000 per tonne in 2005 from the previous period. However, since 2006, the price of thick steel boards has steadily increased, with a slight decrease in June 2006, to approximately RMB5,500 per tonne in the first quarter of 2008. The copper spot price has also increased since early 2005 and peaked in mid-2006 at over RMB80,000 per tonne. The aluminum spot price fluctuated between approximately RMB15,800 per tonne and RMB24,000 per tonne during the Track Record Period and was approximately RMB19,120 per tonne as of 31 March 2008. In addition, rising inflation rates in China and elsewhere in the world could have an impact on our raw material and energy costs, which would in turn affect our results of operations.

We may be held liable for any damages or losses incurred in connection with or arising from the use of our products.

Although the product warranties that we provide to our customers are limited, we may nonetheless be subject to liability for any losses caused by defects in our products. We cannot guarantee that we will be able to provide remedies without incurring substantial financial costs in the event that any of our products is found to be defective. We may not be able to fix such defects in a timely manner, or may not be able to provide any remedy at all to our customers. Moreover, in certain jurisdictions where strict liability is imposed for product liability, we could incur liability if any accident or incident involving our products occurs for reasons for which our Company is not responsible. The Company and our subsidiaries do not carry product liability insurance for any of our products, which may potentially result in liability for us. We may be held liable for any damages or losses incurred in connection with or arising from defective products produced by us. Any such claim may result in costly litigation and may adversely affect our operating results, financial condition and profitability. See "—Insurance coverage for our business, products and properties may not be sufficient".

We may incur significant liabilities as a result of any failure to comply with the applicable environmental, health and safety laws and regulations, as well as applicable license and permit requirements.

We are subject to extensive environmental, health and safety laws and regulations within China. The laws and regulations in these areas are constantly changing and we cannot guarantee that we will continue to be in compliance with the applicable laws and regulations, or that we will not incur additional costs to comply with such laws and regulations. Moreover, we must take into account the applicable environmental, health and safety laws and regulations in certain foreign jurisdictions in which our products are sold. Failure to comply with any of these laws and regulations could result in a delay in the delivery of goods, delayed receipt of revenue, loss of income, the incurring of significant costs and fines, and the suspension or termination of our contracts. Any limitations or costs incurred as a result of our non-compliance with environmental, health and safety laws and regulations may have a materially adverse effect on our business, financial condition and results of operations.

In addition, we must obtain or renew the appropriate permits, licenses and certificates required to operate our business in China. We are subject to regular inspections, examinations, inquiries and audits by governmental authorities to obtain or renew the various licenses, certificates and permits required for rolling stock manufacturing. We are also subject to periodic and spot inspections conducted by governmental authorities at various levels in order to maintain our operating licenses, certificates and permits. A finding of non-compliance or failure to obtain, maintain or timely renew the necessary licenses, certificates, permits or approvals could have a negative impact on our business operations and financial condition.

Our operations and growth prospects may be adversely affected by constraints in production capacity. In addition, we may be negatively affected if any of our manufacturing facilities fail to operate efficiently and competitively.

As of 31 December 2007, our manufacturing facilities collectively were able to manufacture a total of 770 locomotives, 1,500 passenger carriages, 19,300 freight wagons, 55 trains comprised of MUs and 520 rapid transit vehicles annually. However, our production capacity needs may change over time. If we are unable to upgrade and expand our facilities, attract experienced personnel and purchase equipment effectively and in a timely manner, our growth plans may be adversely affected.

In addition, we strive to ensure that our manufacturing facilities are competitive in order to maintain and expand our market share. Our inability to maintain or improve our productivity to compete with other players in the rolling stock industry may reduce our market share and profitability. The competitiveness of our manufacturing facilities will also depend on our ability to optimize the product mix at each facility and increase the overall efficiency of each facility and its labor force.

We may experience delays in collecting on trade and bills receivable from our customers, which may adversely affect our cash flow and working capital, financial condition and operating results.

Our customers typically pay deposits and advances. We receive an advance payment at the beginning of a project, and the amount of the advance payment often depends on the relationship between the customer and our Company and the confidence that the customer has in our ability to successfully complete its project. We use the advance payment received for a project as working capital so that we may continue to perform work on the remainder of the project.

In most cases, the production period of our products is less than one year, and except for receipt of advance payments, we receive final payments upon completion of the entire project. In addition, in certain circumstances, final payment of the total contract price is subject to a retainer fee to be paid after the warranty period (generally one to two years after our customers receive the products). Therefore, we generate trade and bills receivable after completion of a specific project.

Our customers may delay their payments to us. Delays in retainer fees and final payments may create a substantial trade and bills receivable balance and affect our cash flow. Our customers consist primarily of the MOR and its CR bureaus, regional and municipal railway operators and other commercial customers. The majority of our trade and bills receivables are aged under one year. As of 31 March 2008, our trade and bills receivable amounted to RMB6,172.7 million. However, if the recoverability of our trade and bills receivable falls due to the deterioration of our customers' financial condition, our financial condition and operating results may be adversely affected.

As we are often required to invest capital in projects prior to receiving payments from our customers, we need to maintain sufficient working capital. In the event that we encounter delays or defaults in the payments of our trade and bills receivable by our customers, or our provision for doubtful accounts may be inadequate, we may be required to make a working capital investment to maintain our daily operations. We cannot assure you that the trade and bills receivable or retention money will be remitted to us by our customers on a timely basis, or that the delays or defaults in payment will not materially and adversely affect our financial condition and operating results.

We may not be able to expand into markets outside of China as planned.

As of 31 March 2008, we exported our products to over 30 countries and regions outside of China, including developing or less developed countries and regions that are subject to changes in economic and political conditions beyond our control. In the three months ended 31 March 2008, approximately 4.6% of our revenue was generated from sales to overseas customers. As of 31 March 2008, approximately 5.9% of our backlog was derived from overseas projects. We plan to expand our business by exporting our products to more selected foreign markets in order to broaden our global network and diversify our market risk. We expect that a portion of our revenue and profits will continue to be derived from sales of our products in overseas markets in the foreseeable future. As a result of our overseas sales, we are exposed to various risks associated with conducting business in foreign countries and regions, including, among other factors, differences in general business operating environments, high entry barriers in foreign markets, potentially adverse tax consequences, differences in licensing regimes, contract bidding and payment practices, trade restrictions and economic sanctions, foreign currency controls and fluctuations, protectionism for Chinese companies, competition from other international large-scale rolling stock manufacturing companies, cyclical nature or demand of the international rolling stock markets, political risks including the risk of losses arising from civil unrest, acts of terrorism, acts of war, regional and global political or military tensions and deterioration or alteration of diplomatic relations as well as abrupt changes in foreign government regulations, policies or preferential treatments. We cannot assure you that we can further expand into markets outside of China or that our business in these markets will be successful.

We may not be able to develop new products or keep pace with advancements in technology.

Our future success will depend on our ability to upgrade our manufacturing processes and applied technologies in a cost-effective and timely manner, as well as our ability to develop new products which meet changing customer needs. We cannot guarantee that we will successfully develop new products as a result of our research and development efforts or our cooperation with overseas industry leaders. We also cannot guarantee that we will keep pace with technological advances in the market. Failure to do so or delay in reacting to advancements in technology could have a material adverse effect on our business or operating results.

On the other hand, the preference of our key customers for certain types of technologies to be applied to rail vehicles for the CR network and rapid transit vehicles for the rapid transit systems may also affect our product focus and overall profitability. If our key customers change their procurement policies to favor a certain type of product which we cannot develop or produce in a timely manner, we may fail to win bids and thereby suffer losses or experience reduction or interruption in the production of our relevant products, or disruption of our relevant operations. The occurrence of such events could adversely affect our product mix and profitability.

Our substantial research and development expenditures may not produce successful results or a product mix that will adequately meet the needs of our customers.

The rolling stock industry is constantly evolving to meet changing passenger needs and demands for higher traveling speeds, increased safety standards and greater hauling capacity. In order to maintain our competitiveness, we must continue to update, introduce and incorporate new technological advancements in our rolling stock products and services. In addition, we must also continue to respond to changes in industry manufacturing processes in a cost-effective and timely manner. We commit a substantial amount of our revenues to research and development to improve our ability to cater to market needs. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, our expenditures on research and development activities recognized in our income statements amounted to RMB247.7 million, RMB328.5 million, RMB478.6 million and RMB122.0 million, respectively, or 1.3%, 1.4%, 1.8% and 1.9%, respectively, of our total revenues. However, we cannot guarantee that our research and development efforts will continue to result in technologies that can be brought to market, or that will sufficiently meet the changing demands of our customers and end-users. Failure to develop and introduce new products in accordance with industry trends on a timely basis or at all could reduce our competitiveness and profitability.

In addition to manufacturing rolling stock products, as a part of our strategy to diversify our product portfolio, we have utilized our proprietary core technologies and knowledge of rolling stock production to develop hybrid-powered buses, wind power generators, diesel engines and vessel engine crankshafts. As these businesses are relatively new to our operations, we cannot assure you that they will be successful. We primarily invest in developing products and technologies in which our customers have an interest. Any change in our clients' needs for products or technologies currently under development or failure to introduce new products or commence business in new technological areas in a timely and profitable manner may have an adverse impact on our overall business operations and financial condition.

We cannot assure you that our products or research and development efforts will not lead to intellectual property disputes. In addition, failure to adequately protect our intellectual property rights could negatively affect our market share, business and financial condition.

Our research and development efforts, as with the research and development of many of our competitors in our rapidly consolidating industry, could run the risk of infringing on already issued or pending patent applications by our competitors. We may incur substantial legal and other costs as a party to an intellectual property lawsuit, which could affect our profitability and results of operations. Moreover, any judgment against us in relation to intellectual property would materially and adversely impact our business operations by potentially limiting our ability to offer new products, which would negatively affect our business and financial condition.

In addition, in order to maintain and improve our market position, we have developed and intend to continue to develop new technologies to be used in our products. As of the latest practicable date, we have intellectual property rights registered only in China and Hong Kong SAR. Therefore, our potential market share in certain overseas markets could be reduced by the appropriation of our intellectual property and subsequent application of our intellectual property for the manufacture and sale of similar products in such markets by competitors based outside of China.

China's intellectual property laws are still evolving and the levels of protection and means of enforcement of intellectual property rights in China differ from those in other jurisdictions. Enforcement of our intellectual property rights could be costly, and we may not be able to immediately detect unauthorized use of our intellectual property and take the necessary steps to enforce our rights in such property. In the event that the measures taken by us or the protection afforded by law do not adequately safeguard our proprietary technology and other intellectual property rights, we could suffer losses in revenues and profits due to competing sales of products and services that exploit our intellectual property. Furthermore, we cannot assure you that any of our existing intellectual property rights will not be challenged by third parties. Adverse rulings in any litigation or proceeding could result in the loss of our proprietary rights and subject us to significant liabilities, or even business disruptions.

Our growth is highly dependent on our continuing ability to attract and retain qualified personnel, including key members of our management team.

We rely heavily on our employees to maintain and expand our operations. In particular, the industry expertise and extensive contributions of our senior management and other core technician personnel are essential to our continuing success. As we continue to grow our business, we will increasingly require additional experienced and knowledgeable high-level executives. If we were to lose the services of any of our Company's key management members, whose names are set out in the section headed "Director, Supervisors, Senior Management and Employees" of this Prospectus, and were unable to recruit and retain replacement personnel with the equivalent qualifications at any time, the management and growth of our business could be adversely affected.

In addition, our performance and development depend on our ability to employ, train and retain highly skilled personnel. We expect that our need for employees with industry-related experience and expertise will increase as our customers increase their capital expenditures and the use of our services. Failure to retain our current qualified employees as well as any inability to recruit experienced personnel will result in an adverse effect on our business, financial condition and results of operations.

Any loss of or significant reduction in the preferential tax treatment we currently enjoy in China may negatively affect our financial condition.

Prior to 1 January 2008, business enterprises in China were generally subject to corporate income tax at the rate of 33%. However, PRC state and local tax laws provide for a number of preferential tax treatment schemes applicable to various enterprises, industries and locations. Since some of our subsidiaries and jointly controlled entities are entitled to preferential enterprise income tax treatment, our effective tax rates for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, were 16.7%, 9.9%, 7.7%, 24.3% and 25.9%, respectively. Our first-quarter effective tax rates are higher than our yearly effective tax rates during the Track Record Period because we are generally afforded an income tax deduction during the second to fourth quarters, primarily as a result of our purchases of domestically-manufactured equipment. In addition, certain entities of our Company operating in government-encouraged industries and domiciled in third-tier PRC cities did not, entirely or partially, receive their income tax-free VAT tax refunds during the three months ended 31 March 2007 and 2008. Our effective tax rate for the three months ended 31 March 2008 is higher than that for the same period in 2007, notwithstanding the decrease in the normal income tax rate from 33% to 25% from 1 January 2008, primarily due to the termination of the tax-exempted status of a subsidiary of the Company since 1 October 2007, as well as the higher tax rates applicable to certain of our subsidiaries, due to their pending classifications as high- and new-technology enterprises, for receiving preferential tax rates during the first quarter of 2008. We cannot assure you that our subsidiaries that are currently entitled to preferential tax treatment will continue to enjoy such preferential tax treatment. In addition, on 16 March 2007, China passed a new corporate income tax law, imposing a tax rate of 25% on new businesses. The new law took effect on 1 January 2008. Please see "Appendix V—Taxation and Foreign Exchange" for further information. To the extent that there are any changes in or withdrawals of our preferential tax treatment, or increases in the effective tax rate, our tax liability may increase and our profitability may be adversely affected.

As our Company has a limited operating history as an independent entity after the Restructuring, we may face difficulties in integrating our business operations and coordinating among our different subsidiaries.

We were established on 28 December 2007 as a result of the Restructuring, under which CSRG transferred to us substantially all of its assets, liabilities and interests. We had approximately 70 operating subsidiaries as of the Latest Practicable Date and as a result, we have a broad range of operations and a sizeable management structure. Accordingly, we have made efforts to develop uniform management and internal control measures to address such integration issues. However, due to our limited operating history as an independent operating entity after the Restructuring, our efforts to integrate our various businesses and coordinate among our different subsidiaries may not be effective or timely. We may also experience difficulties in managing our future growth and the increased scale of our operations. In addition, our efforts to implement our internal control measures have required and will continue to require significant managerial, operational and financial resources and commitment. We cannot assure you that we will be able to fully integrate the new operations with our existing operations, or that our internal control mechanisms will timely and adequately respond to our integrated business and expanded scale of operations.

We currently participate in several joint ventures with other international companies in the rolling stock manufacturing industry. A material dispute with any of the joint venture partners or a disruption in the businesses of any of our joint venture companies could result in the potential termination of the relevant joint venture agreement, and may adversely affect our financial condition and results of operations.

We established a number of joint ventures with several international companies in the rolling stock manufacturing industry. Although we have maintained stable working relationships with our joint venture partners for almost ten years and will continue to strive to do so, we cannot guarantee that a material dispute or a breach by one or more of the parties will not arise between any of the joint venture partners in the future. If the parties to any disagreement cannot resolve their dispute through negotiation or arbitration, the business and results of operations of the relevant joint venture may be negatively impacted. If the dispute remains unresolved, such joint venture may possibly be terminated.

In addition, any difficulties experienced by our joint venture partners relating to their respective businesses or financial condition could disrupt their ability to fulfill their contractual obligations under the joint venture agreement, which could have a negative impact on our business and results of operations.

The interests of our Parent Company may differ from those of other shareholders, which may adversely affect our business and financial condition.

As a result of the Global Offering, our largest shareholder, CSRG, will directly and indirectly hold 58.97% of the Company's issued share capital, assuming the Over-allotment option is not exercised. As the controlling shareholder and pursuant to the Company's Articles of Association, CSRG will be able to influence significant policy decisions (including dividend plans and investment decisions) that require a vote by the Company's shareholders. In addition, CSRG will have influence over the management of our Company through its representatives on the Board of Directors, will be able to control the election of the Company's Directors and will have the power to indirectly influence the selection of the Company's senior management. It is possible that differences in opinion may arise between CSRG and the remaining shareholders from time to time. We cannot guarantee that CSRG will influence the Company to pursue actions that are in the best interests of the remaining shareholders.

Any failure to raise sufficient capital for our business and operations in a timely manner may adversely affect our financial condition and results of operations.

We make significant capital expenditures on a regular basis to develop our business. We invest in areas such as research and development, refurbishment, maintenance and upgrading of facilities, and efficiency improvement of our processes using the cash generated from our operations and financing activities. However, we cannot assure you that these sources of funding will continue to adequately meet our business needs, particularly in regards to our growth and expansion plans. We may also require further funding for working capital, investments, potential acquisitions, joint ventures, debt servicing and other corporate requirements. If we are unable to secure sufficient external funds when required, we may not be able to fund necessary capital expenditures. In addition, our future investments in business projects and expansion of our Company may not generate the profit we expect. The availability of external funding is subject to various factors beyond our control, including governmental approval, prevailing capital market conditions, credit availability, interest rates and our business performance. The interest rates of Renminbi loans have continued to increase since October 2004. For example, the basic rate of a one-year bank loan increased from 5.58% in October 2004 to 7.47% in July 2008. If the PBOC continues to increase interest rates, our funding costs will increase and our access to funding may be reduced. Our inability to arrange additional financing in a timely manner on terms that are satisfactory to us could materially and adversely affect our business, results of operations and expansion plans.

Our levels of indebtedness and interest payment obligations may adversely affect our business.

Our current levels of debt and the situation in debt markets may affect our ability to secure funding for various current and future projects. Historically, we primarily relied upon both short-term and long-term borrowings to fund a portion of our capital expenditures and operations, and we expect to continue to do so in the future. As of 31 March 2008, our total borrowings amounted to approximately RMB7,401.9 million, and our ratio of total borrowings to total assets was 23.5%.

We recorded net current liabilities of RMB1,279.6 million as of 31 December 2005, primarily due to our large amounts of borrowings, comprising mainly short-term borrowings from commercial banks in China.

We may seek additional financing in the form of loans for planned capital expenditures and future projects. The level of our indebtedness and the amount of our interest payments could limit our ability to obtain the necessary financing or obtain favorable terms for the financing to fund future capital expenditures and working capital. A shortage of such funds could restrict our ability to prepare for organic and acquisitive growth, or to react to changing market conditions. Such limitations on our debt financing could reduce our competitiveness and increase our exposure and sensitivity to adverse economic and industry conditions, which could have an adverse effect on our financial condition and results of operations.

Moreover, we may be required to sell assets, seek additional capital, restructure or refinance our debt as a result of changes in our operating conditions. If we are unable to service our debt, such inability could result in an event of default which, if not cured or waived, could have an adverse effect on our business, financial condition and results of operations.

Our historical results and dividend policy may not be indicative of our future results and dividend policy.

We have included historical and pro forma financial information in this Prospectus that may not necessarily be indicative of our future financial condition, results of operations and cash flows, or what our financial condition, results of operations and cash flows would have been had we been a stand-alone entity during the periods presented. As a result, this may affect your ability to evaluate our business and growth prospects.

In addition, our past dividend policy may not be indicative of our future dividend policy. Pursuant to "Provisional Regulations on Financial Management and Treatments for State-owned Equity Interests in Enterprises under Corporate Restructuring" (CaiQi [2002]313) promulgated by the MOF and according to the "CSR Promotion Agreement" entered into by the promoters of the Company, CSRG and BRIT as well as the shareholders' meeting resolution of our Company in 2007, the net profit attributable to CSRG (as set forth in the combined statements) for the period from 30 June 2007 (our asset valuation date) to 28 December 2007 (the date on which the Company was incorporated) and distributable profits of our Company (as set forth in the combined statements) for the period from 29 December 2007 (the date after the incorporation date of the Company) to 31 December 2007 belong to CSRG, and we made such distributions to CSRG in April 2008. Except for the above special dividend distribution, we did not make any dividend distribution from 1 January 2008 to the date of this Prospectus. The H Share holders of the Global Offering will not receive these dividend distributions. Only CSRG enjoyed the above distributions. In addition, any distributable profit to our shareholders after the Global Offering will not include the special dividend distributions.

The special dividends distribution is not indicative of the dividends that our Company may declare or distribute in the future. We cannot guarantee whether or when any dividends will be paid in the future. Any amount of dividends that we may have declared historically is not indicative of the amount of dividends that we may pay in the future. The declaration, payment and amount of any future dividends are determined at the discretion of our Board and will depend upon general business conditions and strategies, our financial results and capital requirements, the interests of our shareholders, taxation conditions, statutory and regulatory restrictions, and other factors that our Board deems relevant. Details of our Company's dividend policy after completion of the Global Offering are set out in the section headed "Financial Information—Dividend policy".

Our operations are subject to operating hazards, adverse weather conditions, natural disasters and occupational hazards.

Many of our manufacturing facilities, raw materials and certain finished products are potentially destructive and dangerous under uncontrollable or catastrophic circumstances, including operating hazards, fires and explosions as well as adverse weather conditions and natural disasters such as snowstorms, typhoons, floods, earthquakes and major equipment failures, for which we cannot obtain insurance at a reasonable cost or at all. A limited number of facilities of CSR Chengdu, CSR Meishan and CSR Ziyang were slightly affected by the earthquake and associated aftershocks in the Sichuan Province in May 2008. A limited number of these affected facilities primarily experienced slightly cracked walls and certain separate manufacturing equipment were rendered less accurate. Although the Sichuan Province earthquake will not affect our production capacity and operations, other occurrences of natural disasters, as well as accidents and incidents of adverse weather in the future may result in significant property damage, electricity shortages, disruption of our operations, work stoppages, civil unrest, personal injuries and, in severe cases, fatalities. Such incidents may result in damage to our reputation or cause us to lose all or a portion of our production capacity, and future revenues anticipated to be derived from the relevant facilities.

Moreover, we operate in an industry that involves occupational hazards. We may experience difficulties in operations as a result of factors including, but not limited to, adverse weather conditions, failure of employees to follow proper safety procedures and the use of large-scale machinery. During the Track Record Period, we experienced five work-related fatalities and two work-related severe injuries, all of which were independent and isolated accidents and resulted from the relevant employees' failure to follow our Company-mandated safety procedures. See "Business—Occupational Health and Safety".

In addition, we may incur significant losses or costs relating to the transportation of our rolling stock products by oceangoing vessels. These vessels and their shipments are subject to perils particular to maritime operations, including capsizing, grounding, collision and loss or damage from severe weather or storms. Due to the potentially destructive and dangerous nature of cargo shipped on oceangoing vessels, maritime transportation may result in catastrophic incidents, including fires, explosions and severe pollution. Such events may result in severe damage and injury to property, the environment and humans, or in our being named as a defendant in lawsuits asserting claims for large amounts of damages, which may in turn materially adversely affect our financial condition and results of operations. See "—Insurance coverage for our business, products and properties may not be sufficient".

We have not obtained valid title or rights to use certain properties that we occupy, or the relevant permits to undertake construction or expansion projects on these properties.

As of the Latest Practicable Date, neither we nor our landlords had obtained valid title or rights to certain properties that we occupy or lease. See "Business—Properties". For those buildings held and occupied by us, the net book value was approximately RMB267 million as of 30 June 2008 and such buildings are used for production, offices, ancillary facilities and other purposes. Our operations and financial condition may be materially adversely affected if any third party were to claim or allege to be the legal or beneficiary owner of any of these properties. We cannot assure you that ownership disputes or claims will not occur or that third parties will not assert any claims against us for compensation in respect of any illegal and/or unauthorized use of their land. In addition, we have not obtained the relevant permits to undertake construction and expansion projects on certain properties. We cannot assure you that we will be able to begin or continue such projects. Our financial condition and results of operations may be adversely affected if we are not allowed to begin or continue such projects.

RISKS RELATING TO OUR INDUSTRY

The cyclical nature of our industry may expose us to potentially significant fluctuations in our financial condition and results of operations.

We operate in a cyclical industry that is sensitive to general economic conditions. Rapid growth in China's economy and urban population could lead to an increased demand for railway and rapid transit transportation, which could in turn foster demand for rolling stock products. On the other hand, an economic slowdown could curtail demand for such products. Changes in market supply and demand could also have a substantial effect on the prices of our products, our business, our revenues and financial condition. Macroeconomic conditions, cyclical trends in end-user markets, supply and demand imbalances, policies of the PRC Government and other factors beyond our control, including export policies, VAT and export taxes could have a major impact on our market share, demand for and the prices of our products. Periods of high demand for rolling stock, particularly rapid transit vehicles, higher capacity utilization and increased operating margins have tended to result in a large amount of new investments and increased production in the overall industry until supply exceeds demand, which is subsequently followed by periods of declining prices and declining capacity utilization, and the cycle repeats. Any of these cyclical factors may adversely impact our financial condition and results of operations.

Any decrease in public spending on, or any change in the public procurement policies or industry standards relating to, rail transportation or rapid transit projects could impact our business.

The development of China's rolling stock industry is dependent upon factors such as the continued growth of China's economy and the development of major railway and rapid transit projects. The nature, extent and timing of these projects are, however, determined by a combination of factors, including the overall spending on railway infrastructure and rapid transit systems in China and the general conditions and prospects of China's economy. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, we generated approximately 60.8%, 63.6%, 68.0% and 65.3%, respectively, of our total revenue from the sales we made to the CR bureaus, the MOR and the enterprises under them, rapid transit operators and rapid transit vehicles and components purchasers. A reduction in spending by the PRC Government on railway and rapid transit infrastructure and rolling stock projects or changes in government policies affecting public spending could reduce the market demand for our products.

We are experiencing increased competition from foreign and PRC domestic competitors within the PRC rolling stock market, which could negatively impact our market share in the industry.

Although we are currently one of only two leading rolling stock manufacturers in China, we face intense competition due to the limited number of domestic customers. If the MOR and other authorities change the industry entry policies and regulations for the rolling stock industry, we may face even more intense competition from current and new players in the rolling stock manufacturing industry.

In addition, as part of its commitment to China's WTO accession, the PRC Government has in recent years implemented certain policies to open up the domestic rolling stock industry. Foreign-invested companies are now allowed to participate in railway transportation equipment projects by way of consortiums with PRC domestic players. These foreign companies may likely merge or form joint ventures with our PRC domestic competitors or with other foreign competitors to our disadvantage, which could potentially decrease our PRC domestic market share and reduce our profitability. In recent years, the MOR, as supervising agency of the PRC railway industry, has implemented a policy to import technologies from foreign developers and manufacturers and customize them for the PRC domestic market. Imported technology from our foreign competitors may reduce our market share and adversely impact our business operations and financial conditions.

Moreover, as a result of the development and expansion of the market, we will encounter intensified competition from domestic competitors in the rapid transit vehicle manufacturing and maintenance sector. We cannot assure you that we will maintain our current leading position in this market.

We may be adversely affected by competition from other modes of transportation in China.

The five main transportation modes for passenger and freight transportation in China are aviation, railway, road, waterway and pipeline. Within China, passengers travel mainly on railway and road networks; freight is transported mostly on railway, road and waterway networks. Liquid and gases are usually delivered through pipelines. In the event that changes occur to passenger and freight transportation traffic patterns that lead to reduced overall volumes on railways, our business, financial condition and results of operations could be adversely affected. In addition, the demand for our rolling stock product may be reduced if there are unexpected events, such as terrorist attacks, environmental and other safety concerns, which would result in the decreased use of railway or rapid transit systems.

RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Economic slowdowns or downturns may lead to reduced demand for our products.

China has been one of the world's fastest growing economies as measured by the growth rate of its gross domestic product, or GDP, in recent years. The PRC Government has in recent years implemented a series of measures known as "macroeconomic control measures" to curb the rapid growth of the economy in relation to certain industries. The key purpose of the measures is to forestall threatening inflation and to stabilize China's economy. Such measures include tightening control over investments and extension of bank credit, raising the deposit-reserve ratio for financial institutions, raising the proportion of equity investment in certain sectors, strict enforcement of land acquisition and land use regulations, and the abandonment or delay of industrial projects which are expected to lead to economic inefficiencies.

In addition, any future calamities, such as natural disasters or epidemic outbreaks, may lead to a severe decline in economic activity and adversely affect economic growth in China, Asia or elsewhere in the world. The occurrence of an economic slowdown in China may reduce market demand for rolling stock, which may negatively impact our business and financial condition. During economic down-cycles that correspond with decreased government funding for railway-related projects, or periods in which there is low market demand but a simultaneous increase in the number of industry players, competition for available projects is likely to intensify and lead to reduced profitability for our Company. Moreover, unfavorable financing conditions for the industries that we serve could negatively impact our customers and their ability or willingness to fund capital expenditures in the future or pay for past services. Such events could materially and adversely affect our operations, financial condition and results of operations.

The political, economic and social conditions, laws, regulations and policies in China could affect our businesses and results of operations.

China's economy differs from the economies of most developed countries in many respects, including:

- structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

China's economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC Government has implemented economic reform measures to emphasize the utilization of market forces in economic development. We cannot predict whether changes in China's political, economic and social conditions, as well as its laws, regulations and policies will have any material adverse effect on our current or future business, financial condition and results of operations.

Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect our financial condition, results of operations and ability to pay dividends.

The conversion of Renminbi is under government regulation in China. Renminbi is freely exchangeable in current account transactions, but controlled in capital accounts. Under existing foreign exchange regulations, following completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future.

We are exposed to foreign exchange risks because we, from time to time, generate revenues in foreign currency from sales of our rolling stock products while the relevant cost and expenses are denominated in Renminbi. In addition, the exchange rates between Renminbi and foreign currencies for our export sales at the time of entry into the sales contract may be substantially different from those at the time when our products are delivered and payment for goods is received. Should the exchange rate of the Renminbi against the relevant foreign exchange increase substantially, our profit from certain export sales may be eroded. Following the development of our overseas operations, our foreign exchange assets may further increase. In addition, some of our machinery and equipment are imported from overseas. Accordingly, we are required from time to time to make payments in U.S. dollars or in other foreign currencies. As of 31 March 2008, our loans denominated in the currencies other than Renminbi were approximately equal to RMB745.5 million. The conversion of Renminbi to repay foreign loans via foreign currency remittances and to pay dividends may subject us to the relevant PRC foreign exchange regulations. As a result, we are exposed to foreign exchange fluctuations and movements in the exchange rate of Renminbi, which may have a direct impact on our profit.

On 21 July 2005, the PRC Government reformed the Renminbi exchange rate mechanism so that the Renminbi was no longer pegged to the U.S. dollar but to a basket of currencies. A revaluation of Renminbi resulted in its appreciation against the U.S. dollar and Hong Kong dollar by approximately 16% between 21 July 2005 and 31 March 2008. The relaxation of the Renminbi-U.S. dollar peg may contribute to volatility or increased fluctuations in the value of Renminbi. Further appreciation of Renminbi could cause our operating revenues to decrease. Currently, there are no financial instruments available in the PRC for hedging exchange rate risks, which, to a certain extent, restricts our ability to manage such risks. In addition, we plan to deposit the unused proceeds from the Global Offering in bank accounts outside of China without remitting those funds into China and converting them into Renminbi assets. In the event that the appreciation of Renminbi against the U.S. dollar and Hong Kong dollar continues, we may incur foreign exchange loss. Conversely, depreciation of Renminbi could adversely affect the value of dividends, if any, payable on the H Shares by our Company in foreign currency terms, and could increase the cost of importing equipment and facilities that are quoted in foreign currencies.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.

As we are a company incorporated under PRC law and substantially all of our businesses are conducted in China, our operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with the aim of developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a degree of uncertainty.

Substantial amendments to the PRC Company Law and the PRC Securities Law came into effect on 1 January 2006. As a result, the State Council and the CSRC may revise the Special Regulations and the Mandatory Provisions and adopt new rules and regulations to implement and to reflect the amendments to the PRC Company Law and the PRC Securities Law. We cannot assure you that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have a material adverse effect on the rights of holders of H Shares.

As a PRC company offering and listing its H Shares outside the PRC, we are subject to the Special Regulations and the Mandatory Provisions. Upon the listing of the H Shares on the Hong Kong Stock Exchange, the Hong Kong Listing Rules will become the principal bases for the protection of the rights of holders of H shares. The Hong Kong Listing Rules impose particular standards of conduct and disclosure on our Company, our Directors and the controlling shareholders of our Company. As far as we are aware, China has not published any case report that involves a request by a holder of H shares of a PRC company to exercise his or her rights under any constitutional document of a joint stock company with limited liability, the Company Law or any regulatory provisions of the PRC applicable to PRC joint stock limited liability companies.

It may be difficult to effect service of process upon us or our Directors or executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.

The legal framework to which our Company is subject is materially different from the Companies Ordinance or corporate law in the United States and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject to are also relatively undeveloped and untested. However, according to the PRC Company Law that became effective on 1 January 2006, shareholders may commence a derivative action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances. However, as far as we are aware, the courts in China have not published any case report of a shareholders' derivative action under the newly amended PRC Company Law.

Although we will be subject to the Hong Kong Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, upon the listing of the H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of any violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and only provide standards of acceptable commercial conduct for takeovers, merger transactions and share repurchases in Hong Kong.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong Government signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned. Under such arrangement, where any designated People's Court of the Mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Our Articles of Association and the Hong Kong Listing Rules provide that most disputes between holders of H Shares and our Company, our Directors, Supervisors or officers arising out of the Articles of Association or the Company Law and related regulations concerning our Company's affairs, such as transfer of the Company's H Shares, are to be resolved through arbitration. On 18 June 1999, an arrangement was made between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards. This arrangement, made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Under the arrangement, awards that are made by the PRC arbitral authorities pursuant to the Arbitration Law of the PRC can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities under the Arbitration Ordinance of Hong Kong are also enforceable in the PRC. However, so far as we are aware, no action has been brought in the PRC by a holder of H Shares to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favor of a holder of H Shares. Accordingly, we are unable to predict the outcome of any such action.

China is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with foreign countries such as the United States, the United Kingdom and Japan, and therefore enforcement in the PRC of judgments of a court in these jurisdictions may be difficult or impossible.

Holders of our H Shares may become subject to PRC taxation.

Under current PRC tax laws, regulations and rulings, dividends paid by our Company to holders of H Shares outside the PRC are currently exempt from PRC income tax. In addition, gains realized by holders of H Shares upon the sale or other disposition of H Shares are currently exempted from PRC income tax. If the exemptions are withdrawn in the future, holders of H Shares may be required to pay PRC income tax, or we may be required to withhold such tax from dividend payments. Such PRC income tax or withholding tax on dividends is currently imposed at the rate of 20%, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such overseas holders of H Shares reside which reduces or exempts the relevant tax.

The occurrence of an epidemic may have a material adverse effect on our business, financial condition and results of operations.

An outbreak of any widespread public health problem in China could have a negative effect on our operations and results. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices and manufacturing facilities, travel restrictions, import and export restrictions and a general slowdown in China's economy.

Payment of dividends is subject to restrictions under PRC Law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

The new labor law in the PRC and increases in labor costs may adversely affect our business and our profitability.

A new labor contract law became effective on 1 January 2008. The new labor contract law imposes stricter requirements in terms of signing labor contracts, paying remuneration, stipulating probation and penalties and dissolving labor contracts. It also requires the terms of employment contracts to be placed in writing within one month of the commencement of an employment relationship, which makes hiring temporary workers more difficult than before its enactment. As a result, our labor costs are expected to increase. In addition, some of our subsidiaries are parties to collective bargaining agreements with their employees. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. When existing collective bargaining agreements expire, we cannot assure you that we will be able to reach new agreements with our employees. Such new agreements may be on substantially different terms and may result in increased direct and indirect labor costs. Any increases in our labor costs and future disputes with our employees could adversely affect our profitability, business or results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

We will have completed an A Share Offering prior to the H Share Offering. There are significant differences in the characteristics of the A share and H share markets, and in the information released by us in our A Share Offering and the Global Offering.

We will have completed an A Share Offering in the PRC prior to the Global Offering and will have listed such shares on the Shanghai Stock Exchange. Pursuant to PRC law, trading in our A Shares is currently available only to PRC residents and selected foreign institutional investors under the China Qualified Foreign Institutional Investors (QFII) regulations, such as the Notice of China Securities Regulatory Commission on the Relevant Issues Concerning the Measures for the Administration of Securities Investment within the Territory of China by Qualified Foreign Institutional Investors. Non-PRC residents are not permitted to trade in our A Shares. Under the current laws and regulations, our H Shares and A Shares are neither interchangeable nor fungible, and there is no trading or settlement between the H share and the A share markets. The H share and A share markets have different trading characteristics and investor bases, including different levels of retail and institutional participation. As a result of these differences, the trading prices of our H Shares and A Shares may not be the same. Fluctuations in our A Share price may, however, adversely affect our H Share price.

In connection with our A Share Offering, we will be required to make certain formal announcements in China relating to us and our A Share Offering, including the publication of our A Share Prospectus. Such information will be released pursuant to the relevant PRC regulatory requirements that are not applicable to our Global Offering. Certain announcements in relation to our A Share Offering will be published on the website of the Hong Kong Stock Exchange. However, such information and the A Share Prospectus do not and will not form part of this Prospectus. In making your decision as to whether to invest in our H Shares or in our Global Offering, you are cautioned that you should rely only on the financial, operational and other information contained in this Prospectus and the application forms. By applying to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this Prospectus and the application forms.

Future sales or perceived sales of substantial amounts of our H Shares, A Shares or other securities relating to our H Shares or A Shares in the public market, including any future offerings, or a decline in the market price of our A Shares could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and our shareholders may experience dilution in their holdings.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares, A Shares or other securities relating to our H Shares or A Shares in the public market or the issuance of new H Shares, A Shares or other securities relating to our H Shares or A Shares, or the perception that such sales or issuances may occur. A decline in the price of our A Shares could also reduce the market price of our H Shares. Moreover, future sales, or perceived sales, of substantial amounts of our H Shares, A Shares or other securities relating to our H Shares or A Shares, could materially and adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. Our shareholders may experience dilution in their holdings to the extent we issue additional securities in future Offerings.

There has been no prior public market for our H Shares. The liquidity and market price of the H Shares following the Global Offering may be volatile.

Prior to the Global Offering, there has been no public market for the H Shares. The initial price range disclosed in this Prospectus for the H Shares was the result of negotiations among our Company and the Underwriters, and the Offer Price may differ significantly from the market price for the H Shares following the Global Offering. We have applied to list and deal in the H Shares on the Hong Kong Stock Exchange. There is no assurance that the Global Offering will result in the development of an active and liquid public trading market for the H Shares. In addition, the price and trading volumes of the H Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments of our Company may affect the volume and price at which the H Shares will be traded.

As the Offer Price is higher than the net tangible book value per share of our Company, holders of the H Shares will experience immediate dilution.

The Offer Price of the H Shares is higher than the net tangible book value per Share. Therefore, purchasers of the H Shares in the Global Offering will experience an immediate dilution in the net tangible book value per H Share.

Disposal of the H Shares by NSSF or transfer of Shares held on our domestic share register into H Shares following the listing of the H Shares may result in an increase in the number of H Shares available on the market and may affect the price of the H Shares.

Pursuant to the approvals of the relevant PRC authorities, CSRG and BRIT are required to transfer to NSSF such number of Domestic Shares as shall be in aggregate equivalent to 10% of the number of Offer Shares. These Domestic Shares will be converted into H Shares on a one-for-one basis upon the completion of the Global Offering and will be held by NSSF immediately thereafter. NSSF will retain approximately 160,000,000 H Shares, representing approximately 1.38% of our total issued share capital, if the Over-allotment Option is not exercised, or 184,000,000 H Shares, representing approximately 1.55% of our total issued share capital if the Over-allotment Option is exercised in full. As advised by our PRC counsel, Grandall Legal Group (Beijing), the H Shares to be held by NSSF shall not be subject to any lock-up period under the PRC Company Law and there is no legal restriction on NSSF transferring or disposing of such H Shares following the listing of the H Shares. If NSSF disposes of its H Shares, the above arrangement will result in an increase of the number of H Shares available on the market. Such increase may, directly or indirectly, affect the trading price of the H Shares following the completion of the Global Offering. See "Share Capital".

In addition, subject to the approval by the securities supervisory and administrative authority of the State Council, holders of Domestic Shares may transfer their shares to overseas investors and such shares may be listed or traded on an overseas securities exchange. Any listing or trading of the above shares on an overseas securities exchange shall also comply with the regulatory procedures, rules and requirements of the relevant overseas securities exchange. Unless otherwise required by such overseas securities exchange, there is no requirement for the listing and trading of the above shares to be approved in a class meeting of our Company. Potential conversion of a substantial amount of Domestic Shares into H Shares could further increase the supply of the H Shares in the market and could negatively impact the market price of the H Shares.

Shareholders' interests may be diluted as a result of additional equity fund-raising.

We may need to raise additional funds in the future to finance further expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing shareholders, the percentage ownership of such shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the H Shares.

Forward-looking information included in this Prospectus may prove inaccurate.

This Prospectus contains certain forward-looking statements and information relating to us and the subsidiaries comprising our Company that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Prospectus, the words "aim," "anticipate", "believe", "continue", "could", "expect", "going forward", "intend", "ought to", "may", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company's management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this Prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our future debt levels and capital needs;

- future developments, trends and conditions in the markets in which we operate;
- our strategy, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in "Financial Information" section of this Prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical facts.

Subject to the requirements of the Hong Kong Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement.

We cannot guarantee the accuracy of facts, forecasts and other statistics from official government publications with respect to China, China's economy and China's rolling stock industry contained in this Prospectus.

Facts, forecasts and other statistics in this Prospectus relating to China, China's economy and China's rolling stock industry have been derived from official government publications and we can neither guarantee the quality nor the reliability of such source materials. They have not been prepared or independently verified by our Company, the Underwriters or any of its or their respective affiliates or advisors and therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media relating to us and/or the Global Offering.

There was press coverage regarding us and the Global Offering in certain news publications in Hong Kong, which included certain financial information, profit forecasts and other information about us (the "Information"). The press coverage included the articles dated 15 July, 2008 published by Ming Pao Daily News, Hong Kong Economic Journal, and South China Morning Post. We wish to emphasize to potential investors that we do not accept any responsibility for the accuracy or completeness of the Information and that the Information was not prepared, sourced from or authorized by us. We make no representation as to appropriateness, accuracy, completeness or reliability of any of the Information included in or referred to by the media or the underlying assumptions. To the extent that any of the Information is inconsistent with, or conflicts with, the information contained in this Prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this Prospectus only and should not rely on any other information.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this Prospectus misleading.

CSRC APPROVAL

We have obtained approval from the CSRC for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Company, nor for the accuracy of any of the statements made or opinions expressed in this Prospectus or in the Application Forms.

UNDERWRITING

This Prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this Prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Placing Agreement relating to the International Offering is expected to be entered into on or about 14 August 2008, subject to determination of the pricing of the Offer Shares. If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (on behalf of the Underwriters) by 19 August 2008, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Further details about the Underwriters and the underwriting arrangements are contained in "Underwriting".

RESTRICTIONS ON THE USE OF THIS PROSPECTUS

Each person acquiring Hong Kong Public Offer Shares will be required to confirm, or by his acquisition of Hong Kong Public Offer Shares will be deemed to confirm, that he is aware of the restrictions on offers of the Hong Kong Public Offer Shares described in this Prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold and will not be offered or sold, directly or indirectly, in the PRC.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares including: (i) any H Shares which may be issued by the Company pursuant to the Global Offering and upon the exercise of the Over-allotment Option; and (ii) any H Shares, converted from Domestic Shares, which are to be held by NSSF (including such Domestic Shares converted to H Shares and transferred by CSRG and BRIT to NSSF and such additional Domestic Shares converted to H Shares to be further transferred to NSSF by CSRG and BRIT upon the exercise of the Over-allotment Option, in each case, pursuant to the relevant PRC regulations in relation to the reduction of State-owned shares). Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on 21 August 2008.

Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC and after satisfying certain procedural requirements. See “Share Capital—Transfer of the Domestic Shares for listing and trading on the Hong Kong Stock Exchange” for further information.

Save for our A Shares which are expected to be listed on the Shanghai Stock Exchange and the listing of our H Shares on the Hong Kong Stock Exchange for which an application has been made, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H Share Register and Stamp Duty

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our H Share register to be maintained in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered in our H Share register will be subject to the Hong Kong stamp duty. See “Appendix V—Taxation and Foreign Exchange”.

Eligibility for Admission into CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

Professional Tax Advice Recommended

Applicants for the Hong Kong Public Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the H Shares. It is emphasized that neither we nor the Joint Global Coordinators, the Joint Sponsors, the Underwriters, nor their respective directors, nor any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of H Shares resulting from the subscription, purchase, holding, disposal of, dealing in, or exercise of any rights in relation to, the H Shares.

Registration of Subscription, Purchase and Transfer of H Shares

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and Computershare Hong Kong Investor Services Limited has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until such holder delivers a signed form to our H Share registrar in respect of those H Shares bearing statements to the effect that the holder:

(i) agrees with us and each of our shareholders, and we agree with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;

(ii) agrees with us, each of our shareholders, Directors, Supervisors, managers and officers, and we acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each of our shareholders, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive. See "Appendix VI—Summary of Principal Legal and Regulatory Provisions" and "Appendix VIII—Summary of Articles of Association";

(iii) agrees with us and each of our shareholders that the H Shares are freely transferable by the holders thereof; and

(iv) authorizes us to enter into a contract on his behalf with each of our Directors and officers whereby such Directors and officers undertake to observe and comply with their obligations to our shareholders as stipulated in our Articles of Association.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not associates (as such term is defined in the Hong Kong Listing Rules) of any of the Directors of the Company or an existing shareholder of the Company or a nominee of any of the foregoing.

Procedure for Application for Hong Kong Public Offer Shares

The procedure for applying for Hong Kong Public Offer Shares is set out in "How to Apply for Hong Kong Public Offer Shares" and in the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering".

EXCHANGE RATE

Solely for your convenience, this Prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Renminbi into HK dollars was made at the rate of RMB0.8744 to HK$1.00, the exchange rate prevailing on 29 July 2008, set by PBOC for foreign exchange transactions. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Further information on exchange rates is set forth in "Appendix V—Taxation and Foreign Exchange".

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, CICC (HK), as stabilizing manager (the "Stabilizing Manager"), or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of our H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out any covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of our H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager (in consultation with the other Joint Global Coordinator) and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of our H Shares that may be over-allocated will not exceed the number of our H Shares that may be sold under the Over-allotment Option, namely, 240,000,000

H Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing action permitted pursuant to the Securities and Futures (Price Stabilizing) Rules includes:

(a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;

(b) selling or agreeing to sell our H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price;

(c) subscribing, or agreeing to subscribe, for our H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;

(d) purchasing, or agreeing to purchase, our H Shares for the sole purpose of preventing or minimizing any reduction in the market price;

(e) selling our H Shares to liquidate a long position held as a result of those purchases; and

(f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of our H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in our H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of our H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of our H Shares for longer than the stabilizing period, which begins on the day on which trading of our H Shares commences on the Hong Kong Stock Exchange and end on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on 12 September 2008. As a result, demand for our H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise might exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of our H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of our H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for our H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

TRANSLATION

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) included in this Prospectus and for which no official English translation exists are unofficial translations for your reference only.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Zhao Xiaogang	No.102, Unit 2, Block 14, Phase 2 Changqingyuan, Haidian District, Beijing, PRC	Chinese
Zheng Changhong	Room 802, Block A, Tower 6, Qingzhiyuan, Xuanwu District, Beijing, PRC	Chinese
Tang Kelin	Room 305, Unit 2, Phase B, No. 9 Sanlihe Road, Haidian District, Beijing, PRC	Chinese
Liu Hualong	Room 501, Unit 3, Block 7, Yuefujiangnan, No.1 Yongding Road Yi, Haidian District, Beijing, PRC	Chinese
Independent non-executive Directors		
Zhao Jibin	No.10, New Block Tie'erqu, Er Qi Theater Road, Xicheng District, Beijing, PRC	Chinese
Yang Yuzhong	Room 401, Unit 4, Block 3, No.59 Xingfu Dajie, Chongwen District, Beijing, PRC	Chinese
Chen Yongkuan	Room 7B, Unit 2, Block F9, Fenglinlvzhou, Datun Road, Chaoyang District, Beijing, PRC	Chinese
Dai Deming	Room 12D, Unit 2, Block 2 Shiyuyuan, Landian Factory, Haidian District, Beijing, PRC	Chinese
Tsoi, David	2/F, 10 Mount Butler Road, Jardine's Lookout Hong Kong	Chinese (Hong Kong)

SUPERVISORS

Name	Address	Nationality
Wang Yan	Room 11A, Unit 1, Block 5, Langqinyuan, Xuanwu District, Beijing, PRC	Chinese
Li Jianguo	Room 404, Unit 16, Caihuying Tianlun North Road, Fengtai District, Beijing, PRC	Chinese
Qian Yi	Room 605, Block 16, Caihuying Tianlun North Road, Fengtai District, Beijing, PRC	Chinese

PARTIES INVOLVED

Joint Global Coordinators and Joint Bookrunners (in alphabetical order)	China International Capital Corporation Limited 27th-28th Floor, China World Tower 2 No. 1 Jian Guo Men Wai Avenue Beijing 100004, PRC
	Macquarie Capital Securities Limited 19/F Citic Tower 1 Tim Mei Avenue Central Hong Kong
Joint Sponsors and Joint Lead Managers of the Hong Kong Public Offering (in alphabetical order)	China International Capital Corporation (Hong Kong) Limited 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	Macquarie Capital Securities Limited 19/F Citic Tower 1 Tim Mei Avenue Central Hong Kong
Joint Lead Managers of the International Offering (in alphabetical order)	China International Capital Corporation Limited 27th-28th Floor, China World Tower 2, No. 1 Jian Guo Men Wai Avenue Beijing 100004, PRC
	Macquarie Capital Securities Limited 19/F Citic Tower 1 Tim Mei Avenue Central Hong Kong

Legal Advisers to Our Company	*As to Hong Kong and United States laws:* Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central Hong Kong *As to PRC law:* Grandall Legal Group (Beijing) 9th Floor, Taikang Financial Tower No. 38 North Road East Third Ring Chaoyang District Beijing 100020, PRC
Legal Advisers to Joint Global Coordinators, Joint Sponsors and The Underwriters	*As to Hong Kong and United States laws:* Herbert Smith 23rd Floor Gloucester Tower 15 Queen's Road Central Hong Kong *As to PRC law:* Jia Yuan Law Firm F407 Ocean Plaza 158 Fuxing Men Nei Avenue Beijing 100031, PRC
Reporting Accountants	Ernst & Young Certified Public Accountants 18th Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
Valuers	Jones Lang LaSalle Sallmanns Limited 22nd Floor, Siu On Centre 188 Lockhart Road Wan Chai Hong Kong
Receiving Bankers	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

Industrial and Commercial Bank of China (Asia) Limited
33rd Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen’s Road Central
Central
Hong Kong

Hong Kong Underwriters

China International Capital Corporation (Hong Kong) Limited

Macquarie Capital Securities Limited

BNP Paribas Capital (Asia Pacific) Limited

ICEA Securities Limited

DBS Asia Capital Limited

GF Securities (Hong Kong) Brokerage Limited

Guotai Junan Securities (Hong Kong) Limited

Taifook Securities Company Limited

CORPORATE INFORMATION

Registered office	No. 16, Central West Fourth Ring Road, Haidian District, Beijing 100036, PRC
Head office	No. 11 Yangfangdian Road, Haidian District, Beijing 100038, PRC
Principal Place of Business in Hong Kong	Unit H 41/F., Office Tower Convention Plaza No.1, Harbour Road Hong Kong
Website Address:	www.csrgc.com.cn
Joint Company secretaries	Shao Renqiang Wong Kai Yan, Thomas*, CPA, CPA (Aust)*
Qualified Accountant	Wong Kai Yan, Thomas*, CPA, CPA (Aust)*
Authorized Representatives	Liu Hualong Room 501, Unit 3 Block 7, Yuefujiangnan No. 1 Yongding Road Yi Haidian District, Beijing, PRC
	Wong Kai Yan, Thomas Flat F, 47/F., Block 3 East Point City Tseung Kwan O New Territories Hong Kong
Joint Compliance Advisers (in alphabetical order)	China International Capital Corporation (Hong Kong) Limited Macquarie Capital Securities Limited
Strategy Committee	Zhao Xiaogang (Chairman) Zheng Changhong Yang Yuzhong (Vice-Chairman) Zhao Jibin Tang Kelin
Audit and Risk Management Committee	Dai Deming (Chairman) Yang Yuzhong Tsoi, David
Remuneration and Assessment Committee	Chen Yongkuan (Chairman) Dai Deming Tsoi, David Liu Hualong
Nomination Committee	Zhao Jibin (Chairman) Chen Yongkuan Liu Hualong

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

China Minsheng Banking Corp., Ltd.
Xizhimen Branch
No.45-8 Xizhimen North Dajie
Haidian District, Beijing, PRC

China CITIC Bank Corporation Limited
Fuhua Mansion Branch
Block C, Fuhua Mansion
No.8 Chaoyangmenbei Dajie
Dongcheng District, Beijing, PRC

Industrial and Commercial Bank of China Limited
Xikezhan Branch
Xijin Plaza, No. 39 Lianhuachi East Road
Haidian District, Beijing, PRC

Bank of Communications Co., Ltd.
Shijicheng Branch
Fraction 4, Building A1, Jinxiyuan
Shijicheng Sub-district
Haidian District, Beijing, PRC

This section of this Prospectus contains information relating to China's economy and the PRC rolling stock industry and international rolling stock markets. Certain information contained within has been derived from official government publications. Although the Joint Sponsors and our Directors have reproduced the data and statistics extracted from such official government publications in a reasonably cautious manner, neither we, the Underwriters nor any of their respective affiliates or advisers have independently verified the information directly or indirectly derived from these sources, and such information may not be consistent with other information compiled within or outside China. We make no representation as to the completeness or accuracy of such information and accordingly such information should not be completely relied on.

OVERVIEW OF GLOBAL ROLLING STOCK INDUSTRY

Global Rail Transportation and Rapid Transit Markets

Rail transportation is a widely-adopted form of public transportation in many countries around the world and the industry is experiencing continued development. At the end of 2007, 143 out of 236 countries and regions around the world had railway systems, and rail transportation for passengers was available in 90 of those 143 countries and regions.

The majority of railway or transportation regulators worldwide are promoting the increased use of railway and rapid transit systems while focusing on developing the following areas of rail transportation: (i) increasing high-speed rail links between major cities; (ii) improving rail freight networks; and (iii) promoting the development of rapid transit systems.

As a result of accelerated global urbanization, rapid transit systems play an increasingly important role in economic, social and environmental functions, including providing basic transportation services in developing countries, allowing for the development of densely populated business districts, providing a means of transportation for travelers who are unable to drive and reducing the negative impact of automobile traffic congestion. As of 31 December 2007, more than 140 cities in over 50 countries and regions had rapid transit systems composed of subways and light rail systems. As of 31 December 2006, the total length of all rapid transit systems around the world was approximately 9,000 km.

Worldwide Rolling Stock Market

The rapidly-growing rolling stock industry has had a significant impact on the worldwide development of railway transportation. According to UNIFE, the global annual demand for rolling stock products from 2003 to 2005 amounted to an average of approximately €50 billion (approximately RMB557.4 billion). The top three regional markets, namely the Western European, North American and Asia-Pacific regions, occupied approximately 80% of the global market. UNIFE estimates that the average annual growth rate for rolling stock from 2006 to 2015 will be between 1.5% and 2.0%, while the average annual growth rate for rolling stock refurbishment services will be between 2.0% and 3.0%. During the same period, it is estimated that the annual demand for locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles will increase by 2.2%, 1.8%, 1.5%, 1.3% and 3.3%, respectively.

The following provides an overview of some of the major rolling stock markets around the world:

- The rolling stock market in Western Europe is divided into three sectors: high-speed rail, freight and rapid transit. Given that a current policy in Western Europe promotes railway transportation as an alternative mode of transportation to air and road transportation to reduce carbon dioxide emissions, demand is expected to remain strong in all three sectors. In addition, the replacement or upgrade of existing rolling stock will also be a factor driving the growth in demand for rolling stock.
- Although demand for new rolling stock in North America is relatively limited, the demand for rolling stock refurbishment services generated by the extensive lines in existence is sufficient to ensure that the North American market will remain a major market in the global arena. A significant amount of rail freight cargo in North America is transported through heavy-hauling diesel-locomotives.
- The rapid growth of regional economies and urbanization has contributed to the rapid growth of the rolling stock market in the Asia-Pacific region, which includes China, Japan and the Southeast Asian countries. In particular, the Chinese market is growing rapidly due to increased development and expansion of modern railway systems and the growing demand for high-speed EMUs, heavy-hauling freight wagons and rapid transit vehicles.
- Africa, the Middle East, Latin America, Eastern Europe and the Commonwealth of Independent States are also markets with significant growth potential.

OVERVIEW OF THE PRC ROLLING STOCK INDUSTRY

China's economy has grown significantly since the beginning of economic reform in the late 1970s. China's GDP increased at a CAGR of 10.6% from 2002 to reach approximately RMB24.7 trillion in 2007. This growth is expected to continue in the coming years.

Rail Transportation and the Rapid Transit Market

China is a large and populous country that has experienced uneven economic growth across its regions. This uneven distribution and skewed economic development have resulted in frequent re-allocation of resources and mass migrations of its population, which create the need for effective and efficient means of transportation. To accelerate economic development, the PRC Government is currently implementing a systematic upgrade of China's existing transportation infrastructure. In 2006, the PRC Government invested a total of RMB738.4 billion in the construction of transportation infrastructure, an increase of 14.6% over investment made in 2005. Under the Eleventh Five-Year Plan, the PRC Government plans to increase overall investment in transportation infrastructure by implementing measures such as accelerating the development of railway and rapid transit systems.

In addition to China's strong macro-economic growth, other factors that contribute to the sustained growth of the rail transportation and rapid transit market in China include:

Urbanization

Rapid urbanization has increased the demand for rapid transit systems and inter-city commuter networks.

Growing emphasis on safety, reliability and efficiency

In response to the increased safety and comfort demands of rail and rapid transit passengers, the CR bureaus and various rapid transit operators are focusing their efforts and resources to improve the safety, reliability and efficiency of transportation systems. Accordingly, the PRC Government is focusing on increasing its investment in train control and management systems, increasing rail traffic density, lowering maintenance costs and improving the overall quality of railway services. Moreover, the MOR is currently in the process of replacing older equipment with high-speed railway lines and heavy-hauling vehicles, as well as revamping the existing railway network to improve overall efficiency and reliability.

Energy-efficient and environmental awareness

Many countries, including China, have adopted and are increasingly utilizing more environmentally-friendly transportation methods (including railway and rapid transit) in an effort to reduce traffic congestion, pollution and noise levels. The increasing demand for railway and rapid transit systems will consistently drive demand for rail vehicles, particularly for energy-efficient models such as EMUs.

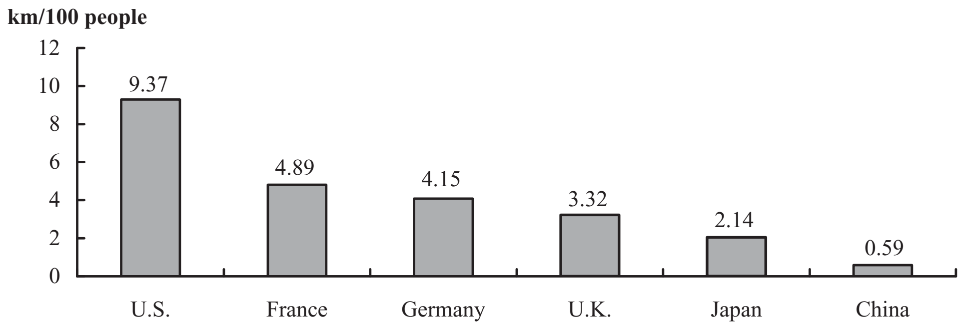
Rail Transportation Market in China

Market conditions

China's economic growth has been a key driving force in the growth of its railway industry. As a safe, efficient, environmentally-friendly and economical means of transportation with high-hauling capacity, railway transportation has become a primary mode of transportation in China and has developed rapidly in recent years.

China's railway network, by aggregate length, is the third longest in the world. However, China possesses a much lower length of railway *per capita* rate as compared to countries such as the United States, Russia, Germany, France, Japan and Brazil. Despite the operation of its railway transportation system at close to full capacity, China's railway transportation capacity currently accommodates only approximately 35% of public demand, resulting in transportation bottlenecks. In addition, despite occupying approximately 7.2% of the world's railway lines by aggregate length, China's railway system carries only 24% of the world's total transportation volume. Accordingly, passenger density and *per capita* utilization of China's railway network still lag behind other parts of the world.

The disparity between the supply and demand in China's railway transportation market indicates a significant need for railways and rail vehicles. As a result, numerous business opportunities have merged to meet the railway transportation demands of China. The chart below illustrates the passenger density of railway transportation (represented by the total railway length in km per 100 people):



Source: China Railway Yearbook 2007

The table below illustrates the growth trend of the railway freight and passenger transportation markets during the Tenth Five-Year Plan period in China:

	2001	2002	2003	2004	2005
Freight turnover (billion tonnes-km)	1,458	1,552	1,725	1,929	2,073
Passenger turnover (billion people-km)	477	497	479	571	606
Freight transportation (million tonnes)	1,926	2,042	2,212	2,490	2,693
Passenger transportation (million people)	1,052	1,056	973	1,118	1,156
Railway operational length (km)	70,000	71,900	73,002	74,408	75,438
Completed new railway length (km)	1,551	1,840	1,105	1,406	1,030
Electrified railway length (km)	16,900	18,100	18,758	19,303	20,151

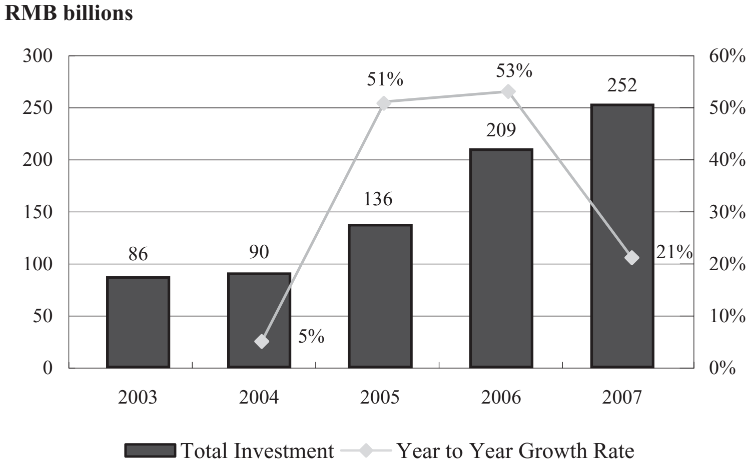
Source: PRC Railway Statistics Bulletin (中國鐵道統計公報) 2001-2005 published by the MOR Statistics Center

In 2007, railway freight transportation volume in China was 3,120 million tonnes, which represented freight turnover volume of 2,380 billion tonnes per km. Passenger transportation volume was 1,357 million people, which represented passenger turnover volume of 722 billion people per km. As of 31 December 2007, the total railways operational length was 78,000 km, and the total length of the extended railways was 157,000 km.

China's railway transportation market has strong growth potential because of its size and continuously-improving quality standards. The continued expansion of China's railway network is expected to drive the demand for additional rolling stock. Improvement in quality standards for rolling stock has increased the need for high-speed passenger trains, faster freight trains and other high-performance rolling stock.

As a result of the increase in electrified railways, a greater proportion of rolling stock production now focuses on upgrading and improving electricity-related railway products. For example, the maximum operating speeds for passenger trains have been increased from 160 km/h to 200 km/h and above, which has resulted in the increased demand for MUs. In addition, a variety of railways and rapid transit systems are currently in the planning or construction stages, responding to the increased traffic congestion caused by the substantial increase in automobiles.

Significant achievements in domestic railway construction occurred during the Tenth Five-Year Plan Period. During this period, 6,756 km of new railway main lines were constructed and total capital investment in China's railway infrastructure also increased substantially. The following chart sets forth the total capital investment and growth rate of China's railways from 2003 to 2007:



Source: MOR

Future developments

To sustain the continuing growth of China's railway industry, the PRC Government has initiated several national plans and policies relating to railway development. According to the Eleventh Five-Year Plan for Railways and the *Major Technology Policy of the Railway Industry* (promulgated by the MOR), the PRC railway industry will focus on the expansion of China's railway network, the development of electrified railways, high-speed railway lines and heavy-hauling freight transportation, as well as the promotion of rail safety in the next five years.

PRC railway network expansion. China's economic growth continues to stimulate the development of the PRC railway industry, which in turn drives the growth of the rolling stock industry. In accordance with the Eleventh Five-Year Plan for Railways, the PRC Government plans to expand China's railway network. This plan includes the construction of high-speed railways, the upgrade of existing major PD high-speed railways and heavy-hauling freight railways and the expansion of other railway lines.

High-speed passenger and heavy-hauling freight transportation. With the construction of high-speed railway lines and the gradual establishment of high-speed passenger railway networks as well as the introduction of high-speed EMUs, locomotives with an operating speed of 200 km/h that haul passenger carriages are expected to be launched soon. Thus, demand for passenger carriages capable of achieving speeds of 200 km/h will arise. At the beginning of the CR's sixth round of speed increases on its major railway lines in April 2007, 52 operational high-speed EMUs with a maximum operating speed of up to 200 km/h were placed into operation, thus increasing the line's maximum operating speed capability to 200 km/h on certain stretches (an aggregate of 6,000 km of rail). Additionally, the advancement of rail freight technology has increased demand for heavy-hauling freight transportation.

Rapid Transit Market in China

Rapid transit has several advantages over other types of transportation, including large transportation capacity, punctuality, decreased pollution and reduced land usage. Since the trial operations of Beijing's city subway system in 1969, rapid transit systems have been adopted by a number of large and medium-sized cities in China as the primary solution to relieve overburdened public transportation systems.

Market conditions

As of 30 June 2007, only ten cities in China had rapid transit systems, and the operational and trial operational length of these rapid transit systems in aggregation was approximately 630 km. However, with the continued economic growth, accelerated urbanization and increased modernization of cities in China, the rapid transit systems are expected to grow rapidly in the future. Beijing, Shanghai, Shenzhen, Guangzhou, Tianjin, Dalian and nearly 20 other cities in China are expanding, or planning in the future to expand and construct, light rail systems. Of the 48 cities with populations exceeding one million, 25 cities have established city development plans to construct rapid transit networks. In the aggregate, these plans provide for the construction of more than 5,000 km of railway track and an estimated investment of over RMB800 billion. As of December 2007, a number of these 25 cities have already submitted their plans and received approval from the NDRC to commence construction.

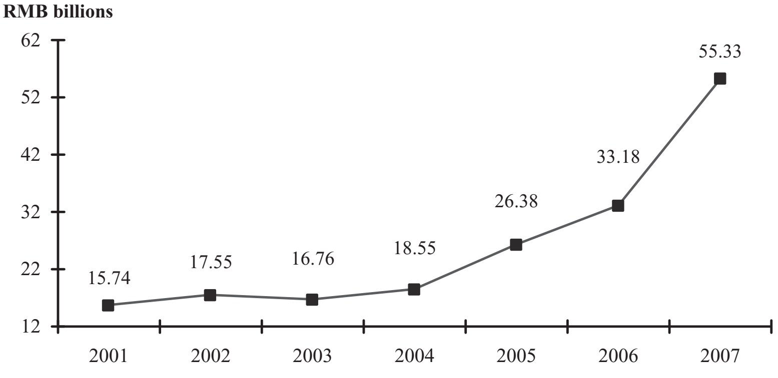
Future developments

New rapid transit construction projects have been commenced in Beijing and Shanghai, which will host the 2008 Olympics Games and 2010 World Exposition, respectively. Construction will also take place in cities within the Pearl River Delta, such as Guangzhou and Shenzhen, as well as the cities of Nanjing, Suzhou and Hangzhou, all situated within the Yangtze River Delta, where rapid economic growth is expected to continue. During the Eleventh Five-Year Plan period, investment in the rapid transit system throughout China will be approximately RMB400 billion to RMB600 billion. In addition, according to the Special Committee of Urban Rapid Transit System under the China Communications and Transportation Association, 55 subway and light rail lines will be constructed by the end of 2010 and the total length of China's rapid transit lines is expected to reach approximately 1,500 km. In addition, the anticipated demand for rapid transit vehicles is approximately 6,000 units, which represents an average annual demand of 1,200 new rapid transit vehicle units from 2008 to 2010. A substantial increase in operational rapid transit lines is expected to stimulate demand for metro cars and light rail cars.

China's Rolling Stock Market

In its Eleventh Five-Year Plan, the MOR implemented a policy to modernize and upgrade rolling stock. The policy includes developing: (i) high-powered electric and diesel locomotive technologies; (ii) high-speed EMUs; and (iii) market-oriented passenger carriages and freight wagons.

Due to the sustained growth of China's economy, as well as the continuous expansion of its railway network and rapid growth of the rail transportation industry, the MOR's investment in the procurement and upgrade of rail vehicles increased steadily from 2001 to 2007, with the exception of a slight decrease in 2003 due to the Severe Acute Respiratory Syndrome (SARS) epidemic. The chart below illustrates the MOR's investment in the procurement of new rail vehicles (which excludes large railway maintenance vehicles) from 2001 to 2007:



Source: National Bureau of Statistics

Pursuant to the State Council's approval, China National Railways Locomotive and Rolling Stock Industrial Corporation under the MOR's control was given independent status and split into two companies, namely CSRG and CNRG. The following table sets forth the background information for these companies for and as of 2005 and 2006:

	CSR Group[1]		**CNRG Group**[2]	
Products and Services	provides innovative solutions and systems in the research and development, manufacturing, sales, refurbishment and leasing of rolling stock, including locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as other businesses that utilize proprietary rolling stock technologies.		develops, designs, manufactures and repairs rolling stocks, rapid transit vehicles, railway cranes, various electro-mechanical equipments and components, as well as the electric devices and environmental protection equipments.	
	2005	**2006**	**2005**	**2006**
Total Assets as of 31 December (in RMB million)	22,417	26,344	26,862	30,278
Revenue (in RMB million)	19,785	23,047	19,427	22,875

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(1) The data for the CSR Group listed in the table above are provided on a post-reorganization basis. The relevant information of the CNRG Group is not comparable with that of the CSR Group after the reorganization. The amounts indicated in the table for the CNRG Group is a consolidation of amounts from subsidiaries that would not have been included if the CNRG Group did undergo a reorganization.

(2) The data presented are derived from the CNRG Group's Annual Report 2006.

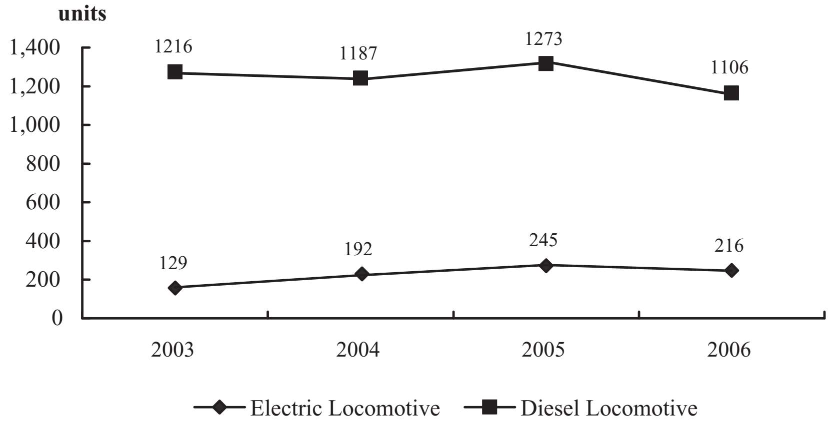
The two groups enjoy a favorable position due to strong domestic demand, large production capacity and supply systems with short turnaround times. China's rapidly growing economy is driving expansion of the railway network and boosting transport capacity, requiring its railways to modernize more quickly than anywhere else in the world.

Locomotives

As of 31 December 2006, there were 16,904 locomotives in service on CR railway lines, consisting of 5,465 electric locomotives and 11,348 diesel locomotives. The total number of locomotives in China increased by 16.1% from 15,756 units in 2001 to 18,300 units in 2007, the total number of diesel locomotives in China increased by 10.6% from 11,081 units in 2001 to 12,261 units in 2007, and the total number of electric locomotives increased by 51.9% from 3,976 units in 2001 to 6,039 units in 2007.

With the development of and increase in electrified railways and the improvement in domestic railway equipment, the electric locomotive is expected to become the dominant product in China's locomotive market. In 2006, China's rail vehicle manufacturers produced more electric locomotives than diesel locomotives for the first time, with 472 electric locomotives compared to 467 diesel locomotives. According to the Eleventh Five-Year Plan for Railways, the number of locomotives in China is expected to reach approximately 19,000 units by 2010.

Our Company and the CNRG Group have dominated the domestic refurbishment market for locomotives. The chart below illustrates the market volume for the refurbishment of diesel locomotives and electric locomotives of our Company and the CNRG Group from 2003 to 2006:



Source: PRC Railway Statistics Bulletin (中國鐵道統計公報) *2001-2006 released by the MOR Statistics Center*

In the coming years, the locomotive refurbishment market is expected to reflect the increasing market trend towards electric locomotives. The refurbishment market for electric locomotives is expected to grow significantly, while the demand for diesel locomotive refurbishment will remain stable.

Passenger carriages

In order to keep pace with China's economic development and the increasing demands of passengers for higher levels of comfort as well as better service quality, the CR bureaus have increased their purchases of passenger carriages and premium passenger carriages. The number of passenger carriages in China increased from 41,974 in 2005 to 44,300 units in 2007. The Eleventh Five-Year Plan for Railways stipulates that by 2010, the total number of passenger carriages in China will reach approximately 45,000 units.

The demand for refurbishment of passenger carriages has increased due to the growth in the total number of passenger carriages on the CR network. In addition, increases in the operating speed on the railway network applicable to passenger carriages have also contributed to the growing need for passenger carriage and related refurbishment services.

The passenger carriage refurbishment volume of our Company and the CNRG Group in 2004, 2005 and 2006 was approximately 4,544, 3,883 and 3,688 units, respectively.

Freight wagons

Along with the expansion of the logistics industry, demand for railway freight transportation and heavy-hauling freight wagons has significantly increased due to China's strong economic growth. During the past few decades, the maximum hauling capacity of freight wagons has increased from 30 tonnes to 60 tonnes per unit. Subsequently, the hauling capacity of new freight wagon products was increased to 70 tonnes in 2006, with a maximum operating speed of 120 km/h and above. In the same year, the hauling capacity of new freight wagon products operated on lines designed for hauling heavy freight was increased to 80 tonnes and above. The freight hauling capacity of these freight wagons can be increased to over 100 tonnes to meet special freight transportation needs. In 2007, the number of freight wagons in China was 568,500.

During the Eleventh Five-Year Plan period, freight wagon manufacturers will focus on the development of heavy-hauling and high-speed freight wagons used to transport coal, freight containers and special cargo. It is anticipated that the total amount of freight wagons in China will exceed 700,000 units by 2010.

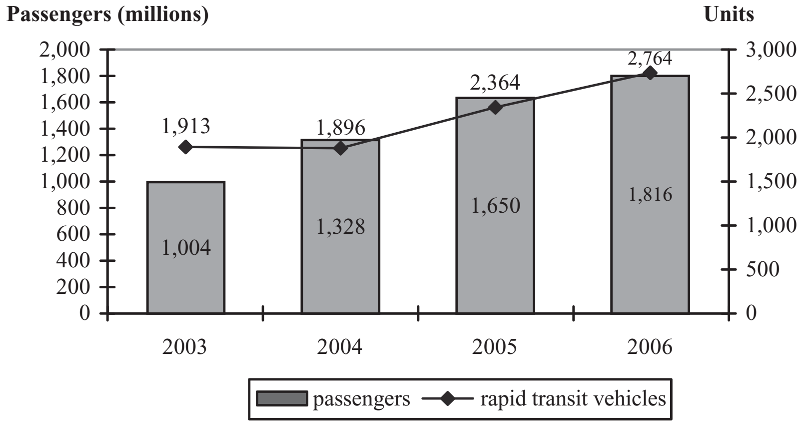
The demand for freight wagon refurbishment services has increased due to growth in the total number of freight wagons on the CR network. In addition, increases in operating speeds on the CR network relating to freight wagon operation in China have also contributed to the increasing need for freight wagon and related refurbishment services. The freight wagon refurbishment volume of our Company and the CNRG Group in 2004, 2005 and 2006 was approximately 52,119, 53,737 and 55,288 units, respectively.

MUs

During the Tenth Five-Year Plan period (2001-2005), as China increased the electrification of its railways, rail vehicle manufacturers in China developed EMUs that were primarily used for passenger transportation on these electrified railways. By importing foreign EMU technologies and cooperating with overseas manufacturers, PRC rail vehicle manufacturers have successfully introduced EMUs with a maximum operating speed of over 200 km/h to the CR network. Domestic rail vehicle manufacturers have further developed technologies for the production of EMUs with a maximum operating speed of over 300 km/h. At the beginning of the sixth round of speed increases for the CR lines, a total of 52 high-speed EMUs with a maximum operating speed of 200 km/h were operating on the lines. 47 of these EMUs were produced by our Company and our joint venture enterprise. In 2007, the MOR purchased 90 EMUs. According to the Eleventh Five-Year Plan for Railways, approximately 1,000 MUs are expected to be operating on the CR lines by 2010.

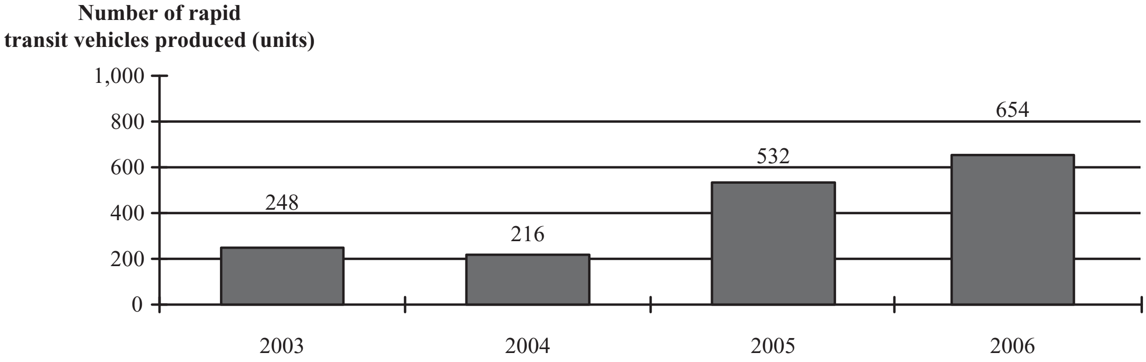
Rapid transit vehicles

China's rapid transit vehicle market has grown rapidly in the past few years with the expansion of rapid transit systems and the increase in passenger transportation volumes. During the Tenth Five-Year Plan period, Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Tianjin, Nanjing, Chongqing, Changchun and Dalian have established various rapid transit systems and approximately 20 rapid transit lines with a total length of 500 km. The following table illustrates the number of passengers traveling on China's rapid transit lines for each of the years from 2003 to 2006, relative to the total number of rapid transit vehicles:



Source: National Bureau of Statistics

Since 1999, the PRC Government has required that the average localization rate of all vehicles and equipment used in any domestic rapid transit project must not be lower than 70%. During the Tenth Five-Year Plan period, China's manufacturers have gradually acquired the ability to design, manufacture and produce rolling stock for rapid transit systems through localized research and development and the import of advanced foreign technologies. The table below sets forth the total number of rapid transit vehicles produced in China from 2003 to 2006:



Source: China Railway Yearbook and the National Statistical Society of China

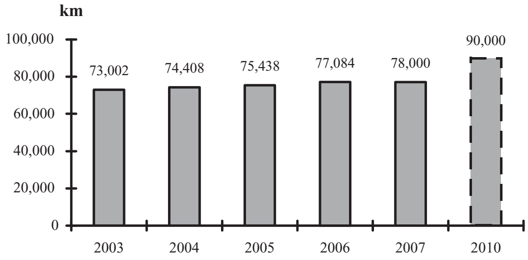
Trends in the PRC Rolling Stock Manufacturing and Refurbishment Industry

Given the current policies and development plans of the PRC Government, China's rolling stock industry has exhibited the following developmental trends.

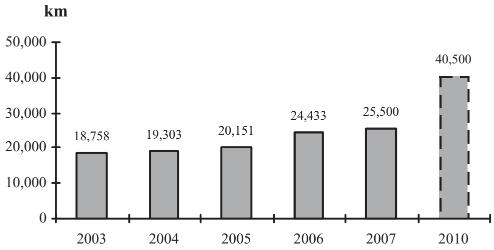
Growing demand for rolling stock

During the Eleventh Five-Year Plan period, a total of 17,000 km of new railways are scheduled to be constructed, including 7,000 km of high-speed railways. In addition, a total of 15,000 km of existing railways will be upgraded to electrified railways. By 2010, the total operational length of railways in China is expected to exceed 90,000 km, with double lines and electrified railways, each accounting for more than 45% of the total operational length. By 2020, the operational length of railways in China is expected to reach approximately 120,000 km, with double lines and electrified railways each accounting for more than 50% and 60%, respectively, of the total operational length. China's high-speed railway network is also expected to reach an aggregate of more than 15,000 km of railway.

The following charts set forth the operational length of the railways and electrified railways (both of which exclude rapid transit systems) in China from 2003 to 2007 and the projected operational lengths in 2010 as forecast by the MOR:



Operational Length of Railways in China



Operational Length of Electrified Railways in China

Source: PRC Railway Statistics Bulletin (鐵道統計公報) 2003-2007 published by the MOR Statistics Center and the Eleventh Five-Year Plan for Railways published by the MOR

In response to the expansion and upgrade of China's railway network, the MOR plans to purchase approximately 1,500 locomotives, 4,000 passenger carriages, 150,000 freight wagons and 1,000 MUs for its railway entities during the Eleventh Five-Year Plan period. In addition, an estimated 6,000 locomotives, 15,000 passenger carriages and 200,000 freight wagons will have to be repaired or upgraded to meet certain performance requirements of the newly-constructed railways in China's railway network.

According to the Eleventh Five-Year Plan, there will be approximately 19,000 locomotives, 1,000 MUs, 45,000 passenger carriages and 700,000 freight wagons in service on the CR network by 2010. The table below sets forth the planned operational length of all railway lines, high-speed railway lines, double lines and electrified railways, as well as purchases of rail vehicles under the Tenth and Eleventh Five-Year Plans:

			Tenth Five-Year Plan	**Eleventh Five-Year Plan**
National railway operational length	end of period	km	75,000	90,000
	annual average increase	km	1,400	3,000
High-speed railway lines	end of period	km	0	7,000
	annual average increase	km	0	1,400
Double lines	end of period	km	25,000	40,500
	annual average increase	km	1,000	3,100
Electrified railways	end of period	km	20,000	40,500
	annual average increase	km	1,020	4,100
Purchases of rail vehicles	end of period	RMB (billion)	95	250
	annual average increase	RMB (billion)	19	50

Under the Eleventh Five-Year Plan, investment in rapid transit systems in major cities will increase significantly. By 2010, the demand for rapid transit vehicles is expected to be approximately 2,500 to 3,000 units, in addition to the demand generated by replacements of aging rapid transit vehicles that are currently in service. According to the Special Committee of Urban Rapid Transit

System under China Communications and Transportation Association, 55 subway and light rail lines will be constructed by the end of 2010, extending the existing length to 1,500 km, and will have the total capacity to carry over 6,000 rapid transit vehicles.

Further Development of High-Speed Railway Lines, Super High-Speed Lines and Heavy-Hauling Freight Technologies

According to the *Major Technology Policy of the Railway Industry* and the Eleventh Five-Year Plan for Railways, the PRC railway industry will promote high-speed passenger transportation and heavy-hauling freight transportation, which will promote the research and development of high-speed and heavy-hauling technologies for rail vehicles and rapid transit vehicles. In an effort to accelerate the growth of China's railway transportation system, the MOR began to acquire, through several technology transfer agreements executed by several PRC manufacturers, technologies relating to high-speed EMUs (including EMUs with speeds of 200 km/h and above), as well as heavy-hauling freight locomotives from leading foreign rail transportation equipment suppliers. The MOR expects such measures to expedite the development of high-speed and heavy-hauling technologies in China's rolling stock industry.

At the beginning of the sixth round of speed increases of CR's major railway lines, the 52 high-speed EMUs operating on these railway lines raised the maximum operating speed on 6,000 km of railway lines to 200 km/h. As a result, the operating speed of approximately 22,000 km of CR railway lines was increased to more than 120 km/h. Furthermore, rapid intercity commuter networks are becoming operational and interlinked, with more than 200 high-speed EMUs scheduled to commence commercial operations between the major cities in and around the Bohai Bay area, the Yangtze River Delta, the Pearl River Delta, eastern China, southern China and the northwestern and the northeastern areas of China.

Advancements in freight wagon technology have led to increased demand for heavy-hauling freight cars. In 2006, the maximum hauling capacity of new freight wagon products was increased to 70 tonnes. The new freight train network includes large and heavy freight operation lines, which represent an increase of 125.6% when compared to the existing railway network in 2004. The new freight network links major coal mines, electricity plants, steel mills, petroleum refinery plants and ports, which will facilitate the distribution of natural resources and raw materials in China. According to the *Major Technology Policy of the Railway Industry*, freight trains operating on railway main lines are expected to achieve an average hauling capacity of 5,000 tonnes, while trains operating on dedicated coal transportation lines have reached a maximum hauling capacity of 20,000 tonnes.

Enhancing Energy-Efficient and Environmentally-Friendly Policies

The rise in oil prices and the increasing enforcement of the policies implemented by the PRC Government relating to energy conservation, emissions reduction and environmental protection will benefit the development of the railway transportation. Compared to other means, railway transportation is currently one of the most energy-efficient and environmentally-friendly means of transportation.

OVERVIEW

Most of our core businesses, including the research and development, manufacturing, sales and refurbishment and leasing of rolling stock, are subject to relevant laws, regulations and policies of the State and are under governmental supervision. The above laws, regulations and policies govern relevant areas such as investments, production, distribution, trading, transportation and exports. In addition, all our business operations in China are subject to tax, safety and environmental protection laws and regulations.

We are principally subject to governmental supervision and restriction by the following agencies of the PRC Government:

- The State Council, which is the highest level of executive authority in the PRC, is responsible for the examination and approval of major investment projects identified in the 2004 Catalogue of Investment Projects Approved by the Government, which includes rapid transit vehicle, the manufacture of signals and traction drive control system projects examined and approved mainly through the NDRC. The 2004 Catalogue of Investment Projects Approved by the Government also provides that all rapid transit projects shall be approved by the State Council.
- The NDRC, which formulates and implements major policies concerning China's economic and social development, examines and approves investment projects exceeding certain capital expenditure amounts or in specified industry sectors (including examination and approval of foreign investment projects), oversees reform of state-owned enterprises and formulates industrial policies and investment guidelines for all industries including the railway industry (such as the manufacture of rolling stock). In addition, the NDRC and the MOR jointly oversee the manufacture of rolling stock and other key components. The NDRC is also responsible for approving the entry qualification of rolling stock manufacturers.
- The MOR, which supervises China's railway industry and formulates overall strategies and policies as well as technical standards and policies for the PRC railway industry. The MOR is responsible for the review and approval of licences and certificates of qualifications and eligibilities of enterprises engaged in rolling stock manufacturing and refurbishment, and for the supervision and administration of the design, tender, manufacturing, supervision and inspection and specifications of rolling stock. The MOR mandates that any vehicle type (including imported types) for use on the CR network must be tested and approved by the MOR and a production licence must be obtained from the MOR before commercial production commences. Vehicles for use on the CR network can only be delivered to customers after they are tested and certified under a licence issued by the MOR. The MOR is responsible for formulating technical standards for China's railway industry and has designated 12 enterprises and institutions to lead in setting those standards. The MOR also sets safety standards for China's railway industry and technical specifications for train operation safety equipment used on the CR network. The MOR may provide guidance for the pricing of a new type of train or equipment for CR network, when it is commercially launched, by reference to the prices of similar products, the cost structure of locomotives and profit margin.
- The SEPA, which supervises and controls environmental protection and monitors the national environmental system.

- The SASAC, our controlling shareholder, CSRG, is a state-owned enterprise under the direct supervision of the SASAC. The SASAC also has influence over us.

PRC REGULATIONS RELATING TO THE RESEARCH AND DEVELOPMENT, MANUFACTURE, SALE AND MAINTENANCE OF ROLLING STOCK

The *Railway Law of People's Republic of China*, promulgated by the Standing Committee of 7th National People's Congress on 7 September 1990, governs railway construction and transportation. It sets out the rules governing the operation and development of the railway system and delegates administrative power to different governmental authorities according to their functions. It provides that the competent railway authority of the State Council will enforce centralized management on the national railway system, and will administrate other types of railway systems, such as local railways.

Legislation Relating to China Railway Industry

The *Major Technical Policies of Railways*, promulgated by the MOR on 11 August 2000, is the framework for the development of railway technology. All planning, rules, regulations, requirements and standards shall be timely formulated and amended according to this policy. It regulates the train speed and frequency of train schedules, as well as setting industry standards for the railway network, rail vehicle manufacture and maintenance. This policy also sets forth the direction and standards for the development of the rail vehicles of China's railway systems.

The *Administrative Measures on Licensing of the Design, Production, Maintenance and Importation of Rail Vehicles* promulgated on 1 April 2005 by the MOR provides that any design, manufacture, maintenance or importation of new models of rail vehicles must be approved by the MOR. Design of new models of rail vehicles must pass the technological examination and obtain a qualified model certificate. For products with a qualified model certificate, a production licence must be obtained before commercial production commences; for those engaged in the rail vehicle repair business, a qualified repair certificate must be obtained. For importation of new models of rail vehicles, a model licence has to be obtained before entering into any supply contract. Rail vehicles governed by this rule include different types of locomotives, carriages, MUs and rolling stock, large track maintenance machinery, rescue vehicles and other automatic specialized rail vehicles. The MOR is responsible for formulating and publishing the catalogue of rail vehicles and make timely adjustment to the scope of products listed in the catalogue according to practical needs. The measures also clearly define the approval procedures and approval standards for each type of licence.

The *Administrative Measures on Licensing of The Design of Rail Vehicles* 《鐵路機車車輛產品設計許可實施細則》promulgated by the MOR provides that any design of rail vehicles shall be approved by the MOR and obtain relevant certificate(s) or licence(s) accordingly.

According to *The Implementation Guidelines to Localization of Urban Railway Transit Equipment* ("The Implementation Guidelines")《關於城市軌道交通設備國產化的實施意見》, which was promulgated by the State Development Planning Commission on 9 February 1999 and the Notice to Improve the Construction of Urban Rapid Transit Systems ("The Notice")《關於加強城市快速軌道交通建設管理的通知》which was promulgated by the General Office of the State Council on 27 September 2003, the localization rate of all rail vehicles and electro-mechanical equipments of an urban railway transit project shall not be lower than 70%, and prohibits any governmental approval to any rapid system project with a localization rate which is lower than 70%.

Additionally, domestic rolling stock (including locomotives, MUs and rapid transit vehicles) tender customarily publish the tender announcement which restricts the bidder as a qualified entity located in China (including Sino-foreign Joint Ventures).

On 27 September 2006, the MOR promulgated the *Guidelines for Railway Technology Management*, which became effective on 1 April 2007. These guidelines specify the basic requirements and standards for: (i) railway basic construction, manufacture of products, examination and acceptance, usage management and maintenance and repair; (ii) stipulate the basic principles, terms of reference, working methods, working procedures and the inter-relationships which have to be complied by various departments, units and positions in the railway system for transportation manufacturing; (iii) and clearly define the main duties and basic requirements of railway staff.

Legislation Relating to China's Rapid Transit System

The Implementation Guidelines and the Notice also apply to China's Rapid Transit System.

On 16 July 2004, the State Council promulgated, with immediate effect, the *Decision on Reform of the Investment System* (the "Decision"). The aim of the legislation is to reduce the government's direct intervention in enterprises' activities, to allow the market to allocate resources, and to raise investment efficiency and promote sustained, coordinated and healthy development of the Chinese economy. With the promulgation of the Decision, governmental approvals for investment projects have been streamlined. All projects that do not use governmental funds will not require the implementation of an approval system in order to differentiate the implementation of the endorsement system and registration system according to practical circumstances. As to large and restricted projects, the government will only provide endorsements as to whether such projects are of public interests. Other projects, regardless of the scale, will only require registration, while their prospects, economies of scale, funding and product technologies will be a matter of decision for, and at the risk of, the enterprises. However, licences on environmental protection, land use, utilization of resources, product safety and urban planning should be lawfully obtained and tax reduction should be applied.

According to the Catalogue of Investment Projects Approved by the Government (2004) appended to the Decision, manufacturing projects involving urban railways, signal systems and traction drive and control systems are to be approved by the investment authority of the State Council. Urban rapid railway transit system projects are to be approved by the State Council.

ENVIRONMENTAL PROTECTION LAWS AND REGULATIONS

Environmental protection laws and regulations imposed on rolling stock manufacturers in China include the *PRC Environmental Protection Law* (《中華人民共和國環境保護法》) (the "Environmental Protection Law"), which took effect in 1989; the *PRC Prevention and Control of Atmospheric Pollution Law* (《中華人民共和國大氣污染防治法》) (the "Atmospheric Pollution Law"), which was promulgated on 5 September 1987 and subsequently amended on 29 August 1995 and 29 April 2000; the *PRC Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》) (the "Water Prevention Pollution Law"), which was promulgated on 11 May 1984 and subsequently amended on 15 May 1996 and 28 February 2008; the *PRC Prevention and Control of Environmental Pollution by Solid Waste* (《中華人民共和國固體廢物污染環境防治法》) (the "Solid Waste Pollution Law"), which was enacted on 1 April 1996 and revised on 29 December 2004; and the *Cleaner Production Promotion Law of the PRC* (《中華人民共和國清潔生產促進法》), (the "Cleaner Production Promotion

Law") which was promulgated on 29 June 2002. The types and severeness of sanctions enforced on entities which are in violation of environmental protection law depend on the seriousness of the pollution and the breach committed. These sanctions include warnings, penalties, remedies in a limited time period, cessation of operation or closure of business. The entities are also required to indemnify the parties which have suffered losses due to the pollution. Serious pollution caused by violation of the Environmental Protection Law of the PRC constitutes a criminal offense.

LAWS AND REGULATIONS ON SAFE PRODUCTION

Rolling stock manufacturers in China are subject to the *Safe Production Law of the PRC* (the "Safe Production Law"), the *Regulation on Safe Production Licenses* and the *Regulation on Protecting the Railway Transport Safety*. Relevant authorities of the State Council supervise and manage the safe production of construction works in their respective scope of administration according to the Safe Production Law and other applicable laws and administrative regulations, while local government authorities at the county level or higher supervise and manage the safe production of construction works in their respective scope of administration according to the Safe Production Law and other applicable laws and administrative regulations.

HISTORY AND DEVELOPMENT

Our Company is one of the world's largest rolling stock manufacturers and solutions providers and it was also the largest rolling stock manufacturer and solutions provider in China in terms of revenue in 2007. CSRG, the Company's main promoter, was reorganized from the Factory Affairs Bureau of the Ministry of Railways, which was established in October 1949. With the introduction of China's reform and open-door policy, the role of the Factory Affairs Bureau of the Ministry of Railways was subsequently taken over by MOR Locomotive and Rolling Stock Industrial Corporation (鐵道部機車車輛工業總公司), which was established in 1986. In 1989, MOR Locomotive and Rolling Stock Industrial Corporation was renamed as China National Railways Locomotive and Rolling Stock Industrial Corporation (中國鐵路機車車輛工業總公司). In 2002, China National Railways Locomotive and Rolling Stock Industrial Corporation was split into CSRG (the controlling shareholder of the Company) and CNRG. In July 2002, CSRG was formally established and registered with the State Administration for Industry and Commerce of the PRC. CSRG is a large-scale wholly state-owned enterprise under the control and supervision of the SASAC. Prior to its Restructuring for the purposes of the A Share Offering and Global Offering, CSRG was a major force of China's rolling stock manufacturing industry.

The Ministry of Railways is a government body under the State Council and does not have ownership in the Company or its members. It is the central regulatory authority of the railway industry in China, supervising the PRC railway industry and formulating the overall strategies and policies as well as the technical standards and policies for the industry. Commercial contracts relating to China's railways will normally be entered into by the CR bureaus under the Ministry of Railways or by certain other enterprises. The relationship between the CR bureaus and our Company is that of a buyer and seller relationship. The Company is a large-scale state-owned enterprise owned by and controlled by SASAC.

The Company was established as a joint stock limited company under the PRC Company Law on 28 December 2007 following the Restructuring of CSRG in preparation for the A Share Offering and the Global Offering. CSRG together with its wholly-owned subsidiary, BRIT, as our promoters, owned 100% of the issued share capital of the Company immediately prior to the A Share Offering. Immediately after the completion of the A Share Offering (assuming 3,000,000,000 A Shares are issued), CSRG together with BRIT, its wholly-owned subsidiary, will own an aggregate of 70% of our issued share capital. Immediately after the completion of the Global Offering, CSRG together with BRIT, its wholly-owned subsidiary, will own approximately 58.97% of our issued share capital if the Over-allotment Option is not exercised (or approximately 57.57% if the Over-allotment Option is exercised in full), and CSRG will be our controlling shareholder. For further details of our Restructuring, see "Our Restructuring" below.

Our Restructuring

Upon our establishment, CSRG transferred to us the assets and liabilities of all of its core businesses pursuant to the Restructuring arrangements. The scope of such businesses transferred to us mainly includes 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. On 30 December 2007 and 7 January 2008, the Company entered into an Asset Transfer Agreement and the Restructuring Agreement, respectively, with CSRG in respect of the above Restructuring arrangements.

Pursuant to the Asset Transfer Agreement and the Restructuring Agreement, CSRG transferred to us the above-mentioned assets and liabilities. BRIT contributed RMB124.5 million by way of cash as capital contribution to the establishment of the Company. As consideration for such transfers and capital contributions, the Company issued 6,900 million Shares and 100 million Shares of nominal value of RMB1 each to CSRG and BRIT respectively, representing in aggregate 7,000 million Domestic Shares in issue upon our establishment. According to China United Assets Appraisal Co., Ltd., an independent appraiser registered in China, the value of the net assets transferred by CSRG to us was valued at RMB8,588 million as of 30 June 2007.

Historically, minority interests in six sub-subsidiaries of CSRG were held by the Labor Union Share Ownership Committees or employee shareholding trusts. As part of the Restructuring, such minority interests had been validly transferred to our Company and legally dealt with. The Directors confirm that there are no trust arrangements with such Labor Union Share Ownership Committees or employee shareholding trusts. All such transfers had been completed and are legal and valid.

Pursuant to the Asset Transfer Agreement and the Restructuring Agreement and in exchange for the issue of 6,900 million Shares, CSRG transferred, among other things, the equity interests directly held by CSRG in 13 wholly-owned subsidiaries, three non-wholly owned subsidiaries and one joint venture, which involved the following restructuring and transfers:

- transfer of the operating assets of the following 12 entities into nine limited liability companies and the transfer by CSRG of its equity interest in each of the nine limited liability companies to the Company pursuant to the Restructuring Agreement and the Asset Transfer Agreement:

Transferor	Transferee
CSR Chengdu Locomotive & Rolling Stock Works	CSR Chengdu Locomotive & Rolling Stock Co., Ltd.
CSR Beijing Feb. 7th Rolling Stock Works	CSR Feb. 7th Rolling Stock Co., Ltd.
CSR Luoyang Locomotive Works	CSR Luoyang Locomotive Co., Ltd.
CSR Meishan Rolling Stock Works	CSR Meishan Rolling Stock Co., Ltd.
CSR Nanjing Puzhen Rolling Stock Works	CSR Nanjing Puzhen Rolling Stock Co., Ltd.
CSR Shijiazhuang Rolling Stock Works	CSR Shijiazhuang Rolling Stock Co., Ltd.
CSR Xiangfan Locomotive Works	CSR Xiangfan Locomotive Co., Ltd.
CSR Qishuyan Locomotive & Rolling Stock Works (non-freight wagon assets)	CSR Qishuyan Locomotive Co., Ltd.
CSR Qishuyan Locomotive & Rolling Stock Works (freight wagon assets) CSR Wuhan Jiang'an Rolling Stock Works CSR Zhuzhou Rolling Stock Works CSR Tongling Rolling Stock Works CSR Wuchang Rolling Stock Works	CSR Yangtze Rolling Stock Co., Ltd.

- transfer of the 49% equity interest held by CNRG in each of the two research institutes (namely, CSR Zhuzhou Electric Locomotive Research Institute, which has been reorganized into a limited liability company and is now known as CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. and CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute, which has been reorganized into a limited liability company and is now known as CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.) to CSRG at nil consideration pursuant to the approval by

SASAC and the transfer of the entire equity interest in the two research institutes (both of which were subsequently reorganized into limited liability companies) to the Company pursuant to the Asset Transfer Agreement and the Restructuring Agreement.

- transfer of the equity interest directly held by CSRG in each of the following companies to the Company pursuant to the Asset Transfer Agreement and the Restructuring Agreement:
  - 100% equity interest in CSR Sifang Rolling Stock Co., Ltd.
  - 100% equity interest in New Leap Transportation Equipment Investment & Leasing Co., Ltd.
  - 69.01% equity interest in CSR Zhuzhou Electric Locomotive Co., Ltd.
  - 81.04% equity interest in CSR Ziyang Locomotive Co., Ltd.
  - 90.04% equity interest in CSR Sifang Locomotive & Rolling Stock Co., Ltd.
  - 11% equity interest in Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.

The businesses (including assets and liabilities) CSRG transferred to us mainly include:

- all of the core assets and liabilities relating to its operations in the research and development, manufacture, 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;
- contractual rights and obligations relating to the businesses, assets and liabilities transferred to us;
- employees associated with the businesses transferred to us;
- qualifications, licences and approvals related to the businesses transferred to us;
- all rights to seek compensation, set-off or all other similar rights from third parties in relation to our Company's businesses, assets and equity interests; and
- business and financial records, books and data on scientific research and technologies, skills and know-how related to the businesses transferred to us.

Representations and Warranties

CSRG has, according to the Restructuring Agreement, provided certain representations and warranties in favor of our Company in respect of the Restructuring, which mainly include:

- the assets and interests transferred by CSRG were lawfully owned or beneficially owned by CSRG. The asset transfer is not restricted by any liens, mortgages, pledges, leases, licences or third party rights;
- all relevant government approvals, licences, authorizations, third party consents, confirmations, exemptions and registration required for the Restructuring have been obtained;
- the transferred assets did not have any other liabilities (including major contingent liabilities) other than those disclosed to our Company and incurred in the normal course of operation of those assets;
- no breach of any laws or regulations which may result in serious financial loss of our Company;
- there are no litigation, arbitration, claims or other legal proceedings against CSRG that may have material adverse impacts on our Company's operation and/or the assets or equity interests to be transferred to our Company pursuant to the Restructuring Agreement; and

- there are no infringements on intellectual property rights by CSRG which may result in any significant financial loss or which may have a material adverse impact on our Company.

Indemnity

Pursuant to the Restructuring Agreement, CSRG has agreed to indemnify us against, among other things:

- claims relating to tax liabilities incurred by or arising from the assets transferred by CSRG to us which arose prior to our establishment, for which CSRG shall be responsible pursuant to the Restructuring Agreement;
- tax liabilities and related claims arising from CSRG's businesses, assets and interests;
- tax liabilities due to the increase in asset value arising from the valuation of the assets transferred to us;
- claims incurred in connection with the assets transferred to us, which arose before 30 June 2007 unless estimates of such expenditure have been disclosed and provision has been made in the accountants' report;
- any loss and/or economic burden incurred by our Company on or after 30 June 2007 as a result of the transfer by CSRG into our Company land use rights or buildings which have not complied with the legal requirements and/or procedures in obtaining the relevant building ownership certificates or land use right certificates; and
- claims incurred by CSRG for breach of any provision in the Restructuring Agreement.

Retained Operations

According to the Restructuring arrangements, CSRG has retained interests in certain entities ("Retained Operations"), the operations of which are clearly delineated from the businesses of our Company, have no direct relationship with our Company, or will be gradually dealt with or disposed of or where CSRG Group only has minority interests. For details, please refer to the subsection "Relationship with CSRG—Retained Operations".

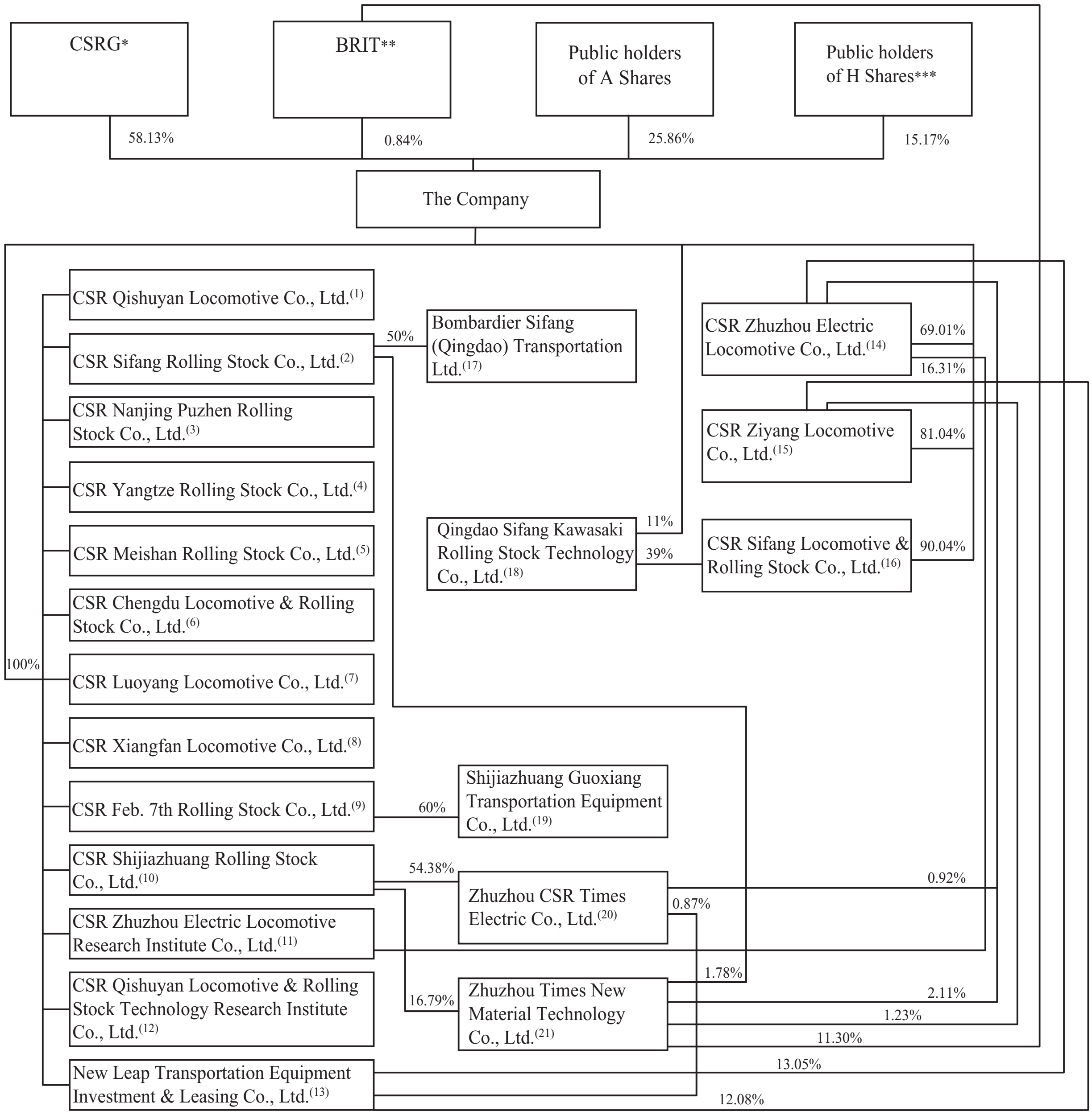
In connection with our Restructuring, the Company entered into the Non-Competition Agreement with CSRG on 10 January 2008 as amended by a supplementary agreement on 15 July 2008. See "Relationship with CSRG—Non-Competition Agreement" for details. As part of our Restructuring, the Company has also entered into certain framework agreements with CSRG. Pursuant to these agreements, we and CSRG will continue to provide relevant products to each other. See "Connected Transactions" for details.

Approval

Our Restructuring requires approvals from relevant PRC government authorities, including the State Council, the SASAC and MLR, and all relevant PRC government authorities have approved our Restructuring. Grandall Legal Group (Beijing), our PRC legal advisors, has confirmed that the Restructuring has complied with all applicable laws and regulations in the PRC and we have obtained the necessary approvals from the relevant PRC government authorities in relation to our Restructuring.

OUR CORPORATE STRUCTURE

The following chart sets out our ownership and our principal subsidiaries and jointly controlled entities following the Restructuring and immediately after completion of the A Share Offering and the Global Offering, assuming the Over-allotment Option is not exercised:



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* CSRG is a state-owned enterprise and is wholly-owned by SASAC.

** BRIT (Beijing Railway Industry Trade Company) is a wholly-owned subsidiary of CSRG.

*** Public holders of H Shares include NSSF.

(1) CSR Qishuyan Locomotive Co., Ltd (南車戚墅堰機車有限公司), formerly known as Changzhou Qishuyan CSR Locomotive Co., Ltd (常州戚墅堰南車機車有限公司) was established in Changzhou city, Jiangsu Province, on 26 June 2007. CSRG reorganized the operating assets of CSR Qishuyan Locomotive & Rolling Stock Works by transferring the non-freight wagon business and assets of CSR Qishuyan Locomotive & Rolling Stock Works into Changzhou Qishuyan CSR Locomotive Co., Ltd., and the freight wagon business and assets to CSR Group Yangtze Rolling Stock Co., Ltd, which was established on 14 September 2006. (See note 4 below). Pursuant to the Restructuring Agreement and the Asset Transfer Agreement, the entire equity interest in Changzhou Qishuyan CSR Locomotive Co., Ltd. (常州戚墅堰南車機車有限公司) was transferred by CSRG to the Company. All ancillary assets of CSR Qishuyan Locomotive & Rolling Stock Works are retained by CSR Qishuyan Locomotive & Rolling Stock Works, which continues to retain its enterprise legal entity status. In December 2007, Changzhou Qishuyan CSR Locomotive Co., Ltd. (常州戚墅堰南車機車有限公司) was renamed as CSR Qishuyan Locomotive Co., Ltd. It was registered in Changzhou, Jiangsu province with an initial registered capital of RMB1,000,000, which was increased to RMB369,065,636.28 on 25 January 2008. Its principal businesses include research and development, manufacture and refurbishment of diesel locomotives; research and development and manufacture of key components of locomotives and diesel engines; and the production of castings.

(2) CSR Sifang Rolling Stock Co., Ltd. (南車四方車輛有限公司), formerly known as Sifang Rolling Stock Co., Ltd. (四方機車車輛有限責任公司), was established on 4 September 1980 and was renamed as CSR Sifang Rolling Stock Co., Ltd in November 2007. It was registered in Qingdao, Shandong Province with an initial registered capital of RMB284,450,000, which was decreased to RMB215,322,900 on 21 November 2007 and was further decreased to RMB212,095,500 on 18 January 2008. Its main businesses include refurbishment of railway passenger carriages, manufacture of high-end railway passenger carriages and MUs, manufacture and servicing of auxiliary products of railway passenger carriages, MUs and rapid transit vehicles.

(3) CSR Nanjing Puzhen Rolling Stock Co., Ltd. (南車南京浦鎮車輛有限公司), initially known as Nanjing Puzhen Rolling Stock Co., Ltd. (南京浦鎮車輛有限公司), was established as a limited liability company on 27 June 2007. Pursuant to the Restructuring Agreement and the Asset Transfer Agreement, the operating assets of CSR Nanjing Puzhen Rolling Stock Works were transferred to Nanjing Puzhen Rolling Stock Co., Ltd. while the ancillary operations are retained by CSR Nanjing Puzhen Rolling Stock Works, which continues to exist and retains its enterprise legal entity status. In November 2007, Nanjing Puzhen Rolling Stock Co., Ltd. (南京浦鎮車輛有限公司) was renamed as CSR Nanjing Puzhen Rolling Stock Co., Ltd. It was registered in Nanjing, Jiangsu Province with an initial registered capital of RMB1,000,000, which was increased to RMB77,020,200 on 14 January 2008. Its main businesses include research and development, and manufacture of railway passenger carriages, MUs and rapid transit vehicles; and refurbishment of railway passenger carriages.

(4) CSR Yangtze Rolling Stock Co., Ltd. (南車長江車輛有限公司), formerly known as CSR Group Yangtze Rolling Stock Co., Ltd. (中國南車集團長江車輛有限公司), was established on 14 September 2006. CSRG injected the operating assets of CSR Wuhan Jiang'an Rolling Stock Works, CSR Zhuzhou Rolling Stock Works, CSR Tongling Rolling Stock Works and CSR Wuchang Rolling Stock Works, and the freight wagon section of CSR Qishuyan Locomotive & Rolling Stock Works into CSR Group Yangtze Rolling Stock Co., Ltd. (中國南車集團長江車輛有限公司). The ancillary operations are retained by CSR Wuhan Jiang'an Rolling Stock Works, CSR Zhuzhou Rolling Stock Works, CSR Tongling Rolling Stock Works, CSR Wuchang Rolling Stock Works and CSR Qishuyan Locomotive & Rolling Stock Works, which continue to exist and retain their enterprise legal entity status. In November 2007, CSR Group Yangtze Rolling Stock Co., Ltd. (中國南車集團長江車輛有限公司) was renamed as CSR Yangtze Rolling Stock Co., Ltd. (南車長江車輛有限公司). It was registered in Wuhan, Hubei Province with an initial registered capital of RMB200,000,000, which was increased to RMB436,960,080 on 23 November 2007. Its main businesses include research and development, manufacture and refurbishment of railway freight wagons; research and development and manufacture of railway refrigerate car; refurbishment of railway passenger carriages and rapid transit vehicles; the production of axles, steel structural components and castings.

(5) CSR Meishan Rolling Stock Co., Ltd. (南車眉山車輛有限公司), initially known as Meishan CSR Rolling Stock Co., Ltd. (眉山南車車輛有限公司), was established as a limited liability company on 28 June 2007.

Pursuant to the Restructuring Agreement and the Asset Transfer Agreement, the operating assets of CSR Meishan Rolling Stock Works were transferred to Meishan CSR Rolling Stock Co., Ltd. while the ancillary operations are retained by CSR Meishan Rolling Stock Works, which continues to exist and retains its enterprise legal entity status. In November 2007, Meishan CSR Rolling Stock Co., Ltd. (眉山南車車輛有限公司) was renamed as CSR Meishan Rolling Stock Co., Ltd. It was registered in Meishan, Sichuan Province with an initial registered capital of RMB1,000,000, which was increased to RMB103,281,100 on 14 November 2007. Its main businesses include research and development and manufacture of railway freight wagons and brakes; the production of castings.

(6) CSR Chengdu Locomotive & Rolling Stock Co., Ltd. (南車成都機車車輛有限公司), initially known as Chengdu CSR Locomotive & Rolling Stock Co., Ltd. (成都南車機車車輛有限公司), was established as a limited liability company on 28 June 2007. Pursuant to the Restructuring Agreement and the Asset Transfer Agreement, the operating assets of CSR Chengdu Locomotive & Rolling Stock Works were transferred to Chengdu CSR Locomotive & Rolling Stock Co., Ltd while the ancillary operations are retained by CSR Chengdu Locomotive & Rolling Stock Works, which continues to exist and retains its enterprise legal entity status. In November 2007, Chengdu CSR Locomotive & Rolling Stock Co., Ltd. (成都南車機車車輛有限公司) was renamed as CSR Chengdu Locomotive & Rolling Stock Co., Ltd. It was registered in Chengdu, Sichuan Province with an initial registered capital of RMB1,000,000, which was increased to RMB234,591,900 on 20 October 2007. Its main businesses include refurbishment of locomotives and passenger carriages as well as manufacture and repair of motors.

(7) CSR Luoyang Locomotive Co., Ltd. (南車洛陽機車有限公司), initially known as Luoyang CSR Locomotive Co., Ltd. (洛陽南車機車有限公司), was established as a limited liability company on 27 June 2007. Pursuant to the Restructuring Agreement and the Asset Transfer Agreement, the operating assets of CSR Luoyang Locomotive Works were transferred to Luoyang CSR Locomotive Co., Ltd. while the ancillary operations are retained by CSR Luoyang Locomotive Works, which continues to exist and retains its enterprise legal entity status. In November 2007, Luoyang CSR Locomotive Co., Ltd. (洛陽南車機車有限公司) was renamed as CSR Luoyang Locomotive Co., Ltd. It was registered in Luoyang, Henan Province with an initial registered capital of RMB1,000,000, which was increased to RMB26,356,400 on 20 October 2007. Its main businesses include refurbishment of locomotives.

(8) CSR Xiangfan Locomotive Co., Ltd. (南車襄樊機車有限公司), initially known as Xiangfan CSR Locomotive Co., Ltd. (襄樊南車機車有限公司), was established as a limited liability company on 27 June 2007. Pursuant to the Restructuring Agreement and the Asset Transfer Agreement, the operating assets of CSR Xiangfan Locomotive Works were transferred to Xiangfan CSR Locomotive Co., Ltd. while the ancillary operations are retained by CSR Xiangfan Locomotive Works, which continues to exist and retains its enterprise legal entity status. In November 2007, Xiangfan CSR Locomotive Co., Ltd. (襄樊南車機車有限公司) was renamed as CSR Xiangfan Locomotive Co., Ltd. It was registered in Xiangfan, Hubei Province with an initial registered capital of RMB1,000,000, which was increased to RMB1,332,600 on 16 November 2007. Its main businesses include the refurbishment of locomotives.

(9) CSR Feb. 7th Rolling Stock Co., Ltd. (南車二七車輛有限公司), initially known as Beijing Feb. 7th Rolling Stock Co., Ltd. (北京二七南車車輛有限公司), was established as a limited liability company on 28 June 2007. Pursuant to the Restructuring Agreement and the Asset Transfer Agreement, the operating assets of CSR Beijing Feb. 7th Rolling Stock Works were transferred to Beijing Feb. 7th Rolling Stock Co., Ltd. while the ancillary operations are retained by CSR Beijing Feb. 7th Rolling Stock Works, which continues to exist and retains its enterprise legal entity status. In December 2007, Beijing Feb. 7th Rolling Stock Co., Ltd. (北京二七南車車輛有限公司) was renamed as CSR Feb. 7th Rolling Stock Co., Ltd.. It was registered in Beijing with an initial registered capital of RMB1,000,000, which was increased to RMB50,000,000 on 3 December 2007 and was further increased to RMB197,671,068 on 25 January 2008. Its main businesses include research and development, manufacture and refurbishment of railway freight wagons.

(10) CSR Shijiazhuang Rolling Stock Co., Ltd. (南車石家莊車輛有限公司), initially known as Shijiazhuang CSR Rolling Stock Co., Ltd. (石家莊南車車輛有限公司), was established as a limited liability company on 28 June 2007. Pursuant to the Restructuring Agreement and the Asset Transfer Agreement, the operating assets of CSR Shijiazhuang Rolling Stock Works were transferred to Shijiazhuang CSR Rolling Stock Co., Ltd., while the ancillary operations are retained by CSR Shijiazhuang Rolling Stock Works, which continues to exist and retains its enterprise legal entity status. In December 2007, Shijiazhuang CSR Rolling Stock Co.,

Ltd. (石家莊南車車輛有限公司) was renamed as CSR Shijiazhuang Rolling Stock Co., Ltd.. It was registered in Shijiazhuang, Hebei province with an initial registered capital of RMB1,000,000, which was increased to RMB78,394,000 on 23 January 2008. Its main businesses include refurbishment of railway freight wagons as well as research and development and manufacture of air-conditioning and refrigeration units.

(11) CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (南車株洲電力機車研究所有限公司), whose predecessor was CSR Zhuzhou Electric Locomotive Research Institute, was established in Zhuzhou, Hunan Province on 9 September 1992, with an initial registered capital of RMB39,050,000, which was, after several increases, increased to RMB2,000,000,000 on 15 January 2008. Pursuant to an approval document (Guo Zi Gai Ge [2007] No. 1100) dated 13 September 2007 issued by SASAC, CNRG transferred its 49% interest in CSR Zhuzhou Electric Locomotive Research Institute to CSRG at nil consideration. Upon completion of the transfer, it became wholly-owned by CSRG and, as part of the Restructuring, was converted into a limited liability company and the entire equity interest held by CSRG in it was transferred to the Company pursuant to the Restructuring Agreement and the Asset Transfer Agreement. Its main businesses include research and manufacture of railway electric powered motors and control technology and related electric equipment; research and development and manufacture of shock-absorbing and noise-reducing elastic cells, polymeric modified materials and insulating materials; and research and development and manufacture of electric equipment such as industrial converters; the research and development and manufacture of railway vehicle accessories.

(12) 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), whose predecessor was CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute, was established in Changzhou, Jiangsu Province on 15 May 1992, with a registered capital of RMB210,000,000. Pursuant to an approval document (Guo Zi Gai Ge [2007] No. 1100) dated 13 September 2007 issued by SASAC, CNRG transferred its 49% interest in CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute to CSRG at nil consideration. Upon completion of the transfer, it became wholly-owned by CSRG and, as part of the Restructuring, was converted into a limited liability company and the entire equity interest held by CSRG in it was transferred to the Company pursuant to the Restructuring Agreement and the Asset Transfer Agreement. Its main businesses include research of key manufacturing techniques and new materials of rolling stocks; research and development and manufacture of key components such as mechanical transmissions, brakes and shock-absorbers.

(13) New Leap Transportation Equipment Investment & Leasing Co., Ltd. (新力搏交通裝備投資租賃有限公司) was established on 26 April 1999, with a registered capital of RMB300,000,000. It was registered in Beijing and its main businesses include investment and development of rolling stock projects; leasing, refurbishment, sale, technical support and consultation of rail vehicles.

(14) CSR Zhuzhou Electric Locomotive Co., Ltd. (南車株洲電力機車有限公司), formerly known as CSR Group Zhuzhou Electric Locomotive Co., Ltd., a limited liability company established in Zhuzhou, Hunan Province on 31 August 2005. It was reorganized from its predecessor, CSR Group Zhuzhou Electric Locomotive Works, into which all the core businesses of CSR Group Zhuzhou Electric Locomotive Works were transferred. In December 2007, CSR Group Zhuzhou Electric Locomotive Co., Ltd. was renamed as CSR Zhuzhu Electric Locomotive Co., Ltd.. Its initial registered capital was RMB793,320,100, which was increased to RMB794,020,700 on 11 January 2007, and it was reduced to RMB613,025,800 on 7 April 2008. Its share capital is held as to 69.01% by us, 16.31% by CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd., 13.05% by New Leap Transportation Equipment Investment & Leasing Co., Ltd. and 1.63% by Zhuzhou Lince Group Co., Ltd. (株洲聯誠集團有限責任公司) (an independent third party). Its registered capital is RMB613,025,800. Its main businesses include research and development and manufacture of railway electric locomotives, MUs, rapid transit vehicles as well as motors, electric appliances and transformers. All the remaining ancillary assets are retained by CSR Group Zhuzhou Electric Locomotive Works (中國南車集團株洲電力機車廠) which continues to exist and retains its enterprise legal entity status.

(15) CSR Ziyang Locomotive Co., Ltd. (南車資陽機車有限公司) was established as a limited liability company in Ziyang, Sichuan Province on 12 May 2006. It was reorganized from its predecessor, CSR Ziyang Locomotive Works (中國南車集團資陽機車廠), into which all its core businesses were transferred. All the remaining ancillary assets are retained by CSR Ziyang Locomotive Works (中國南車集團資陽機車廠) which continues to exist and retains its enterprise legal entity status. In November 2007, CSR Ziyang Locomotive

Co., Ltd. (中國南車集團資陽機車有限公司) was renamed as CSR Ziyang Locomotive Co., Ltd. (南車資陽機車有限公司). Its initial registered capital was RMB713,220,907, which was decreased to RMB562,420,607 on 30 November 2007 and was increased to RMB662,420,607 on 17 January 2008. Its registered capital is RMB662,420,607, which is held as to 81.04% by us, 12.08% by New Leap Transportation Equipment Investment & Leasing Co., Ltd. and 6.88% by the State-Owned Assets Supervision and Administration Commission of Ziyang Municipal Government (資陽市國有資產監督管理委員會). It was registered in Ziyang, Sichuan Province. Its main businesses include the research and development and manufacture of railway diesel locomotives and electric locomotives; the research and development and manufacture of diesel, gas power engines and their mechanical components; the production of die casts.

(16) CSR Sifang Locomotive & Rolling Stock Co., Ltd. (南車四方機車車輛股份有限公司) is held as to 90.04% by us, and the remaining 9.96% by six independent third parties (as to 4.73% by Qingdao Ultimate Transportation Equipment Co., Ltd. (青島歐特美交通設備有限公司), 2.95% by China Railway Materials Commercial Corporation (中國鐵路物資總公司), 1.18% by Guangzhou Zhongche Railway Sales & Leasing Co., Ltd. (廣州中車鐵路機車車輛銷售租賃有限公司), 0.94% by Fujian Haipeng Trading Co., Ltd. (福建海鵬經貿有限公司), 0.12% by SouthWest JiaoTong University and 0.04% by Zhongtie Science & Technology Development Corp. (中鐵科學技術開發公司)). It was established in Qingdao, Shandong Province on 22 July 2002 with a registered capital of RMB550,061,200. Its main businesses include research and development and manufacture of MUs, passenger carriages and rapid transit vehicles as well as provision of EMUs and high-end passenger carriages maintenance services.

(17) Bombardier Sifang (Qingdao) Transportation Ltd. (青島四方龐巴迪鐵路運輸設備有限公司) is a jointly controlled entity, which is held as to 50% by CSR Sifang Rolling Stock Co., Ltd. and 50% by Bombardier Holding (Mauritius) Ltd., an independent third party. It was established under the laws of the PRC on 27 November 1998. Its main businesses include the design and production of high-end passenger carriages, EMUs, and luxurious double-deck passenger carriages.

(18) Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd. (青島四方川崎車輛技術有限公司) was established on 4 April 2005 with a registered capital of USD1,400,000. It is a jointly controlled entity, the share capital of which is held as to an aggregate of 50% by the Company (as to 11%) and CSR Sifang Locomotive & Rolling Stock Co., Ltd. (as to 39%) and as to the remaining 50% by Kawasaki Heavy Industries Ltd. (as to 39%) and ITOCHU Corporation (as to 11%), which are independent third parties. It was registered in Qingdao, Shandong Province. Its main businesses include development, design, technical support and relevant import/export business of railway and urban mass transit vehicles.

(19) Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. (石家莊國祥運輸設備有限公司) is held as to 60% by CSR Shijiazhuang Rolling Stock Co., Ltd. and 40% by King Machinery (Taiwan) Co., Limited (臺灣國祥冷凍機械股份有限公司), an independent third party. It was established under the laws of the PRC on 25 July 2003. Its main businesses include the design, production and repair of specific equipment, transport equipment and components used by railway vehicles. This company is dealt with as a jointly controlled entity in the Accountants' Report.

(20) Zhuzhou CSR Times Electric Co., Ltd. (株洲南車時代電氣股份有限公司) is a joint stock limited company established in the PRC on 26 September 2005, whose H shares are listed on the Hong Kong Stock Exchange (Stock Code: 3898). Its issued share capital is held as to 54.38% by CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd., 0.92% by CSR Zhuzhou Electric Locomotive Co., Ltd., 0.87% by New Leap Transportation Equipment Investment and Leasing Co., Ltd., 0.87% by CSR Qishuyan Locomotive & Rolling Stock Works (中國南車集團戚墅堰機車車輛廠), 0.9% by China Railway Large Maintenance Machinery Co., Kunming (昆明中鐵大型養路機械集團有限公司), an independent third party, and 42.06% by public holders of H shares. Its main businesses include development, manufacture and sale of train power converters, auxiliary power supply equipment and control systems for urban rail systems. Its operating and financial results are consolidated to our financial statements in accordance with IFRS.

For the years ended 31 December 2005, 2006 and 2007, respectively, the total revenue of Zhuzhou CSR Times Electric Co., Ltd. was RMB998.0 million, RMB1,256.0 million and RMB1,541.8 million, respectively. The cost of sales for the years ended 31 December 2005, 2006 and 2007, respectively, was RMB542.3 million, RMB640.3 million and RMB865.5 million, respectively, mainly due to changes in

Zhuzhou CSR Times Electric Co., Ltd.'s product mix. The above information is based on the annual results announcements published by Zhuzhou CSR Times Electric Co., Ltd. on the Hong Kong Stock Exchange.

(21) Zhuzhou Times New Material Technology Co., Ltd. (株洲時代新材料科技股份有限公司) ("ZTNM") is a joint stock limited company established in the PRC on 24 May 1994, whose A shares are listed on the Shanghai Stock Exchange. Its issued share capital is held as to 16.79% by CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd., 11.30% by Beijing Railway Industry Trade Company, 2.11% by CSR Zhuzhou Electric Locomotive Co., Ltd., 1.78% by CSR Sifang Rolling Stock Co., Ltd., 1.73% by CSR Group Zhuzhou Electric Locomotive Works (中國南車集團株洲車輛廠), 1.23% by CSR Ziyang Locomotive Co., Ltd., 1.8% by CNR Datong Electric Locomotive Co., Ltd. (中國北車集團大同電力機車有限責任公司), 1.72% by Dalian Locomotive & Rolling Stock Co., Ltd. CNR Group (中國北車集團大連機車車輛有限公司), 1.64% by CNR Qiqihar Railway Rolling Stock (Group) Co., Ltd. (中國北車集團齊齊哈爾鐵路車輛(集團)有限責任公司), 6.46% by seven other corporate investors and 53.44% by public shareholders. Its main businesses include development, manufacturing and sale of special insulation products and plastic products for specialized projects. Its operating and financial results are equity accounted for in our financial statements in accordance with IFRS. CNR Datong Electric Locomotive Co., Ltd., Dalian Locomotive & Rolling Stock Co., Ltd. CNR Group and CNR Qiqihar Railway Rolling Stock (Group) Co., Ltd. are independent third parties.

THE CORPORATE PLACING

On 1 August 2008, as part of the International Offering, the Company has entered into corporate investor agreements with three corporate investors (the "Corporate Investors") who in aggregate have agreed to subscribe at the Offer Price for such number of Offer Shares that may be purchased with an aggregate amount of US$90 million (equivalent to approximately HK$702.20 million).

Assuming a mid-point Offer Price of HK$2.625, the total number of H Shares to be subscribed by the Corporate Investors would be approximately 267,504,000 H Shares, which represents approximately (i) 3.11% of the Shares issued and outstanding upon completion of the Global Offering without taking into account the Shares to be issued pursuant to the A Share Offering; (ii) 2.31% of the Shares issued and outstanding following the A Share Offering (assuming that 3,000,000,000 A Shares will be issued) and the Global Offering; and (iii) 16.72% of the Offer Shares, in each case assuming that the Over-allotment Option is not exercised.

Assuming an Offer Price of HK$2.49, being the lowest indicative offer price stated in this Prospectus, the total number of H Shares to be subscribed by the Corporate Investors would be approximately 282,006,000 H Shares, which represents approximately (i) 3.28% of the Shares issued and outstanding upon completion of the Global Offering without taking into account the Shares to be issued pursuant to the A Share Offering; (ii) 2.43% of the Shares issued and outstanding following the A Share Offering (assuming that 3,000,000,000 A Shares will be issued) and the Global Offering; and (iii) 17.63% of the Offer Shares, in each case assuming that the Over-allotment Option is not exercised.

Each of the Corporate Investors is not related to each other and is an independent third party. None of the Corporate Investors will subscribe for any Offer Shares under the Global Offering other than pursuant to the respective corporate investor agreement. Immediately following the completion of the Global Offering, no Corporate Investor will have any board representation in the Company, nor will any Corporate Investor become a substantial shareholder of the Company. The Offer Shares to be subscribed for by the Corporate Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the "Structure of the Global Offering—The Hong Kong Public Offering". The number of H Shares allocated to the Corporate Investors pursuant to the corporate investor agreements will be disclosed in the allocation result announcement which is expected to be published on or about 20 August 2008. The H Shares to be held by the Corporate Investors will be regarded as part of the public float of the Company for the purpose of Rule 8.08 of the Listing Rules.

THE CORPORATE INVESTORS

A brief description of the Corporate Investors is as follows:

- China Life Insurance Company Limited ("China Life Insurance") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot) as may be purchased with US$30,000,000 (equivalent to approximately HK$234,066,000) at the Offer Price. Assuming a mid-point Offer Price of HK$2.625, China Life Insurance will purchase 89,168,000 H Shares, which represents approximately (i) 1.04% of the Shares issued and outstanding upon completion of the Global Offering without taking into account the Shares to be issued pursuant to the A Share Offering; (ii) 0.77% of the Shares issued and outstanding following the A Share Offering (assuming that 3,000,000,000 A

Shares will be issued) and the Global Offering; and (iii) 5.57% of the Offer Shares, in each case assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$2.49, being the lowest indicative offer price stated in this Prospectus, China Life Insurance will purchase 94,002,000 H Shares, which represents approximately (i) 1.09% of the Shares issued and outstanding upon completion of the Global Offering without taking into account the Shares to be issued pursuant to the A Share Offering; (ii) 0.81% of the Shares issued and outstanding following the A Share Offering (assuming that 3,000,000,000 A Shares will be issued) and the Global Offering; and (iii) 5.88% of the Offer Shares, in each case assuming that the Over-allotment Option is not exercised.

China Life Insurance is a company incorporated on 30 June 2003 in the People's Republic of China. The company was successfully listed on the New York Stock Exchange ("NYSE") and the Hong Kong Stock Exchange in December 2003, and successfully listed on the Shanghai Stock Exchange in January 2007. China Life Insurance is one of the largest life insurance companies in China. China Life Insurance has an extensive distribution network in China, comprising exclusive agents, direct sales representatives, and dedicated and non-dedicated agencies. China Life Insurance's products and services include individual life insurance, group life insurance, accident and health insurance. China Life Insurance is a leading provider of annuity products and life insurance for both individuals and groups, and a leading provider of accident and health insurance. China Life Insurance also provides both individual and group accident and short-term health insurance policies. As the holding company of China Life Insurance Assets Management Co., Ltd., China Life Insurance is the one of largest insurance asset management companies in China and also one of the largest institutional investors in China.

- GE Capital Equity Investments Ltd ("GE Capital") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot) as may be purchased with US$30,000,000 (equivalent to approximately HK$234,066,000) at the Offer Price. Assuming a mid-point Offer Price of HK$2.625, GE Capital will purchase 89,168,000 H Shares, which represents approximately (i) 1.04% of the Shares issued and outstanding upon completion of the Global Offering without taking into account the Shares to be issued pursuant to the A Share Offering; (ii) 0.77% of the Shares issued and outstanding following the A Share Offering (assuming that 3,000,000,000 A Shares will be issued) and the Global Offering; and (iii) 5.57% of the Offer Shares, in each case assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$2.49, being the lowest indicative offer price stated in this Prospectus, GE Capital will purchase 94,002,000 H Shares, which represents approximately (i) 1.09% of the Shares issued and outstanding upon completion of the Global Offering without taking into account the Shares to be issued pursuant to the A Share Offering; (ii) 0.81% of the Shares issued and outstanding following the A Share Offering (assuming that 3,000,000,000 A Shares will be issued) and the Global Offering; and (iii) 5.88% of the Offer Shares, in each case assuming that the Over-allotment Option is not exercised.

  GE Capital is an exempted company with limited liability incorporated in the Cayman Islands. GE Capital is an investment holding company which is an indirect wholly-owned subsidiary of the General Electric Company ("GE"), a company listed on the NYSE, and is affiliated with GE Transportation who is currently cooperating with the Company to jointly manufacture 300 6,000-horsepower GE Evolution locomotives for the Ministry of Railways of the People's Republic of China.

GE Transportation, a unit of GE, was established more than 100 years ago. It is a global technology leader and supplier to the railroad, marine, drilling, mining and wind industries. GE Transportation provides freight and passenger locomotives, railway signaling and communications systems, information technology solutions, marine engines, motorized drive systems for mining trucks and drills, high-quality replacement parts and value added services. With sales in excess of US$4.5 billion, GE Transportation is headquartered in Erie, Pennsylvania, the United States of America and employs approximately 10,000 employees worldwide.

- Mirae Asset Global Investments (Hong Kong) Limited ("Mirae Asset") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot) as may be purchased with US$30,000,000 (equivalent to approximately HK$234,066,000) at the Offer Price. Assuming a mid-point Offer Price of HK$2.625, Mirae Asset will purchase 89,168,000 H Shares, which represents approximately (i) 1.04% of the Shares issued and outstanding upon completion of the Global Offering without taking into account the Shares to be issued pursuant to the A Share Offering; (ii) 0.77% of the Shares issued and outstanding following the A Share Offering (assuming that 3,000,000,000 A Shares will be issued) and the Global Offering; and (iii) 5.57% of the Offer Shares, in each case assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$2.49, being the lowest indicative offer price stated in this Prospectus, Mirae Asset will purchase 94,002,000 H Shares, which represents approximately (i) 1.09% of the Shares issued and outstanding upon completion of the Global Offering without taking into account the Shares to be issued pursuant to the A Share Offering; (ii) 0.81% of the Shares issued and outstanding following the A Share Offering (assuming that 3,000,000,000 A Shares will be issued) and the Global Offering; and (iii) 5.88% of the Offer Shares, in each case assuming that the Over-allotment Option is not exercised.

  Mirae Asset was established in 2003 and is principally engaged in the business of investment management. It is a member of the Mirae Asset Financial Group, which invests in emerging market equities with offices located in Korea, Hong Kong, Singapore, India and the United Kingdom. Mirae Asset manages primarily mutual funds targeted at retail investors.

CONDITIONS PRECEDENT

The subscription obligation of each Corporate Investor is conditional upon the Underwriting Agreements being entered into and having become effective and unconditional and not having been terminated.

RESTRICTIONS ON THE CORPORATE INVESTORS' INVESTMENT

Each of the Corporate Investors has agreed that, without the prior written consent of the Company and the Joint Global Coordinators, it will not, whether directly or indirectly, at any time during the period of 6 months following the Listing Date, dispose of any H Shares subscribed pursuant to the respective corporate investor agreement (or any interest in any company or entity holding any of the H Shares). Each Corporate Investor may transfer the H Shares so subscribed in certain limited circumstances, such as transfer to a wholly-owned subsidiary and any such transfer can only be made when the transferee agrees to be subject to the restrictions on disposal imposed on such Corporate Investor.

EXCHANGE RATE

Solely for your convenience, this section contains translations of certain Hong Kong dollars amounts into U.S. dollars at specified rates. No representation is made that the Hong Kong dollar amounts could actually be converted into any U.S. dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Hong Kong dollars into U.S. dollars was made at the rate of HK$7.8022 to US$1.00, which is the noon buying rate on 29 July 2008, the Latest Practicable Date, in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

OVERVIEW

We are one of the largest rolling stock manufacturers and solutions providers in the world, offering a wide range of rolling stock products and services. We were also the largest rolling stock manufacturer and solutions provider in China in terms of revenue in 2007. We provide our customers with innovative solutions and systems in the research and development, manufacturing, sales, refurbishment and leasing of rolling stock, including locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as other businesses that utilize proprietary rolling stock technologies. During the three years ended 31 December 2007, we occupied 51.1% and 80.0% of the PRC domestic market share for locomotive production and MU production in terms of production volume, respectively, as well as 50.9% and 51.8% of the PRC domestic market share for locomotive refurbishment and freight wagon refurbishment in terms of refurbishment volume, respectively. Building on our market-leading position in the rolling stock market in China, we also export our products to more than 30 countries and regions in the world.

The growing demand for rolling stock is driven primarily by the rapid development of the rail vehicle market in China which increases the need for new vehicles as well as vehicle upgrade and refurbishment services. Another key driver is the growth of the rapid transit market due to urbanization and China's rapid economic growth. We develop, manufacture and sell a full range of rolling stock that can be divided into five principal product lines:

- *Locomotives*: We own China's largest research and development and manufacturing facility for electric locomotives in terms of 2006 production volume, which is also one of the world's leading research and development and manufacturing facilities for electric locomotives. Our locomotives include electric and diesel locomotives for passenger and freight trains. We use world-leading technologies in the manufacture of four-axle, six-axle and eight-axle electric and diesel locomotives. We have worked with the government to set industry standards for the domestic electric and diesel locomotive markets since these locomotives were produced in China. In addition, we own and operate a number of facilities in China where we refurbish, upgrade and maintain various types of locomotives. We also provide leasing services for our locomotives.
- *Passenger carriages*: We are one of China's two major developers and manufacturers of passenger carriages. Our passenger carriages comprise rail vehicles that are mainly used for passenger transportation, including seating coaches, berth sleeping cars, dining cars, power generation cars and double-deck passenger carriages. We are the exclusive developer and manufacturer of technologically advanced passenger carriages specifically designed for plateau railways. These advanced passenger carriages are used on the Qinghai-Tibet Railway Line, the highest plateau railway in the world. In addition, we own and operate a number of facilities in China where we refurbish, upgrade and maintain passenger carriages.
- *Freight wagons*: We own one of the world's leading research and development and manufacturing facilities for freight wagons. Our freight wagons mainly consist of open top wagons, flat wagons, box wagons, tank wagons, hopper wagons and other special purpose vehicles. In the PRC domestic market, we offer the most comprehensive series of freight wagon products that accommodate a wide range of freight transportation needs. We have successfully manufactured heavy-hauling freight wagons that can each carry a weight of more than 160 tonnes as well as freight wagons with 40-tonne axle loads. We also actively sell our products in the international freight wagon market. From 2006 to early 2008, we entered into agreements to export in total 110 ore-transporting hopper wagons as well as

976 ore-transporting wagons, which have high axle loads. Our heavy-hauling freight wagons are the most commonly used freight wagons on China's main freight rail lines, such as the Daqin Railway Line, China's first electrified coal-dedicated freight rail line.

- *Multiple units*: We offer MUs with maximum operating speeds of up to 200 km/h, over 200 km/h and over 300 km/h. In recent years, we have been focusing on the development and production of EMUs, and we own an EMU manufacturing facility where we use world-leading technologies to manufacture EMUs. We manufacture MUs and related subsystems and components, which are widely used on existing railway lines. Along with our joint venture enterprise, we supplied 47 of the 52 high-speed EMUs that commenced operation at the beginning of CR's sixth round of speed increases in April 2007. Building upon our technologies used to manufacture EMUs with speeds over 200 km/h, we developed the next generation of high-speed EMUs with speeds over 300 km/h and successfully manufactured China's first high-speed EMUs with speeds over 300 km/h through CSR Sifang Co., Ltd. at the end of 2007. We are currently developing high-speed EMUs with speeds of 350 km/h and above, which will begin commercial production in 2010.
- *Rapid transit vehicles*: We were the largest manufacturer of rapid transit vehicles in China in terms of total new bid value of contracts in 2007. We were successful in bidding on sale and purchase contracts totaling approximately RMB12.0 billion, which accounted for more than 60% of the total new bid value of contracts in China in the same year. Our rapid transit vehicles consist of metro cars used on subway systems and light rail cars used on light rail systems. Major cities and municipalities in China, such as Beijing, Shanghai, Shenzhen, Guangzhou and Nanjing, have already purchased our technologically sophisticated rapid transit vehicles for their rapid transit systems. We have developed advanced linear motor technologies for metro cars and have applied these technologies on the No. 4 Line and No. 5 Line of the Guangzhou Metro. Historically, we provided only core components and control systems for the metro cars of the Hong Kong MTR. In the first quarter of 2008, we entered into an agreement to provide 22 rapid transit vehicles for Hong Kong's MTR.

The following table sets forth the sales and service revenue generated from each of our product lines and their respective percentage of total revenue for the periods indicated:

	Year ended 31 December						**Three months ended 31 March**			
	2005		**2006**		**2007**		**2007**		**2008**	
	(RMB million)	**%**	**(RMB million)**	**%**	**(RMB million)**	**%**	**(RMB million) (unaudited)**	**%**	**(RMB million)**	**%**
Locomotives	6,681.1	33.8	7,173.5	31.2	7,086.1	26.5	1,279.3	21.1	1,722.1	26.2
Passenger carriages	2,922.2	14.8	3,416.2	14.8	3,408.0	12.7	991.8	16.4	803.8	12.2
Freight wagons	7,184.7	36.3	8,073.3	35.0	9,193.3	34.3	2,341.8	38.6	2,161.8	32.8
Multiple units	74.2	0.4	1,113.4	4.8	2,679.7	10.0	663.4	10.9	791.9	12.0
Rapid transit vehicles	1,215.4	6.1	1,227.2	5.3	1,699.1	6.3	268.2	4.4	245.5	3.7
Others	1,706.9	8.6	2,043.4	8.9	2,737.3	10.2	521.3	8.6	861.0	13.1
Total	19,784.5	100.0	23,047.0	100.0	26,803.5	100.0	6,065.8	100.0	6,586.1	100.0

Our brand names, "CSR" and "南車", are widely recognized in both domestic and overseas markets. Over the years, our rolling stock products have been exported to over 30 countries and regions, including the United States, Australia and Brazil. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, our revenue generated from overseas sales amounted to approximately RMB1,659.6 million, RMB1,777.1 million, RMB1,929.2 million, RMB605.8 million and RMB301.7 million, respectively, representing 8.4%, 7.7%, 7.2%, 10.0% and 4.6% of our total revenue, respectively.

Our research and development efforts enable us to continuously introduce innovative and technologically advanced products for our rail-related business and new businesses, such as alternative energy generation and its applications. We have utilized our core technologies and knowledge in electric power conversion and diesel engines to introduce the first hybrid-powered bus in China as well as to commence production of wind power generators in 2007. Through the combined efforts of our centralized research and development institutes and laboratories, we develop and improve essential rolling stock components, including bogies, traction motors, diesel engines and on-board electric control systems, all of which are used in the manufacture of most of our products. In addition, we improve manufacturing technologies to enhance the quality and increase the production of all of our rolling stock products. Through our five state-accredited research and development centers, which we own and operate, we participate in the establishment of domestic industry standards.

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, our total revenue amounted to RMB19,784.5 million, RMB23,047.0 million, RMB26,803.5 million, RMB6,065.8 million and RMB6,586.1 million, respectively, and our profit attributable to equity holders of the Company during the same periods amounted to RMB407.1 million, RMB544.8 million, RMB613.0 million, RMB101.5 million and RMB367.6 million, respectively.

OUR COMPETITIVE STRENGTHS

We are a leader in the domestic rolling stock industry, occupying a dominant position in the rapidly growing rolling stock market in China.

In 2007, we were the largest integrated manufacturer of rolling stock and related components in China in terms of revenue. During the three years ended 31 December 2007, we had more than half of the PRC domestic market share for locomotive production and MU production in terms of production volume, as well as more than half of the PRC domestic market share for locomotive refurbishment and freight wagon refurbishment, in terms of refurbishment volume. We have developed and manufactured high-speed MUs, high-powered electric locomotives and high-powered diesel locomotives jointly with internationally-recognized companies such as Bombardier, Kawasaki, Siemens and General Electric (or GE) and we occupy a leading position in the PRC domestic market in the following areas:

- We own China's largest research and development and manufacturing facility for electric locomotives and possess industry-leading capabilities to develop high-powered diesel locomotives and diesel engines as well as high-powered electric locomotives and power transmission systems. We manufacture the most powerful locomotives in China currently used for heavy-hauling freight transportation. We also manufacture the fastest locomotives in China for passenger transportation. We utilized advanced technologies to develop plateau diesel locomotives designed specifically for the world's highest plateau railway line—the Qinghai-Tibet Railway Line.
- We own China's principal manufacturing facilities for passenger carriages and have exported a number of domestically manufactured passenger carriages with operating speeds of up to 120 km/h and 160 km/h. We are currently developing passenger carriages

consistent with leading international standards that can travel up to 200 km/h. Moreover, the MOR has designated us as the principal entity responsible for the research and development and manufacturing of high-end passenger carriages in China.

- We own and operate one of the world's leading freight wagon manufacturing facilities. We are a leader in the technology development, manufacture and supply of heavy-hauling freight wagons and have developed and manufactured various types of freight wagons with hauling capacities of up to 70 tonnes and 80 tonnes. We have also developed freight wagons with world-leading 40-tonne axle loads.
- We developed the CRH_2, which is the first AC EMU in China that can travel at speeds exceeding 200 km/h. In December 2007, we commenced trial production of high-speed EMUs that can reach speeds of 300 km/h and above. Along with our joint venture enterprise, we manufactured and supplied 47 of the 52 high-speed EMUs that commenced operations at the beginning of CR's sixth round of speed increases in April 2007.
- In 2007, we were successful in bidding on a number of sales and purchase agreements for our rapid transit vehicles, with a total contract value of approximately RMB12.0 billion which accounted for more than 60% of the total new bid value of contracts in China. In the same year, we were China's largest manufacturer of rapid transit vehicles in terms of total new bid value. Currently, we manufacture Type A and Type B aluminum alloy metro cars as well as Type A and Type B stainless steel metro cars that meet leading international standards.

As a leader in the rolling stock industry, we have the capacity to manufacture a comprehensive range of rolling stock products and related components, to provide a wide range of refurbishment services and to enhance our strong research and development capabilities, which we believe provides us with a competitive advantage in our efforts to maintain our dominant position in the growing domestic rolling stock industry.

We offer a comprehensive portfolio of rolling stock products that meets the demands of the rapidly developing rolling stock market.

Our comprehensive portfolio of rolling stock products enables us to provide our customers with a full range of integrated rolling stock products and related services, including the research and development, production and refurbishment of locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles. We believe that we are able to meet the varying demands of our customers and are able to effectively grasp opportunities created by the growing use of rail vehicles and rapid transit vehicles. The increasing electrification of railways in China has also led to a steady growth in the electric locomotive market that has already outpaced the growth of the diesel locomotive market. We are in a favorable position to benefit from such growth as a result of the changes we made to our product mix to accommodate this recent trend towards the use of electric locomotives. CSR Sifang Co., Ltd., our subsidiary, has developed EMUs that can reach speeds of 300 km/h and above by building upon imported technology for EMUs that can exceed 200 km/h. We are currently developing high-speed EMUs with maximum speeds of 350 km/h and above, which will begin commercial production in 2010. We leveraged our strong manufacturing abilities, our converter technologies and our joint ventures as well as cooperative efforts with leading foreign companies to establish the largest facility in China for the research and development, testing and production of rapid transit vehicles, and as a result, we have become the principal supplier of rapid transit vehicles to the PRC domestic market.

Through the reasonable allocation of our rapid transit vehicle production resources, we are able to extend our sales coverage to economically developed cities and other areas of China to meet the demands of a developing market and improve our revenues and results of operations.

Our abilities to provide a comprehensive range of integrated rolling stock products and to develop versatile proprietary technologies that can be applied to our different product lines enable us to utilize a common technology platform, which in turn allows us to adjust our production needs to respond to market demand and reduce our operating risks.

We possess leading technologies and strong research and development capabilities.

We dedicate significant resources to the research and development of new materials, products and manufacturing processes to maintain our market-leading position. Building upon the sophisticated technologies that we import from foreign companies and utilizing our strong research and development capabilities, we are able to develop proprietary, innovative and marketable technologies and products that can be used in our operations as well as to respond to market demand. Through our research and development center for locomotive technology and our research institute specializing in electric components for locomotives and EMUs, we focus on the development and production of new and essential components, such as bogies, traction motors, diesel engines and on-board electric control systems, as well as the development of core innovative technologies used in the manufacture of rolling stocks and related components. We also have five state-accredited research and development centers, a National Engineering Research Center of Converters and four post-doctorate workstations, which are instrumental to the research and development of our products and enable us to participate in the establishment of domestic industry standards.

In 2006, we developed and placed into operation 185 passenger carriages for the Qinghai-Tibet Railway Line after successfully overcoming five major technical issues. These technical challenges involved the development of oxygen-supplying technologies, environmentally-friendly designs, electricity-generating rail vehicles, electric power systems with a high degree of reliability and technologies that improve our product's resistance to UV rays and sandstorms. Our success in producing specially-designed, high-quality passenger carriages for the Qinghai-Tibet Railway Line has enhanced our reputation in the market and demonstrated our research and development strength and expertise. In recent years, we have also devoted part of our research and development resources to the advancement of alternative energy applications and generation by leveraging our existing electric power conversion technology. With our strong research and development resources, we are able to mass produce and market products that incorporate our technologies and therefore, occupy a leading position in the developing market for high-speed and heavy-hauling freight wagons. We expect the high-speed EMUs with maximum speeds of 350 km/h and above that we are currently developing for the Beijing-Shanghai High Speed Railway to commence operations in 2010.

Many of our innovative products, which we manufacture leveraging our strong research and development capabilities, have set new performance records in China. For example, we incorporated advanced technologies in our plateau diesel locomotives, which were designed specifically and are currently being used to meet the various challenges presented by high altitudes and low temperatures on the world's highest plateau railway line—the Qinghai-Tibet Railway Line. We were the first company to develop and commercially manufacture high-speed EMUs in China. We have commenced trial production of the CRH_2-300, which can reach speeds exceeding 300 km/h and represents a new generation of high-speed EMUs.

We have also established cooperative relationships with domestic and overseas research institutes and manufacturers to develop technology, including a collaboration between CSR ZELRI and Michigan State University, which has resulted in our first overseas industrial electronic and electric research center.

As of 31 March 2008, we held 483 patents with 604 additional patent applications pending the approval of the State Intellectual Property Office of China, or SIPO. We devote substantial resources to develop core technologies that reduce operating costs and improve the operating efficiency of rolling stock and other newly-developed products. Moreover, we believe that our strong research and development capabilities have enabled us to manufacture new and advanced products with significant commercial value, such as hybrid-powered buses, diesel engines, vessel engine crankshafts and key components for wind power generators.

Our full range of services and comprehensive customer relationship management program enable us to strengthen further and develop our existing customer base.

We offer a full range of services to our customers, which include assisting customers with product selection as well as providing technology consulting services, operational and maintenance training and quality assurance on all of our rolling stock products. We provide 24-hour services through specialized after-sales service teams that provide customer support, emergency assistance and the prompt handling of customer complaints. To enhance customer satisfaction and improve customer support, we have also established a service system that includes processing and analyzing customer feedback. With a view to improve our services, we pay regular visits to our customers to discuss our product quality and to seek their feedback on their satisfaction of our products. We have an extensive service network in China, enabling us to respond quickly to our customers' product-related inquiries. Our network provides complimentary maintenance or spare parts in response to design or manufacturing problems arising during the product warranty period, as well as continued maintenance after the expiration of the product warranty period in a timely manner. We believe our customers benefit from our extensive services, including pre-sales and after-sales services.

We continue to develop overseas markets as well as non-railway markets while strengthening our position in the domestic railway market. Our rolling stock products have been sold to 31 provinces, autonomous regions and municipalities in China. Key domestic customers with whom we have over 50 years of longstanding relationships include the CR bureaus, the MOR and the enterprises under them. We also have positive relationships with joint venture railway operators, local railway operators, rapid transit system operators, seaports and other large enterprises in China, such as China Shenhua Energy Company Limited, China Petroleum and Chemical Corporation, China National Petroleum Corporation and several large industrial and mining corporations. On the international front, we have established relationships with overseas customers in Southeast Asia and Africa and have expanded our customer base in markets in Central Asia, Eastern Europe and South America. In addition, our products have been exported to countries such as Australia, Uzbekistan, Kazakhstan, Turkmenistan, Vietnam, Pakistan, Malaysia, Cambodia, Bangladesh, India, the Philippines, South Africa, Namibia, Angola, Madagascar, Venezuela and Brazil. We also export major components to countries and regions such as the United States, Germany and Hong Kong. Our overseas customers include the Angola Railway Bureau, Australian FORTESCUE Metals Group and GE.

Our brand names are well-recognized in both the domestic and overseas markets.

We have established "CSR" and "南車", the brand names under which we market our rolling stock products and related components, as premium brand names. Our brand names are well-recognized in the industries in which we operate and in the domestic and overseas markets where our products are sold. As a testament to the extensive presence of our brand name in the PRC domestic market, we occupied more than half of the PRC domestic market share for locomotive production and MU production in terms of production volume, as well as more than half of the PRC domestic market share for locomotive refurbishment and freight wagon refurbishment in terms of refurbishment volume during the three years ended 31 December 2007. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, our overseas contract value amounted to approximately US$250 million, US$370 million, US$570 million and US$230 million, respectively. From 2006 to early 2008, we entered into agreements to export freight wagons to Australia, including 976 ore-transporting wagons with high axle loads and 110 ore-transporting hopper wagons. We also export crankshafts, major freight wagon components and electronic control systems to the United States. We were the first PRC supplier to export rail vehicles to countries in South America. We maintain the high quality of our rolling stock products, which is reflected in their safety and reliability, durability, operating speeds, high passenger comfort levels and advanced designs, through our strong research and development capabilities and our large-scale production capacities. We are able to improve advanced technologies imported from overseas and to adapt such technologies to the PRC domestic market.

Moreover, our ability to develop the basic materials and components for our vertically-integrated manufacturing processes and on our centralized manufacturing platform, which can be applied throughout our operations, allows us to consistently bring products to market and fulfill our customers' needs in a timely manner. We believe that these factors, as well as our strategic partnerships with leading international rolling stock manufacturers, contribute to the wide recognition of our brand. Our various products have received a number of awards from different levels of PRC Government authorities. We also believe our premium rolling stock products marketed under our well-established and generally well-recognized brand names have enabled our products to command a price premium that result in greater profit margins.

Our experienced and capable management and our highly skilled professional workforce ensure our development and continued success.

Our senior management is led by a core team of professionals with an average of more than 20 years of experience in rolling stock production, business management, finance and engineering. Some members of our senior management are committee members of key domestic industry associations. We believe our management team possesses the requisite leadership, vision and in-depth industry knowledge to anticipate and seize market opportunities, direct our research and development as well as sales and marketing efforts to high growth areas, formulate sound business strategies and execute these strategies in a manner that effectively maximizes our shareholder value. In addition, having gained extensive experience through our overseas operations, our senior management is well-positioned to drive the growth of our operations. We also have a number of professional-level employees who have been with our Company for a number of years and possess the skills and knowledge critical to the industry in which we operate. As of 31 March 2008, our employees included the only member of the Chinese Academy of Engineering in China's rolling stock manufacturing industry, nine national youth experts, 169 experts at the provincial and ministerial level, 134 experts receiving special subsidies from the State Council, approximately 138 professor-level senior engineers, 2,484 senior technical professionals and approximately 10,000 technical personnel of various levels. To attract employees with higher levels of professional qualification, we offer attractive remuneration packages. We believe we have the dedicated management team and workforce needed to leverage our core strengths, as well as to ensure our sustained development and continued success.

OUR BUSINESS STRATEGIES

As China's economy continues its rapid growth and urbanization becomes increasingly widespread, demand for rail transportation and rapid transit is also expected to increase. Our goal is to enhance our overall competitiveness and to develop into an industry-leading and internationally recognized rolling stock manufacturer. In order to achieve these objectives, we will focus on the following strategic initiatives:

Solidify our market-leading position in China's rolling stock industry and expand our market share

We were the largest integrated manufacturer of rolling stock and related components in China in terms of revenue in 2007. During the three years ended 31 December 2007, we occupied more than half of the PRC domestic market share for locomotive production and MU production in terms of production volume, as well as more than half of the PRC domestic market share for locomotive refurbishment and freight wagon refurbishment in terms of refurbishment volume. We believe our future success is highly dependent upon our continued ability to manufacture new products and core technologies that can efficiently respond to market demand. To that end, we intend to establish three technology platforms, specifically, a platform for design technologies, a platform for manufacturing technologies and a platform for product technologies. We will continue to build on these platforms by using sophisticated technologies acquired from overseas to develop patented and proprietary technologies and products tailored to the needs of the PRC domestic market. By leveraging our technological skills and knowledge in the production of electric and diesel locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles, we aim to increase our manufacturing capacity and improve our technology development in order to manufacture rolling stock products and to provide upgrade and refurbishment services that are consistent with market trends. For example, in response to CR's railway speed increases, including the recent sixth round of speed increases, we successfully manufactured and commercialized a new generation of EMUs in China, the CHR_2, which can exceed speeds of 200 km/h. Subsequently, we also introduced the CRH_2-300, an EMU that can exceed speeds of 300 km/h. To meet growing demand resulting from the implementation of a new freight network that will improve the transportation of natural resources and raw materials throughout China, we plan to increase the production and sales of our various heavy-hauling freight wagons, which are fundamental to the major mainlines of China's freight rails.

Moreover, as rapid transit systems are being adopted by an increasing number of large and medium-sized cities in China to facilitate urbanization and relieve the burden on public transportation systems, we have responded to this growing industry trend by developing and manufacturing various types of rapid transit vehicles. Our existing core technologies and extensive skills and knowledge provide us with the ideal platform to develop products for non-railway markets. In recent years, we have leveraged our expertise and success in rail vehicle development and manufacturing to research, develop, manufacture and commercialize rapid transit vehicles, such as metro cars and light rail cars, thereby extending our reach and tapping into the rapid transit market. We plan to continuously expand our rapid transit vehicle manufacturing business to increase our market share in China's rapid transit vehicle market.

We will continue to develop rolling stock products that meet leading international standards by utilizing our existing technology platform. Leveraging our main rolling stock business, we aim to develop into an integrated rolling stock and related component supplier and expand our market share in electric locomotive, MU, rapid transit vehicle and heavy-hauling freight wagon markets to solidify our leading position in the overall domestic rolling stock market.

Optimize our product mix and services and actively develop new business areas using rolling stock related technologies

To maximize our profitability and reinforce our competitive position in the market, we plan to change our product mix and realign our business focus pursuant to market trends. For instance, as demand grows for electric locomotives and high-speed EMUs in the high-end rolling stock market, we intend to invest our resources in the research and development of such products and technologies. At present, rapid economic growth in a number of cities across China and in various foreign countries has increased demand for rapid transit vehicles and related components. We intend to devote more resources to the development and manufacture of such technologically advanced products to capture these growing market opportunities. We plan to expand our refurbishment business to accommodate the rising number of rolling stock vehicles resulting from the rapid growth of the rolling stock market.

The technologies and know-how we have developed and adopted, as well as the knowledge and skills we currently possess, can also be utilized for the research, development and manufacture of other non-railway products. The converter technology we have developed over time for our electrified rolling stock products has facilitated our entry into these new business areas. For example, we introduced the first hybrid-powered bus in China and commenced production of wind power generators in 2007. We also commenced mass production of vessel diesel engines and crankshafts for sale to the global market by leveraging our experience and technologies. These new products and technologies, as well as our new energy products such as wind generators and wind turbines for wind power generation systems, comprise our newly-implemented “green business strategy”. We are confident that by utilizing our existing technologies and knowledge to develop equipment and products that share a common platform with our core manufacturing operations, we will be able to expand into non-railway markets and thus, further expand our overall operations. As a leading manufacturer in China’s rolling stock industry, we believe that we have the resources and execution capacity to enter into these new markets and are able to leverage our existing business platform to continue pursuing new growth opportunities.

To strengthen our presence in existing markets, we plan to consolidate our product research and development and manufacturing resources, leverage our expertise in the rolling stock industry and establish as well as expand our manufacturing facilities for products developed from our rolling stock related technologies. We also plan to focus on the continued development of wind power generators equipment, electric cars, gearing transmission systems, automobile components, high-power semi-conductor components, industrial conversion devices and engineering machinery, all of which are already in commercial production. We aim to increase and diversify our sources of income and expand our overall operations in new business areas by exploring and developing the market for rolling stock related technologies.

Further expand our global presence and market share in overseas markets through the enhancement of our brand recognition and development of our overseas operations

The outlook for the international rolling stock market is expected to be positive for the next few years. The rapid growth of developing countries has resulted in an increased demand for rail vehicle products, while the need for railway modernization in developed countries to maintain fleet efficiency has resulted in a growing demand for new rail vehicle products and replacement parts. We intend to take advantage of such favorable market conditions to increase exports of our rolling stock products by strengthening our international network, developing our overseas market sales and marketing systems and expanding our global customer base. We believe that such measures will facilitate our plans for international mergers and acquisitions and to develop our operations in overseas markets. With our representative offices set up in foreign countries, we seek to enhance our competitiveness and brand recognition in the global arena and become a key exporter of rolling stock products in the international market, and to transform from a major PRC domestic market player to a high-end technology exporter, and then gradually broaden our reach into neighboring regions. As part of our long-term strategy, we also seek to transition from an exporter of rolling stock products to a leading provider of industry-related technology in overseas markets by exploring various business combinations to capture the markets for rolling stock products and related components in developing countries and entering selected developed countries to expand our overseas market sales. We believe that, as a result of our reputation for quality, safety and reliability, diverse product portfolio and competitive prices, we are well-positioned to capitalize on any increased market demand in overseas markets.

Promote and accelerate our continued development through capital operations

Our Capital Operations Department is responsible for devising and implementing our financing and capital management plans. To increase our scale of operations and to achieve greater economies of scale, we aim to engage in various capital expenditure activities, including enhancing our operating mechanisms, selecting strategic partnerships and expanding through mergers, acquisitions and restructuring. To finance our overseas expansion, we plan to raise capital through various financial markets, which include equity capital markets and debt markets. We also plan to expand into non-railway rolling stock financing lease businesses and apply such business models to the CR market. In addition, we plan to establish an integrated and highly efficient capital management system, leverage our reputation and capital scale and centralize our external financing activities to lower our overall financing costs. Along with good financial planning, these efforts will provide the financial support necessary for our corporate development.

Continue to improve the management efficiency of our business operations and facilities as well as to optimize our human resources to enhance our competitiveness

We aim to optimize our overall operations to ensure our continued success. We plan to improve and integrate management of our overall business operations and facilities to allow for greater control over investment risks, improved cost controls, enhanced ability to anticipate demand, timely delivery of products and reduced level of inventory. We plan to continue to optimize our ERP system to improve resource planning and control in our research and development, manufacturing operations, refurbishment services, product sales and after-sales services. To minimize costs, increase efficiency and streamline our production processes, we will also continue to enhance our centralized raw material procurement process for our operations and integrate the allocation of resources in accordance with our various product lines.

We plan to establish an information system to centralize our human resources functions and enhance the utilization of our personnel through a human resources cost evaluation system. We will continue to implement three system reforms, including work labor, personnel and distribution reforms. These reforms are intended to create a work allocation mechanism which is comparable to that of modern enterprises, as well as an open hiring and reviewing mechanism for core personnel and an effective performance review mechanism that is aligned with the market. We also plan to cultivate managerial and technological skills among our employees, optimize our compensation system and establish long-and mid-term employee reward systems. By adopting the foregoing measures, we believe we will be able to optimally operate with high operational efficiency, which will enhance our overall competitiveness and profitability.

OUR PRODUCTS AND SERVICES

During the Track Record Period, we have generated our revenue primarily from the production, sales and refurbishment of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components. We have obtained the necessary approvals and certifications from the respective competent authorities under relevant laws and regulations for our manufacturing and refurbishment operations of locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles. As of 31 March 2008, we had a total of 101 Type Certificates, 214 production approvals and 43 refurbishment approvals. Our product lines include the following:

- Locomotives, mainly consisting of various types of electric and diesel locomotives;
- Passenger carriages, mainly consisting of seating coaches, berth sleeping cars, dining cars, power generation cars and double-deck passenger carriages;
- Freight wagons, mainly consisting of open top wagons, flat wagons, box wagons, tank wagons, hopper wagons and other special purpose vehicles;
- Multiple units, mainly consisting of MUs with maximum operating speeds of up to 200 km/h and under, over 200 km/h and over 300 km/h; and
- Rapid transit vehicles, mainly consisting of metro cars and light rail cars.

In addition, as part of our strategy to diversify our product portfolio, we have utilized our core technologies and knowledge relating to electric power conversion and diesel engines to introduce the first hybrid-powered bus in China as well as to commence the production of wind power generators in 2007.

The following table sets forth the total units sold and refurbished for each of our rolling stock product lines in the periods indicated:

	Unit	Year ended 31 December			Three months ended 31 March
		2005	2006	2007	2008
Locomotives					
Manufacturing	Unit	536	492	378	97
Refurbishment	Unit	883	836	985	308
Passenger carriages					
Manufacturing	Car	599	561	629	361
Refurbishment[1]	Car	1,742	2,112	1,912	32
Freight wagons					
Manufacturing	Car	15,037	14,168	16,431	4,487
Refurbishment[2]	Car	41,716	43,779	37,810	4,742
Multiple units					
Manufacturing	Train	2	18	41	5
Refurbishment[3]	Train	1	4	7	40
Rapid transit vehicles					
Manufacturing	Car	228	246	338	54
Refurbishment	Car	—	—	—	—

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(1) The refurbishment figure of passenger carriages for the three months ended 31 March 2008 is substantially low primarily due to the Chinese New Year season, which is always in the first quarter of a year. Passenger carriages must remain in operation to transport the large volume of passengers traveling during that period. As a result, our customers generally do not schedule refurbishment services during the Chinese New Year season.

(2) The refurbishment figure of freight wagons for the three months ended 31 March 2008 is substantially low. This was primarily due to the completion of a special refurbishment project, which took place from 2005 to 2007, called "K2 Technology Reform".

(3) The refurbishment figure of multiple units for the three months ended 31 March 2008 is substantially high. This was primarily due to the first group of multiple units entering into its maintenance and refurbishment cycle during the first quarter of 2008.

Our Rolling Stock Products and Services

Locomotives

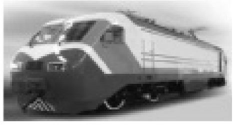
A locomotive is a powered vehicle that pulls passenger carriages and freight wagons and does not carry passengers or freight. We manufacture both DC and AC electric locomotives and diesel locomotives. We manufacture heavy-hauling freight locomotives as well as locomotives used for fast passenger service.

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, we sold 536, 492, 378 and 97 locomotive units, respectively, and refurbished 883, 836, 985 and 308 locomotive units, respectively. In recent years, we have produced an increasing number of electric AC locomotives, which generally have greater hauling capacity and are more efficient than diesel and DC electric locomotives.

We own and operate the largest electric locomotive manufacturing facility in China in terms of production volume. As a result of the growing number of electrified railways, demand for electric locomotives is growing at a faster rate than demand for diesel locomotives. As such, China's rail vehicle manufacturers manufactured more electric locomotives than diesel locomotives for the first time in 2006, with 472 electric locomotives compared to 467 diesel locomotives. In addition, we provide leasing services for our locomotives.

We possess world-leading technologies used for the manufacture of four-axle, six-axle and eight-axle diesel and electric locomotives. We have worked with the PRC Government to set industry standards in the domestic diesel and electric locomotive markets.

The following table sets forth the details of certain achievements of our Company and predecessors' landmark locomotive products:

	Type	**Landmark achievements**
	Electric locomotives	● The first electric locomotive in China; ● HXD1 high-powered AC electric locomotives; ● dual-locomotives with a total capacity of 9,600 kW for pulling 20,000-tonne freight trains on the Daqin Railway Line; ● "Go Front (九方)" DJ and "Olympic Star (奥星)" DJ2 high-speed electric locomotives with a designed maximum speed of 200 km/h; ● SS9 and SS4 electric locomotives which have been selected for long-distance transportation in several nation-wide major speed increase projects; and ● renowned six-axle AC electric locomotives for freight trains with a maximum speed of 120 km/h which are exported to Uzbekistan, and AC electric locomotives for passengers with a maximum speed of 200 km/h which are exported to Kazakhstan.
	Diesel locomotives	● DF8BJ diesel locomotives with a total capacity of 6,000 hp, one of the most powerful diesel locomotives in the world; ● DF11G diesel locomotives with a maximum speed of 170 km/h, the fastest diesel locomotive recorded in China, which have been selected for long-distance transportation in several nation-wide speed increase projects; ● 5,000 hp DF8B diesel locomotives for freight transportation; and ● diesel locomotives used for the Qinghai-Tibet Railway Line.

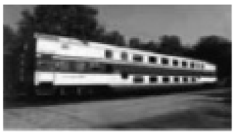
Passenger carriages

Passenger carriages are cars designed to transport passengers by rail and are typically supplied as a set to form passenger trains. Our passenger carriage products comprise rail vehicles that are mainly used for passenger transportation purposes, including seating coaches, berth sleeping cars, dining cars, power generation cars and double-deck passenger carriages.

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, we sold 599, 561, 629 and 361 passenger carriages, respectively, and refurbished 1,742, 2,112, 1,912 and 32 passenger carriages, respectively. We provide CR bureaus and other railway operators with refurbishment services for passenger carriages at our three refurbishment facilities in Nanjing, Qingdao and Chengdu.

We possess core technologies for the production of high-end passenger carriages and have been designated as a domestic manufacturer of high-end passenger carriages. We design and manufacture products with world-leading technologies. We also own a passenger carriage electrification research institute where we develop innovative electrical technologies for passenger carriage units and components.

The following table sets forth the major types and details of our passenger carriage products:

	Type	Product description
	Seating coaches	Cars that are equipped with seats
	Berth sleeping cars	Cars that are equipped with sleeping facilities
	Dining cars	Cars that are equipped with a kitchen, dining room and storage room, and on which dining services are provided to passengers
	Power generation cars	Cars that are equipped with power generating equipment driven by motor engines
	Double-deck passenger carriages	Cars that are equipped with two decks of passenger rooms

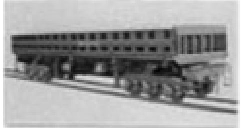
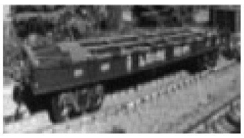
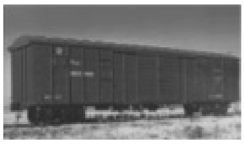
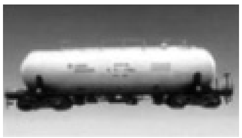
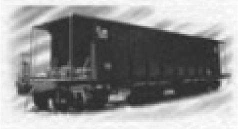
Freight wagons

A freight wagon is a rail vehicle primarily used to convey goods or for special purposes including railway line construction, bridge building and track testing. Our freight wagon products mainly consist of open top wagons, flat wagons, box wagons, tank wagons, hopper wagons and other special purpose vehicles. We manufacture freight wagons to transport various products, including cargo containers, timber, fuels, chemicals, ores, coal, chemical and liquefied gas.

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, we sold 15,037, 14,168, 16,431 and 4,487 freight wagons, respectively, and refurbished 41,716, 43,779, 37,810 and 4,742 freight wagons, respectively. We provided maintenance, upgrade and refurbishment services for freight wagons through our three subsidiaries, namely, CSR Yangtze, CSR Feb. 7th and CSR Shijiazhuang.

We have successfully manufactured heavy-hauling freight wagons that can each carry a weight of more than 160 tonnes as well as freight wagons with 40-tonne axle loads. Our heavy-hauling freight wagons are the most commonly used freight wagons on the major mainlines of freight rails in China, such as the Daqin Railway Line, China's first electrified coal-dedicated freight rail line. As a world-class designer and manufacturer of freight wagons, we entered into agreements from 2006 to early 2008 to export in total 110 ore-transporting hopper wagons and 976 ore-transporting wagons, which have high axle loads.

The following table sets forth the details of each of our freight wagon products during the periods indicated:

	Type	Product description
	Open top wagons	Open top wagons are rail vehicles used to transport coal, ores, construction materials, machines and equipment, steel, wood and other materials, and are specially designed for easy manual loading and unloading. They are also suitable for mechanical unloading systems such as wagon tippers and defrosting warehouses.
	Flat wagons	Flat wagons are used to transport timber, machines, vehicles, components, steel, full container load cargo, sections of large-scale concrete bridges and containers.
	Box wagons	Box wagons are used to transport goods that must be free from sunlight and moisture as well as full container load cargo and packed goods. They can also be modified to carry workers and are designed to meet the operational requirements of mechanical loading and unloading systems such as forklifts.
	Tank wagons	Tank wagons are used to transport light oil such as gasoline, kerosene, diesel oil, viscous oil such as crude oil and lubricating oil, and goods in powder form such as cement, alumina powder or yellow phosphorus.
	Hopper wagons	Hopper wagons are used to transport bulk cargo such as coal, ores and grains, and are suitable for pneumatic loading and unloading.
	Other special purpose vehicles	Special purpose vehicles are used to transport special goods such as cars, pre-cast beams, oversized cargos and goods requiring heat insulation.

Multiple units

Multiple units, a set of trains, are composed of power cars that carry traction or power related equipment as well as trailer cars that do not carry traction or power related equipment. Our multiple unit products consist of MUs with maximum operating speeds up to 200 km/h, over 200 km/h and over 300 km/h.

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, we sold 2, 18, 41 and 5 trains, respectively. Our EMUs are commonly used in high-speed trains as well as intercity commuter and rail networks in China due to their fast acceleration, pollution-free operation and low noise emission levels. In recent years, we successfully developed and manufactured the CHR_2, a new generation of high-speed EMUs that can exceed 200 km/h. Subsequently, we also developed a new generation of high-speed EMUs that can exceed 300 km/h.

The following table sets forth the major types and details of MUs we manufacture:

	Type	Product description
	MUs up to 200 km/h	MUs with maximum operating speeds up to 200 km/h
	MUs over 200 km/h	MUs with maximum operating speeds over 200 km/h
	MUs over 300 km/h	MUs with maximum operating speeds over 300 km/h

Rapid transit vehicles

Our rapid transit vehicle products consist of metro cars and light rail cars.

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, we sold 228, 246, 338 and 54 rapid transit vehicles, respectively. We were the largest manufacturer of rapid transit vehicles in China in terms of total new bid value of contracts in 2007. The increase in domestic rapid transit vehicle production capacities reduced China's reliance on rapid transit vehicles imported from developed countries and narrowed the technology gap between China and countries with sophisticated technologies. Major cities and municipalities in China, such as Beijing, Shanghai, Shenzhen, Guangzhou and Nanjing, have already purchased our technologically-sophisticated rapid transit vehicles for their rapid transit systems. We have successfully developed and manufactured rapid transit vehicles powered by technologically advanced linear motors for the No. 4 Line and the No. 5 Line of Guangzhou Metro.

The following table sets forth the major types and details of our rapid transit vehicles:

	Type	Product description
	Metro cars (Linear motor cars)	With the application of advanced technology, the linear motor car is superior in terms of its low noise emission, high climbing capacity and low maintenance costs. The No. 4 Line and the No. 5 Line of the Guangzhou Metro are the only metro lines in China operating with linear motor cars.
	Metro cars (Non-linear motor cars)	The non-linear motor car has higher speeds, higher passenger capacities, higher levels of efficiency and lower levels of energy consumption and pollution. It is also safer and more environmentally-friendly and utilizes less space compared to city buses.
	Other rapid transit vehicles	Rapid transit vehicles are specially designed for surface level transportation within metro areas.

Other Products

We also manufacture key components used for our rolling stock products, including bogies, DC traction motors, AC traction motors, diesel engines, electronic control systems and other rail car components. Our monitoring and recording systems are used extensively in rolling stock, both in the domestic and overseas markets. As part of our strategy to diversify our product portfolio, we have utilized our core technologies and knowledge in the area of electric power conversion and diesel engines to introduce the first hybrid-powered bus in China and commenced production of wind power generators in 2007. In addition, leveraging the experience and technologies related to the manufacture of diesel engines that we have accumulated over the years, we commenced mass production of vessel diesel engines and crankshafts for sale in the global market.

NEW PRODUCTS AND NEW PRODUCT DEVELOPMENT

In evaluating the market feasibility of a new product, our research and development and sales and marketing teams evaluate its anticipated demand, as well as assess whether the product will allow us to capitalize on the comparative advantages gained from our core technologies and competence. We generally focus our product development efforts on products with attractive margins, as well as those with the potential to help us reach our revenue growth targets.

We are able to manufacture innovative products based on technological know-how imported from overseas and by utilizing our strong research and development capabilities. We continue to import advanced and sophisticated technologies and customize such technologies for our operations. We have also successfully developed our own proprietary and marketable technologies and products to meet the specific needs of the PRC domestic market through our research and development and modification of these imported technologies.

As of the Latest Practicable Date, we had the following new products and products under development for both the rolling stock market and the market for rolling stock related technologies:

New product	Product description
EMUs with maximum operating speeds of over 300 km/h	We are currently studying the technology behind EMUs that can reach 200 km/h in order to develop technology to increase the maximum obtainable speed of EMUs to over 300 km/h. Our project was endorsed by the technology department of the MOR in 2006. Currently, all programs under this project are in progress.
Six-axle 9,600 kW electric locomotives	We have conducted studies on the technology of eight-axle AC electric locomotives with axle powers of 1,200 kW, and have successfully commenced domestic production of such locomotives. We are currently developing our 6-axle AC electric locomotive with axle power of 1,600 kW for freight use.
Bogies for seating coaches for passenger trains with maximum operating speeds of over 200 km/h	The technology barrier of passenger carriages with operating speeds of 200 km/h lies in the design of the bogie. We are currently in the trial stage with low-volume production. The rail inspection cars for railway lines with maximum speeds of 200 km/h have commenced trial operation.
6,000 hp diesel locomotives	We introduced upgraded AC diesel locomotives with great horsepower.
General freight wagons with maximum operating speeds of 120 km/h and express freight wagons with maximum operating speeds of 160 km/h	We are developing general freight wagons with maximum speeds of 120 km/h to increase further the operating speed of general freight wagons. In addition, we are developing express freight wagons with maximum speeds of 160 km/h to provide expedited transportation of special goods.
Heavy-hauling freight wagons with load capacities of more than 130 tonnes	We are developing freight wagons with large axles and heavy-hauling capacity to meet the need for heavy-hauling transportation on dedicated lines and increased loading capacity.
Hybrid-powered buses	Collaborating with well-known industry players, we capitalized on our experience with the core technology of main power transmission systems to conduct research and manufacture hybrid-powered vehicles and pure electric vehicles.
Wind power generators	By introducing, studying and applying the core technologies of reputable foreign wind power enterprises and cooperating with them, we have developed equipment for wind power generators suitable for domestic use.
Diesel engines and vessel engine crankshafts	We cooperate with reputable foreign engine companies to develop engines using diesel oil, gas, heavy oil and other fuel. With strong research and development capabilities in respect of crankshafts, we have expanded our product range by introducing various crankshafts for vessel engines, which have been certified by various shipping bureaus.

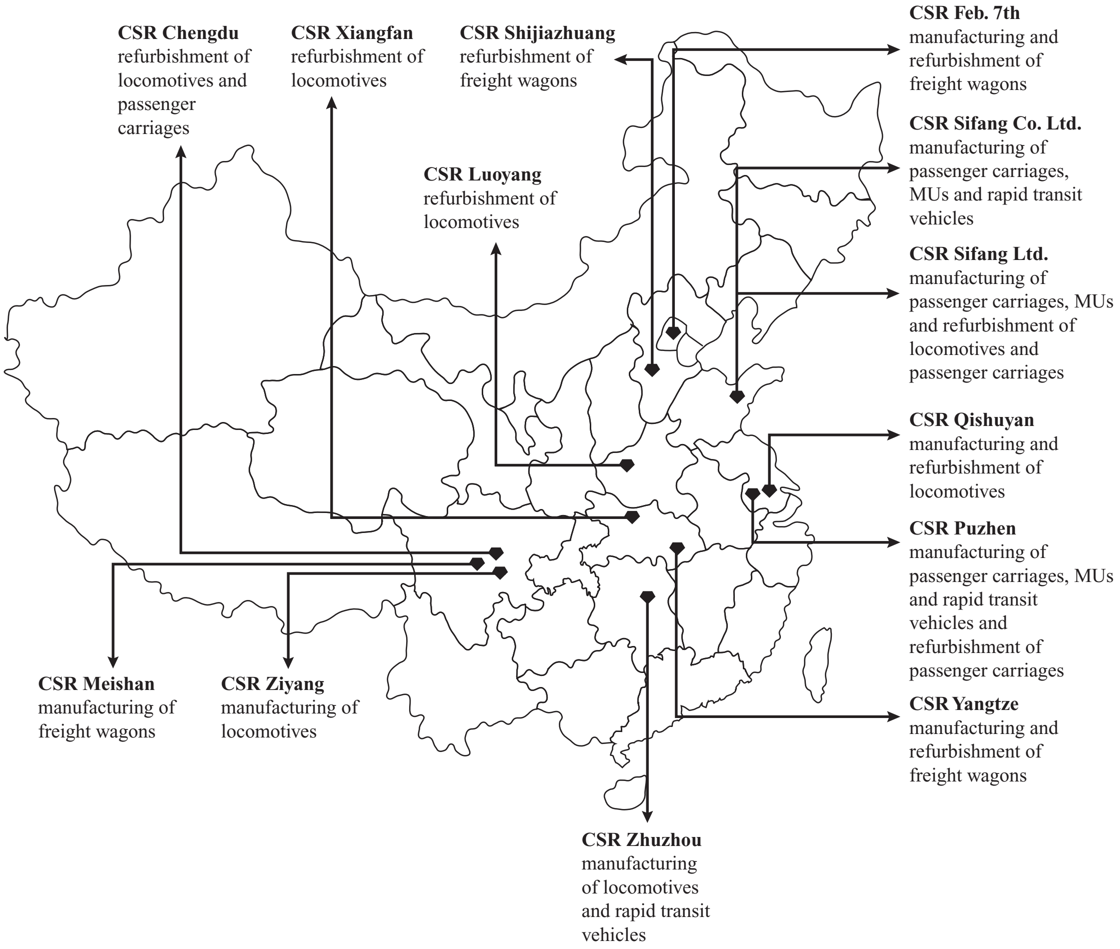
OUR FACILITIES

Existing Facilities

As of 31 March 2008, we had nine manufacturing facilities and nine refurbishment facilities, which occupied a total of approximately 10,458,300 m^2 of land. As of 31 March 2008, we owned a total of 5,383 metal cutting machines, 1,489 forging machines, 4,405 power engines, 13,184 electrical machines, 6,167 cranes or conveyance machines, 1,253 metal processing machines, 1,098 carpentry and casting machines, 2,127 testing machines, 256 engineering machines and 4,788 other machines.

Manufacturing Facilities

We own and operate a substantial number of large-scale rolling stock production plants in nine provinces and municipalities in China. As of 31 March 2008, we provided maintenance, upgrade and refurbishment services for locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and other rolling stock products in nine locations across China. The following map shows the details and locations of our major manufacturing and refurbishment facilities as of the Latest Practicable Date:



We seek to maintain uninterrupted operation of our facilities. However, we may experience intervals between orders. The following table sets forth information on the utilization rates as well as the actual and planned production volume for our facilities for our product lines as of the dates indicated(1):

		As of 31 December 2005			As of 31 December 2006			As of 31 December 2007		
		Utilization %	**Actual production**	**Production capacity**	**Utilization %**	**Actual production**	**Production capacity**	**Utilization %**	**Actual production**	**Production capacity**
Locomotives(2)	Manufacturing cars	85.8	564	870	77.4	495	770	60.8	346	770
	Refurbishment cars	84.5	862	1,020	74.5	760	1,020	91.9	937	1,020
Passenger Carriages(3)	Manufacturing cars	51.5	772	1,500	62.1	932	1,500	45.7	685	1,500
	Refurbishment cars	88.5	1,946	2,200	85.7	1,885	2,200	89.1	1,961	2,200
Freight Wagons	Manufacturing cars	85.5	16,508	19,300	80.4	15,523	19,300	89.7	17,319	19,300
	Refurbishment cars	108.3	30,120	27,800	105.9	29,443	27,800	104.2	28,959	27,800
MUs	Manufacturing units	—	4	—	100.0	240	240	118.9	523	440
Rapid Transit Vehicles(4)	Manufacturing units	66.5	206	310	45.7	201	440	50.4	262	520

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(1) The production capacities and utilization rates in this table are generated by standard calculations and represent only an estimation.

(2) The listed utilization rate for manufacturing locomotives as set forth above is greater than the actual production divided by production capacity. The listed utilization rate is calculated with the adjusted production volume and assumes that all products are standard median power locomotives, which reflects recently developed high-power locomotives.

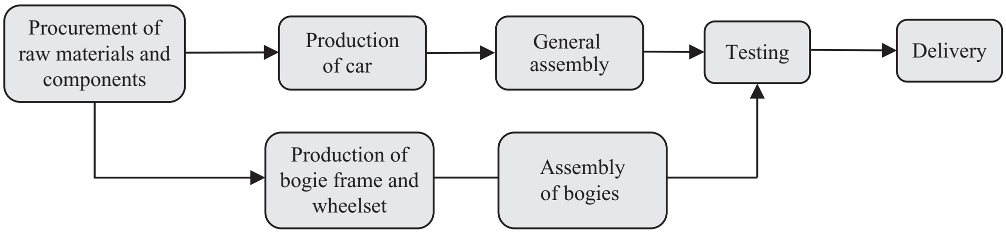
(3) Our utilization rate for manufacturing passenger carriages decreased in 2007 due to the decreased market demand for passenger carriages resulting from increased market demand for MUs.

(4) The actual utilization rates of rapid transit vehicles in the years 2006 and 2007 are greater than the listed utilization rates as the listed utilization rate is calculated by including developing production capacity.

MANUFACTURING AND REFURBISHMENT PROCESSES

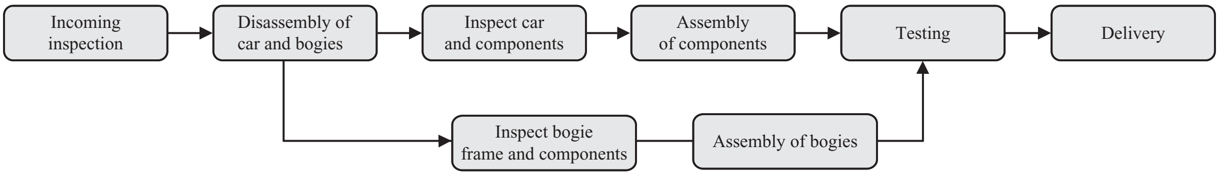
We offer our customers innovative solutions and systems for rolling stock products, including locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key components used in rolling stock products, such as bogies, traction motors and on-board electric control systems. The manufacture of all rolling stock essentially involve steps such as the production and procurement of key components and modules, assembly of components, testing and delivery. The following flow chart summarizes the manufacturing processes for our rolling stock products:

Rolling Stock Manufacturing Process



We also provide maintenance, upgrade and refurbishment services for all types of rolling stock. Our refurbishment process for rolling stock products primarily comprises disassembly, cleaning or basic checks, examinations, components repair, assembly, adjustment and testing, unit assembly, unit testing, final check and delivery. Freight wagon refurbishment involves additional steps, including chassis polishing and de-rusting, speed-raising reformation and car reformation. The following flow chart summarizes the process of our refurbishment services:

Rolling Stock Refurbishment Process



RAW MATERIALS, COMPONENTS AND SUPPLIERS

The main raw materials and components we use for our rolling stock production include steel, aluminum, copper, decorating materials, engines, converters, power distribution cabinets, high- and low-voltage electronics, diesel engines, wheels, axles, gear driving devices, bearings, bolsters, measurement shelves, brake beams, sleeper springs, buffers and couplers. Most of these materials and components are supplied to us by domestic manufacturers and suppliers, while a small portion is supplied by international manufacturers.

The following table sets forth the metallic raw materials that we use in our manufacturing process, as well as key suppliers of these materials in the three months ended 31 March 2008:

Category	Material/components	Key suppliers
Materials		
Metal	Steel, Aluminum, Copper	Wuhan Iron and Steel (Group) Corp.; Maanshan Iron and Steel Co., Ltd.; Panzhihua Iron and Steel Co., Ltd.; Taiyuan Iron and Steel Co., Ltd.; Wuhan Iron and Steel (Group) Corp.—Hankou Work

We use a combination of centralized procurement and separate procurement. We combine the orders for general raw materials required by our subsidiaries, select the suppliers and negotiate and sign the purchase contracts for the total amount required. Centralized procurement enables us to enhance our bargaining power on procurement terms and receive large volume discounts. For special raw materials, procurement is decentralized and each of our subsidiaries selects its suppliers and negotiates and signs contracts for itself. This combined approach to procurement enables us to lower our procurement costs and ensure a steady supply of raw materials.

For our primary raw materials such as steel, copper, aluminum and key components, we use three different procurement methods. For major purchases of raw materials, we make centralized and direct purchases from large-scale suppliers. For small procurement amounts, our subsidiaries engage in the bidding or negotiation processes for purchases on a stand-alone basis. Components involving more advanced technologies are usually sourced directly by our subsidiaries. With respect to expensive components, we adopt a strategic procurement strategy to foster a technology-cooperative relationship with some of our suppliers. With less costly components, our subsidiaries make purchases by selecting suppliers that offer competitive prices.

We usually purchase each of our key raw materials and components from at least two suppliers to enhance our bargaining power on prices and to avoid over-reliance on a single supplier who may exercise monopolistic power and demand terms that are less favorable to us. We select our suppliers based on various criteria, including their supply quality, price, capacity, credit terms, contract performance and customer service. We review the performance of each of our suppliers based on these criteria annually, in addition to changes in market conditions and renew our supplier database. We believe that we have maintained stable relationships with our main suppliers of raw materials, which enable us to procure reliable supplies of raw materials used in our rail vehicle production. Moreover, we form and maintain strategic alliances with our major suppliers and enter into direct supply or general agent agreements. As a result, we enjoy preferable terms on those agreements and are able to lower our overall procurement costs. As of the Latest Practicable Date, we had not experienced any major interruptions in key raw material and component supplies for our operations.

We believe that raw materials purchased from our suppliers are fungible and therefore, we do not anticipate significant difficulties in obtaining alternative sources of supply if necessary. We also conduct our own logistics and materials supply businesses.

Electricity is the primary source of energy for our operations. We receive our electric power supplies from local grids where our plants are located. Except for a few days of power suspension at some of our subsidiaries' plants resulting from inclement weather in the first quarter of 2008, which did not cause us to incur any material loss, we have not experienced any major disruption in electricity, diesel fuel or water supplies in recent years.

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, purchases from our largest supplier accounted for approximately 5.5%, 4.2%, 2.4% and 2.3% of our total purchase cost, respectively. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, purchases from our five largest suppliers accounted for approximately 13.4%, 11.7%, 9.3% and 6.5% of our total purchase cost, respectively.

During the Track Record Period, the following state-owned enterprises had been our five largest suppliers: China Railway Materials Trading Co., Ltd., China Railway Materials Commercial Corporation, China Railway Materials Shanghai Company, China Railway Construction Investment Company and China Railway Materials Chengdu Company. Our aggregate purchases from such enterprises which are among our five largest suppliers for the three years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, amounted to RMB849.8 million, RMB1,018.1 million, RMB753.4 million and RMB256.7 million, respectively, which accounted for 5.5%, 6.2%, 3.9% and 4.6%, respectively, of our total purchase cost.

All of our five largest suppliers are independent third parties. None of the Directors, their respective associates or any shareholders of our Company holding more than 5% of our issued capital, to the knowledge of our Directors, owned any interest in any of our five largest suppliers as of the Latest Practicable Date.

BACKLOG AND INVENTORIES

Backlog

Backlog represents our estimate of the contract value of work that remains to be completed as of a certain date. The contract value of a project represents the amount that we expect to receive under the terms of the contract assuming the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles. As of 31 March 2008, our backlog amounted to approximately RMB68.4 billion. During the Track Record Period, we did not experience any incident where the revenue amounts reported in our backlog did not result in actual revenue and profits. However, we cannot assure you that the projected revenue amounts reported in our backlog will not decline or will result in actual revenue or translate into profits.

Inventory

Our inventory includes: (i) raw materials; (ii) work-in-progress; and (iii) finished goods. We prepare a rolling two-to-three-month forecast of our raw material requirements and purchase raw materials to increase our inventory if we expect material shortages or cost increases. We also periodically review the availability of raw materials and our requirements with our suppliers, particularly during peak seasons.

SALES AND MARKETING

Sales and marketing for our products and services are primarily conducted by the sales force of each operating subsidiary under the coordination of our central sales and marketing department based in our Beijing headquarters. As of the Latest Practicable Date, we had approximately 2,500 employees in sales and marketing, which involves product sales and the provision of after-sales services.

All of our rolling stock products and key components are manufactured on a build-to-order basis.

Domestic Sales of Rail Vehicles

We provide rail vehicle products, such as locomotives, passenger carriages, freight wagons and MUs, in the PRC domestic market. Typically, we enter into sale and purchase agreements with our domestic customers after we secure purchase orders for our products through a bidding process. The purchase price is typically our bidding quote.

Sale and purchase agreements contain provisions relating to delivery method, the cost allocation, technical requirements and other documents, representations and warranties, inspection, trial runs and testing of rail vehicles, check and acceptance, quality assurance and quality bonds, insurance, after-sales services, force majeure, delivery time, penalty or liquidated damages for delays and termination of agreement. Depending on the sales region and the customer, our product prices may be quoted on a free on board basis (FOB), or cost insurance and freight basis (CIF), both of which are inclusive of VAT. We provide different warranty periods for complete rolling stock units and various components used in our products. The warranty period for a complete unit ranges from a term of one to three years or is limited to a fixed number of operating kilometers of the rail vehicles while the warranty periods for components are set forth in industry standards promulgated by the MOR.

Domestic Sales of Rapid Transit Vehicles

Typically, we obtain orders for our rapid transit vehicles through an open bidding process held by rapid transit operators or business entities set up and managed by local governments, such as project companies. We generally enter into sale and purchase agreements with our domestic customers following a successful bid. In addition, we periodically bear the costs and taxes relating to imported components or equipment for our rapid transit vehicle products, as such costs and taxes are already included in our bidding quote. The purchase price is generally the fixed price we propose in our bidding documents. If the purchase price is denominated in a foreign currency, the agreement generally provides a fixed conversion rate for Renminbi payment, and we bear the risk of exchange rate fluctuations. Nevertheless, in respect of addendum orders, a price adjustment mechanism may be included to reflect the exchange rate or cost of raw materials at the time of such orders. With respect to payment relating to the cost of consumable or spare components and specific equipment identified in the agreement, we require our customers to pay the full amount upon receipt of such components or equipment.

We may occasionally participate in bids for domestic projects in the form of a consortium with a foreign market player as current laws and regulations do not permit the latter to bid alone for MUs, locomotive and rapid transit vehicle projects. We typically sign a consortium memorandum of understanding or agreement with our alliance partner that provides binding terms and conditions for both parties for the duration of the projects. Under these arrangements and with the mutual intent to win bids, our alliance partner typically provides the technologies required for the projects while our Company serves as the lead bidder for the projects.

Sale and purchase agreements usually contain provisions relating to delivery method, cost allocation, technical requirements, the inspection and acceptance of deliveries, quality assurance and quality bonds, insurance, after-sales services and other rights and obligations of the parties. The agreement to import components or equipment will be deemed a part of the sale and purchase agreement. We usually provide limited warranty periods for complete units of rapid transit vehicles; however, we do not provide quality assurance and quality bonds for consumable components.

Overseas Sales

We export various rolling stock products, such as locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles. The purchase price is generally a fixed price specified in the bidding document. We may receive advance payments ranging from 10% to 30% of the purchase price after we provide a bank guarantee for an amount corresponding to the advance payments as required by the underlying agreement. During the Track Record Period, although the PRC Government adjusted the refund tax rate for certain export goods in June 2007, the refund tax rate for rolling stock remained unchanged.

We generally secure overseas sales through the following methods: (i) direct participation in international bidding processes; (ii) engagement of a domestic agent to solicit foreign customers; and (iii) participation in engineering, procurement and construction projects as a subcontractor through a domestic agent who assigns portions of the project to us.

The sale and purchase agreements for our overseas sales often contain similar provisions to the agreements for our domestic sales. We usually commence production only after we receive bank guarantees for the orders from our overseas customers. We enjoy VAT refunds for exports of our products. Payments for our overseas sales are made by time bill, letter of credit or telegraphic transfer, and is primarily in U.S. dollars. In certain cases, we also provide technology transfers or continuous technical support for our products sold to foreign customers.

Pricing

The sales price of our rolling stock products in both the PRC domestic market and the overseas market are not subject to price controls imposed by the PRC Government. The majority of our purchase orders are procured through an open bidding or price negotiation process. We determine the price of our products based on the cost plus reasonable profit method.

Credit Policy and Collection

Our customers are generally required to make a prepayment to us of an amount ranging from 20% to 30% of the total contract price before the sales contract becomes enforceable and production is commenced. The remainder of the contract price is payable according to a delivery schedule. Final payment of certain contracts is subject to a retainer ranging from 5% to 15% of total contract price, to be paid after the warranty period (generally one to two years after our customers receive the products). We will continue to review our credit policy as we deem necessary based on market conditions.

We determine a customer's payment terms based on several factors, such as our prior dealings with the customer, sales volume, the customer's current financial position and prevailing market conditions. We generally stipulate payment upon delivery in sales contracts. With respect to new or short-term customers, we usually enforce strict payment provisions and require full payment prior to delivery. All payments by our domestic customers are made in Renminbi. If the purchase price of our products is denominated in a foreign currency, payment is generally made by our overseas customers in the foreign currency denominated in the contract, and we bear the risk of exchange rate fluctuations. Nevertheless, in respect of addendum orders, a price adjustment mechanism may be included to compensate the fluctuation of exchange rate or cost of raw materials.

As of 31 March 2008, our trade and bills receivable amounted to approximately RMB6,172.7 million. We did not experience any incidents of non-payment or default payment that materially and adversely impacted our business operations and financial condition during the Track Record Period.

Delivery

Pursuant to market practice and the contracts between our Company and our domestic customers, we deliver our rail vehicle products on site at our manufacturing plants. The delivery is deemed complete when a trial test on railways is successfully completed and the representatives of our customers take control of the product. Our rapid transit vehicle products are transported to the customers through railway networks to a drop-off location designated by our customers.

Substantially all of our exported products to foreign customers are transported through railway networks or sea freight.

Warranties

Our Company offers warranties to customers on all of our rolling stock products and components. The warranty period normally ranges from one to three years or is limited to a fixed number of operating kilometers. We make provision for warranties based on historical information including defect rates and repair costs of our products. We continuously review material deviation from past cost information to make appropriate adjustment to the provision. Our provision policy in relation to warranties has been consistently applied during the Track Record Period.

Our provision for warranties for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008 was RMB86.8 million, RMB99.6 million, RMB152.5 million and RMB28.7 million, respectively. The increase was mainly due to the increase of warranty liabilities in line with the growth of sales during the Track Record Period. For the three months ended 31 March 2008, the balance of provision of warranties was RMB135.9 million.

Seasonality

Our manufacturing and sales activities are not subject to seasonality.

CUSTOMERS

Types of Our Customers

The following table sets forth each type of our customers, revenues earned by customer type and revenues from each type of these customers as a percentage of our total revenue:

	Year ended 31 December						**Three months ended 31 March**			
	2005		**2006**		**2007**		**2007**		**2008**	
	(RMB million)	**%**	**(RMB million)**	**%**	**(RMB million)**	**%**	**(RMB million) (unaudited)**	**%**	**(RMB million)**	**%**
Domestic sales										
The CR bureaus, the MOR and the enterprises under them	10,828.4	54.7	13,434.7	58.3	16,528.4	61.7	3,815.9	62.9	4,060.1	61.6
Other enterprises	6,081.1	30.8	6,608.0	28.7	6,646.8	24.8	1,375.9	22.7	1,978.8	30.1
Rapid transit operators and rapid transit vehicles and components purchasers	1,215.4	6.1	1,227.2	5.3	1,699.1	6.3	268.2	4.4	245.5	3.7
Sub-total	18,124.9	91.6	21,269.9	92.3	24,874.3	92.8	5,460.0	90.0	6,284.4	95.4
Export sales	1,659.6	8.4	1,777.1	7.7	1,929.2	7.2	605.8	10.0	301.7	4.6
Total	19,784.5	100.0	23,047.0	100.0	26,803.5	100.0	6,065.8	100.0	6,586.1	100.0

Domestic customers

The MOR and its CR bureaus

The CR network is operated by 18 government-owned operators, or CR bureaus, each of which covers their respective regions. The CR bureaus are the operating entities under the MOR, the central regulatory authority of the railway industry in China. The CR bureaus are, through the MOR, the ultimate end-users of locomotives, passenger carriages and MUs, while certain qualified enterprises authorized by the MOR are the purchasers of freight wagons. As a result, the MOR is virtually the sole purchaser of all rail vehicles that are operated on the national railways which account for more than 98% of the total length of the railway network in China.

We generally win purchase orders for our rail vehicle products from the CR bureaus, the MOR and the enterprises under them through a bidding process. Purchase orders placed by the CR bureaus, the MOR and the enterprises under them depend largely on prevailing government policies and permit minimal negotiation regarding price and profits. See "Risk Factors—Risks Relating to Our Business Operations—We generate a significant portion of our revenue from a limited number of customers. As such, the loss of one or more of our customers or significantly reduced purchases by these customers could adversely affect our business, financial condition and results of operations".

As one of the two major suppliers of rolling stock products in the PRC, we believe that we have maintained and will continue to maintain a strong relationship with the MOR, largely due to our qualifications, reputation, product quality and reliability, sophisticated technologies and research and development capabilities.

Other enterprises

We also sell our rolling stock products and key components to other enterprises, which mainly consist of local railway operators, seaports and large industrial and mining enterprises. Purchase orders from these customers are generally based on their specific requirements. Each of our operating subsidiaries maintains a sales and marketing team to collect market information, negotiate purchase terms and conditions and participate in the bidding or price negotiations for purchase orders.

Rapid transit operators

In recent years, we have also focused on manufacturing rapid transit vehicles for rapid transit systems in major cities and municipalities, such as Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing, Shenyang, Chengdu and Hong Kong. In China, rapid transit systems are not part of the national rail system and thus, fall outside the regulation of the MOR. Rapid transit operators and other rapid transit vehicles purchasers are able to select the supplier of rapid transit vehicles and components through an open-bidding process. From time to time, we participate in the bidding process to enter into contracts to provide rapid transit vehicles and components for rapid transit systems that are operated in major cities and municipalities throughout China.

Sales and marketing of our rapid transit vehicles and components are conducted by each of our respective subsidiaries engaged in the production of such products. We believe that we are a competitive market player for rapid transit vehicles and components due to our qualifications, sophisticated technologies, reputation, product quality, prompt deliveries and competitive prices.

Overseas customers

We export our rolling stock products to over 30 countries and regions, including Asia-Pacific countries such as Australia, Vietnam, Pakistan, Malaysia, Cambodia, Sri Lanka, Bangladesh and India; Central Asian countries such as Uzbekistan, Kazakhstan and Turkmenistan; African countries such as South Africa, Namibia, Angola and Madagascar; and South American countries such as Venezuela, Brazil and Argentina. We also export rolling stock products and major components to the United States, Germany, Hong Kong and other countries and regions. Substantially all of our export sales are conducted by those of our operating subsidiaries engaged in international operations. Sales to the United States is conducted through TEUSA, one of our subsidiaries that primarily engages in sales and marketing activities targeting our U.S. customers, such as GE. TEUSA is duly organized in the Commonwealth of Pennsylvania, is presently in good standing in the Commonwealth of Pennsylvania and has not been subject to any sanctions or penalties. TEUSA possesses all permissions, qualifications and approvals to operate in all areas in which it presently operates.

We determine a foreign customer’s payment terms based on several factors, such as our prior dealings with the customer, sales volume, the customer’s current financial position and prevailing market conditions. We generally stipulate payment upon delivery in the sales contracts entered into with our overseas customers.

Geographical Analysis of Our Sales

The following table sets forth our sales revenue based on the geographical locations covered by our distributors during the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008:

							Three months ended 31 March			
	2005		2006		2007		2007		2008	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million) (unaudited)	%	(RMB million)	%
China	18,124.9	91.6	21,269.9	92.3	24,874.3	92.8	5,460.0	90.0	6,284.4	95.4
Overseas	1,659.6	8.4	1,777.1	7.7	1,929.2	7.2	605.8	10.0	301.7	4.6
Total	19,784.5	100.0	23,047.0	100.0	26,803.5	100.0	6,065.8	100.0	6,586.1	100.0

Large Customers

For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, our five largest customers accounted for approximately 62.0%, 66.2%, 69.4% and 69.6% of our revenue, respectively, and our largest customer, comprising the CR bureaus, the MOR and the enterprises under them, accounted for approximately 54.7%, 58.3%, 61.7% and 61.6% of our total revenue, respectively.

Our largest customer for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, consisted of the CR bureaus, the MOR and the enterprises under them, which is an independent third party. In addition, all of our five largest customers are independent third parties. None of our Directors, chief executives, management, associates or shareholders holding more than 5% of our issued share capital had any interest in any of our five largest customers for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008.

COMPETITION

A number of factors affect the markets in which we manufacture and sell our rolling stock products, including product life cycle, product reliability, performance, passenger comfort and features, time to market, technology leadership and after-sales services. The prices of our rolling stock products depend primarily on market demand as well as other factors such as raw material costs. Market demand is subject to the development of the railway and rapid transit infrastructure in the markets in which we sell our rolling stock products.

We principally operate businesses and compete in two markets, namely, the PRC domestic market and the overseas market.

PRC Domestic Market

We were the largest rolling stock manufacturer in China in terms of revenue in 2007. According to the *National Statistical Society of China*, during the three years ended 31 December 2007, we held a market share of 51.1%, 46.4%, 40.8%, 80.0% and 36.6% for locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles, respectively, in terms of volume, as well as 50.9%, 39.4% and 51.8% for refurbishment services of locomotives, passenger carriages and freight wagons, respectively, in terms of refurbishment volume. In addition, a number of relatively smaller companies in the PRC domestic market participate in the manufacture of freight wagons, including

Baotou Beifang Chuangye Co., Ltd., Chongqing Heavy-Duty Casting & Forging Plant and Jinxi Machinery Industries Group. In the locomotive and passenger carriage refurbishment market, we also compete with Liuzhou Maintenance Works and Shenyang Maintenance Works. In addition to our Company and the CNRG Group, Guangzhou Rolling Stock Works and Liuzhou Maintenance Works provide refurbishment services for freight wagons.

The international rolling stock manufacturers that participate in China's rolling stock manufacturing market include Bombardier, Alstom, Siemens, GE and Kawasaki. Due to industry policy and certain technological barriers, overseas rolling stock manufacturers are currently unable to engage in manufacturing of complete units in China. Therefore, we currently do not compete directly with these international players in the PRC domestic market.

Overseas Market

We export our rolling stock products, including locomotives, passenger carriages, freight wagons, MUs and relevant components to more than 30 countries and regions around the world. We compete in these markets based on criteria such as product performance, pricing, maintenance costs and delivery schedules. In recent years, we have devoted resources to develop new markets in Central Asia, Southeast Asia, Australia, Russia, Eastern Europe and South America, in addition to developed markets in Asia and Africa. Our overseas total new bid value of contracts in 2007 amounted to US$570.0 million, representing a 171.4% increase in the last five years.

We encounter intense competition in the export market from international companies, leading global brands and manufacturers, such as Bombardier, Alstom, Siemens, GE, Kawasaki and the other major PRC domestic market player. Compared to these competitors, our market share in the international rolling stock market is relatively small.

During the Track Record Period, the majority of our export sales of rolling stock products were to developing countries. We plan to explore and develop the markets in selected developed countries to export more high-end products, such as EMUs and rapid transit vehicles. We may encounter more intense competition with international players in developed markets.

RESEARCH AND DEVELOPMENT

We dedicate significant resources to the development of our research and development capabilities. We are constantly enhancing our technology development and have 16 technology research and development centers and research institutes that provide our operating subsidiaries and an associated company with technological support, services and solutions to practical production problems involving our rolling stock and related components, including:

Category	Number	Operating entities
National engineering technology research centers	1	● National Engineering Research Centre of Converters (NERCC), at CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.
State-accredited research and development centers	5	● CSR Zhuzhou Electric Locomotive Co., Ltd. ● CSR Sifang Locomotive and Rolling Stock Co., Ltd. ● Zhuzhou Times New Material Technology Co., Ltd. ● CSR Yangtze Rolling Stock Co. Ltd.—Zhuzhou Branch ● CSR Meishan Rolling Stock Co., Ltd.
Provincial engineering technology research centers	3	● CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. ● CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. ● CSR Sifang Rolling Stock Co., Ltd.
Provincial enterprise research and development centers	2	● CSR Ziyang Locomotive Co., Ltd. ● CSR Qishuyan Locomotive & Rolling Stock Co., Ltd.
Provincial key labs	1	● CSR Sifang Locomotive and Rolling Stock Co., Ltd.
Post-doctoral workstations	4	● CSR Zhuzhou Electric Locomotive Co., Ltd. ● CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. ● CSR Sifang Locomotive and Rolling Stock Co., Ltd. ● CSR Ziyang Locomotive Co., Ltd.

We have also established relevant rules and guidelines to monitor our system for evaluating and rewarding our research and development centers, technology research investments, technology research projects and technology research results. As of 31 March 2008, we employed the only member of the Chinese Academy of Engineering in China's rolling stock manufacturing industry, nine national youth experts, 169 youth experts at the provincial and ministerial level, 134 experts receiving special subsidies from the State Council, approximately 138 professor-level senior engineers, 2,484 senior technical professionals and close to 10,000 technical personnel of different levels.

As of the Latest Practicable Date, we had undertaken 59 research projects supported by government agencies at the national and provincial levels, of which 23 were supported by the State, 12 were supported by the MOR and 24 were supported by provinces.

We have also established cooperative relationships with PRC domestic and overseas research institutes and manufacturers, including a collaboration between CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. and Michigan State University in the U.S., which resulted in our first overseas industrial electronic and electric research center.

In recent years, we have also devoted part of our research and development capabilities to develop applications for alternative energy generation by leveraging our existing electric power conversion technology. With our strong research and development resources, we are able to mass produce and market our technologies and therefore, occupy the leading position in the developing high-speed and heavy-hauling rail vehicle market. In addition to our product focus on passenger locomotives and carriages with speeds of 200 km/h, heavy-hauling freight locomotives with 25-tonne axle loads, freight wagons with 23-tonne axle loads, new general freight wagons with speeds of 120 km/h, high-speed freight wagons with speeds of 160 km/h and other freight wagons for special purposes, we have successfully developed the following products/technologies:

- PRC domestic production of HXD1 eight-axle high-powered AC electric freight locomotives using imported technologies;
- Passenger carriages for the Qinghai-Tibet Railway Line. We developed manufacturing technologies for plateau passenger carriages for this project, enhancing our market recognition and demonstrating our strong research and development capacity;
- Iron ore hopper wagons, double-headed flat wagons and various new freight wagon products as well as container-dedicated cars with speeds of 160 km/h;
- Type B stainless steel metro cars for Beijing BaTong Line and Type A aluminum alloy metro cars for Shanghai Metro, the first rapid transit vehicles powered by technologically advanced linear motors for Guangzhou Metro; and
- First converter system, network control system, traction motor and gearing system for domestically manufactured metro cars in China using proprietary intellectual property rights.

We also focus our efforts on developing new projects and/or technologies by forming strategic alliances with some of the major international players to work on various projects, including 200 km/h EMU technology, 200 km/h CL242 bogies, stainless steel car manufacturing technology, AC traction systems for 200 km/h MU high-powered AC drive electric and diesel locomotive manufacturing technology and co-production of 200 km/h EMUs and high-powered AC drive electric and diesel locomotives.

Our total expenditures on research and development recognized in our income statements for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, amounted to approximately RMB247.7 million, RMB328.5 million, RMB478.6 million and RMB122.0 million, respectively, representing 1.3%, 1.4%, 1.8% and 1.9% of our total revenue, respectively.

In the next five years, we intend to maintain levels of investment in research and development similar to those during the Track Record Period and focus on developing and pioneering new technologies. We will also optimize our investment, evaluation, incentive, training and performance review systems and cultivate the innovative skills of our managerial, research and development and technical personnel. From time to time, we will adjust our research and development focus in response to industry trends and market demand to maintain our leading position in the market.

QUALITY CONTROL

We have implemented strict quality control measures throughout our production processes in accordance with national standards as well as with ISO9001:2000 quality management standards, ISO14001:2004 standards and OHSAS18001:1999 standards. All members of our Company have complied with quality control manuals and documents. In addition to the assurances given by our suppliers, we monitor the raw materials supplied for quality-control purposes. At all stages of our production process, we adopt measures to control the capability, function and safety of our products, such as defect prevention, software testing and reliability testing.

The following table sets forth international standards of quality for which members of our Company or our products were accredited as of the Latest Practicable Date:

International Standard	Our subsidiaries or products
ISO9001:2000 (quality systems)	● All members of our Company
ISO10012 (measurement systems)	● CSR Zhuzhou Electric Locomotive Co., Ltd. ● CSR Sifang Locomotive and Rolling Stock Co., Ltd. ● CSR Ziyang Locomotive Co., Ltd. ● CSR Qishuyan Locomotive Co., Ltd. ● Testing and Examination Centre of CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.
ISO/TS16949 (quality management systems)	● CSR Ziyang Locomotive Co., Ltd. ● CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.
AAR M-210 (product quality certification)	● Bolsters and side frames exported to the United States by CSR Yangtze Rolling Stock Co., Ltd. and CSR Qishuyan Locomotive Co., Ltd.
AAR M-1003 (product quality certification)	● Bolsters and side frames exported to the United States by CSR Yangtze Rolling Stock Co., Ltd. and CSR Qishuyan Locomotive Co., Ltd.
German DIN6700-2 welding certification	● CSR Zhuzhou Electric Locomotive Co., Ltd. ● CSR Qishuyan Locomotive Co., Ltd. ● CSR Sifang Locomotive and Rolling Stock Co., Ltd. ● CSR Ziyang Locomotive Co., Ltd.
Certifications issued by various foreign classification societies	● CSR Ziyang Locomotive Co., Ltd. ● CSR Qishuyan Locomotive Co., Ltd.

As of the Latest Practicable Date, we had not experienced any sales returns by customers and had not experienced any material product liability or other legal claims involving problems relating to the quality of our products.

OCCUPATIONAL HEALTH AND SAFETY

Our operations involve the usage of electricity, smelting, welding, craneage, mechanical, transportation processes and a certain amount of flammable and explosive materials. As a result, our employees may face risks of various work-related injuries and accidents. We are subject to relevant rules and regulations on occupational health and safety, such as the *Safe Production Law of the PRC,* the *Occupational Disease Prevention and Control*, the *Regulations on Production Safety Permits* and the *Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents*. We have established a Safe Production Committee, headed by our President, to form and oversee our organizational structure for occupational health and safety. We set up our safety rules and systems based on the core value of safe production. Our emergency management procedures, which have been reviewed by the State Administration of Work Safety, involve the reporting and handling of emergency situations. The Safe Production Committee also organizes relevant departments and personnel to conduct periodic inspections of our facilities to ensure that all stages of our operations are in compliance with existing laws and regulations, including a safety and environmental protection department at our headquarters and offices in various operating subsidiaries. The department, managed by professional employees, is in charge of daily compliance and the supervision of work. As we believe that safe production is the best way to ensure employee safety, our Safe Production Committee also conducts regular training sessions for employees on accident prevention and management through safety and environmental protection departments at different levels. According to our PRC legal advisers, Grandall Legal Group (Beijing), our operations are in compliance with the currently applicable labor and safety regulations in all material respects.

We impose safety measures as well as regular internal safety inspections at all stages during our operations including but not limited to the purchase, installation and operation of new equipment as well as the construction of new facilities and the manufacturing of products in order to minimize the possibility of work-related accidents and injuries. We provide various healthcare benefits and insurance, as well as safety education, to our employees in accordance with the applicable laws and regulations. We also invest in training for our employees that are involved with formulating and implementing measures to comply with occupational health and safety protection issues, while assisting personnel in attaining the requisite certification to ensure they have the appropriate expertise to handle work safety matters.

The operating subsidiaries of the Company that are required to obtain and maintain a safe production permit issued by the relevant PRC local authorities currently have such permit. 95% of our manufacturing subsidiaries have obtained GB/T 280001 certificates issued by the occupational health and safety authority, and more than half of our manufacturing subsidiaries have passed the first grade and second grade examination of safety and quality standardization.

We experienced four fatalities in 2005, one fatality and one severe injury in 2006, and one severe injury in 2007. All of these incidents were independent and isolated accidents and resulted from the relevant employees' failure to follow our Company-mandated safety procedures. The causes of the work-related fatalities and severe injury during the Track Record Period are not related to our internal control measures. We have conducted thorough investigations for all of the accidents and compensated the injured employees and family members of the deceased employee so that there are no outstanding legal disputes relating to such accidents. In addition, to improve further our internal control measures, we have strengthened our safety measures at our plants to prevent the recurrence of such accidents, including installation of alarms and warning signs in operation areas, conducting periodic examination of machinery and operational sites to identify and solve potential safety hazards and adopting safety education and training programs for employees. We have also established various safety-related rules and procedures that provide our employees with detailed guidance, including approval procedures for work on high above ground areas, operational standards for cranes and safety inspection procedures for the implementation of new equipment. In addition, we implemented a formal program entitled "Investigations of the Responsibility for Serious Work Safety Accident" as a part of our internal work safety control systems. Except for the above, our Company has used our best endeavors to reduce or eliminate the recurrence of major injuries, death accidents, fire accidents and traffic accidents. The occurrence of these incidents could have an adverse impact on our reputation and corporate image, qualifications for production, business and results of operations. We did not experience any material operational interruption due to the above accidents. However, we cannot guarantee that safety-related incidents will not occur in the future.

ENVIRONMENTAL MATTERS

We do not operate in a highly-polluted industry, and our production processes primarily involve technical processing and manufacturing. However, we consider environmental compliance important to our operations. Our operations in the PRC are subject to, among other relevant environmental protection standards, the following environmental laws and regulations: (i) the Environmental Protection Law; (ii) the Water Pollution Prevention Law; (iii) the Solid Waste Pollution Law; (iv) the Atmospheric Pollution Law; and (v) the Cleaner Production Promotion Law. Under PRC laws, we are not permitted to commence construction and expansion projects until we have obtained the appropriate approvals from the relevant environmental authorities. We also perform our own assessments of the environmental impact of these projects. We are also required to closely monitor the emission of waste water, polluted air, noise and other wastes to ensure full compliance with state and local regulations. We are committed to strict and full compliance with the relevant environmental protection requirements in the PRC, and we utilize raw materials that have low or no toxicity levels and are either harmless or less harmful to the environment. We also utilize new technologies that do not contaminate or do not manufacture significant levels of pollution in an effort to prevent, minimize or manage pollution during our production processes. The low levels of waste water, gas pollution, noise pollution and solid waste we generate during our production process, after internal processing, are all within the permitted levels. We also operate waste water processing plants at all of our manufacturing facilities.

We maintain a safety and environmental protection department at our headquarters and offices in various operating subsidiaries. The department, managed by professional employees, conducts inspections of different projects, supervises daily operations and identifies potential environmental risks. The department also works closely with the relevant authorities at the national, provincial and municipal levels to ensure compliance with environmental laws and regulations. We assist such professional employees in attaining the requisite certification to ensure they are qualified and have the appropriate knowledge to handle environmental protection matters. Based on the confirmations issued by the local Environmental Protection Bureaus in the areas where we operate, we have not substantially violated any national, provincial and municipal environmental laws and regulations during the past three years. According to our PRC legal advisers, Grandall Legal Group (Beijing), we have fully complied with the relevant environmental rules and regulations during the Track Record Period and have not experienced any material environmental pollution incidents. There have been no material administrative penalties imposed on us as a result of a violation of environmental rules and regulations during the Track Record Period.

We also conduct environmental feasibility studies and environmental impact assessments for all of our projects, and will install pollution control facilities, if necessary, to ensure our compliance with current and potentially higher environmental protection standards and/or requirements of our expanded manufacturing facilities.

All of our subsidiaries have successfully obtained ISO14001 certificates for their environmental management systems, except for one subsidiary due to the ongoing relocation of its manufacturing facilities, which is expected to be completed in 2009.

INTERNAL CONTROLS

Pursuant to the PRC Company Law, Code of Corporate Governance for Listed Companies in the PRC and other relevant regulations, we have established internal rules and policies, such as the Rules of Procedure for Shareholders' Meeting, the Rules of Procedure for Board of Directors, the Rules of Procedure for Supervisor Committee, Independent Directors Working Principles and President Working Principles. These internal rules and policies define the rights and obligations, scope of responsibilities and procedural rules for our Board of Directors, Supervisors Committee and President and set the procedural processes governing shareholders' meetings. Major decisions have been and will be made in the shareholders' meetings, board meetings and supervisors meetings, and such major decisions have been and will be made legitimately and effectively. We have also implemented internal procedures with a view to establish and maintain our internal control system, which cover our investment management, financial management, human resource management, performance review, external information disclosure and administrative management.

Our management evaluated our accounting internal control systems in relation to financial report prepared pursuant to the MOF's "Accounting Internal Control Regulations—Basic Regulations (Trial)", specified regulated standards and China GAAP. On the basis of this evaluation, our management issued an Evaluation Opinion which states its belief on our current internal control systems which cover major aspects of our internal management and, were designed specifically for our Company and have no material weakness as to their completeness, effectiveness and reasonableness. Our management will continue to improve our internal control system according to our operational needs and business development.

INTELLECTUAL PROPERTIES

We rely on patents, software copyrights, trademarks and contractual rights to protect our intellectual property rights. Our intellectual property rights are critical to our businesses. In connection with the Restructuring, the Company entered into a trademark transfer agreement with CSRG on 28 December 2007 as supplemented by a supplementary agreement dated 15 July 2008, pursuant to which CSRG has transferred to the Company on a one-off basis at a nominal fee of RMB1.0 trademarks which relate to our core businesses, and which are registered or being applied for registration by CSRG in the PRC and Hong Kong. As of the Latest Practicable Date, we held 162 trademarks, 26 invention patents, 383 utility model patents, 74 design patents, 604 patent applications pending the approval of the State Intellectual Property Office of China, or SIPO, and eight trademark applications pending the approval of the Trademark Office State Administration for Industry and Commence People's Republic of China, or CTMO. Grandall Legal Group (Beijing) is of the view that there is no legal impediment to obtain approval for such pending trademark applications. We regularly submit patent applications for products and technologies that we have developed in order to actively protect our intellectual property rights. We also possess unregistered trade secrets, technologies, know-how, processes and other intellectual property rights.

We have not engaged in any litigation or legal proceedings for violation of intellectual property rights, and there is no material violation of the same. Details of our intellectual property rights are set out in "Appendix IX—Statutory and General Information—Further information about our business" included in this Prospectus.

PROPERTIES

Our head office is located in Beijing, PRC. As of 30 June 2008, we possessed the land use rights of 144 parcels of land and the ownership certificates for 2,371 buildings in the PRC. In addition, we have 19 buildings under construction and have leased eight buildings or units and one parcel of land in the PRC. We have also leased three units outside of the PRC.

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, valued our owned property interests at an amount of approximately RMB6,949,990,000 (after deducting the minority interests) as of 30 June 2008. The text of the valuer's letter, summary of values and valuation certificates prepared by Jones Lang LaSalle Sallmanns Limited in connection with its valuation are set out in "Appendix IV—Property Valuation" to this Prospectus.

Land Use Rights

Pursuant to the Restructuring, CSRG transferred to us the land use rights of 144 parcels of land with a total site area of approximately 11,246,746.31 m^2 in the PRC, the details of which are as follows:

(i) 57 parcels of granted land with a total site area of approximately 2,843,790.38 m^2, which have been transferred to us upon the transfer of the equity interests of the subsidiaries holding such land. The granted land use right certificates of these 57 parcels of land have all been obtained and are under the names of the subsidiaries;

(ii) 62 parcels of authorized land with a total site area of approximately 5,409,782.4 m^2, which CSRG has been authorized by the MLR to manage and operate and have been injected into us as capital contribution upon our establishment in return for our shares. We have obtained the land use right certificates of these 62 parcels of land;

(iii) 23 parcels of state-capital-injection land with a total site area of approximately 2,722,997.59 m^2, which have been contributed as capital into our relevant subsidiaries. We have obtained the land use right certificates of these 23 parcels of state-capital-injection land; and

(iv) two parcels of granted land with a total site area of approximately 270,175.94 m^2, for which the granted land use right certificates have been issued to the relevant members of CSRG. We are in the process of changing the registration so that the land will be properly registered in our name. According to our PRC legal advisers, Grandall Legal Group (Beijing), there are no legal impediments in registering the change of names and the relevant land use certificates will be granted in our name once the change of name has been duly registered. The CSRG Group has agreed to indemnify us for any loss or damage suffered should we fail to obtain the relevant land use right certificates in respect of these two parcels of land.

Buildings

The buildings transferred to us by the CSRG Group as part of the Restructuring include:

- 2,045 buildings with a total gross floor area of approximately 3,311,784.24 m^2. Among these buildings, we have obtained building ownership certificates of 1,979 buildings, with a total gross floor area of approximately 3,250,902.76 m^2. In respect of 28 buildings with a total gross floor area of 19,136.68 m^2, all of which are being used mainly for ancillary production or offices and erected on land to which we have obtained land use rights certificates, we are in the process of changing the registration of the building ownership certificates into our names. The Directors expect that the application for change of registered name of the relevant certificates will all be completed before 31 December 2008. According to our PRC legal advisers, Grandall Legal Group (Beijing), there are no legal impediments for the change of registered names of such properties. For the remaining 38 buildings, with a total gross floor area of approximately 41,744.80 m^2, were built on the two parcels of granted land for which granted land use right certificates have been issued in the names of the relevant members of the CSRG. We are in the process of changing the registration of the building ownership certificates into our names. The two parcels of land and the 38 buildings are used mainly for ancillary production or offices and are not crucial to our operations and we can relocate to other premises to conduct the same activities, if required; and
- 326 buildings with a total gross floor area of approximately 282,019.03 m^2, for which our Company has not yet obtained proper building ownership certificates. Of these buildings, 125 buildings with a gross floor area of approximately 86,622.23 m^2, which are located in Shijiazhuang and Chengdu, all of which are being used mainly for ancillary production or offices and located on land to which we have obtained land use rights certificates, have to be surrendered and be relocated to other locations pursuant to the relevant town planning regulations and have not been issued the relevant building ownership certificates. These 125 buildings are not crucial to our operations. We are negotiating with the local government on the relocation but no new location nor timing for the relocation has been agreed. The remaining 201 buildings with a gross floor area of approximately 195,396.80 m^2 have not yet obtained proper building ownership certificates due mainly to the fact that the relevant government planning procedures or construction procedures have not yet been completed. We are in the process of completing relevant procedures and applying for the building ownership certificates for the 201 buildings. We will endeavor to obtain all relevant building ownership certificates within one year from the Listing Date.

  According to our PRC legal advisers, Grandall Legal Group (Beijing) and our Directors, the absence of title documents of the 326 buildings will not have a material adverse effect on our business because: (i) the 125 buildings which have to be surrendered to the local government pursuant to the local town planning regulations will be relocated to other locations; (ii) the 201 buildings were built on our own land, there exists no legal dispute in relation to the use of such buildings; and (iii) the 201 buildings are mainly for ancillary production or offices, which we can easily relocate to other premises to conduct the same activities. According to our PRC legal advisers, Grandall Legal Group (Beijing) there is no illegal use of the relevant properties. According to the Restructuring Agreement, CSRG has undertaken to indemnify our Company for all our loss, claims, expenses and fees that we may suffer by reason of our failure to obtain proper building ownership certificates in respect of such buildings.

Pursuant to the Restructuring Agreement, CSRG has undertaken to provide all necessary assistance in our application for the building ownership certificates. CSRG has also undertaken to bear any costs or expenses arising from the transfer of these building ownership certificates, and has undertaken to compensate us for all losses, claims, expenses and fees that we may suffer should we fail to obtain the building ownership certificates, to the extent such failure is not due to us.

Buildings under Construction

CSRG has transferred to us 19 new buildings which are currently under construction, all of which are being built on land to which our Company possesses valid land use rights certificates. Upon completion, these buildings will have an estimated total gross floor area of approximately 223,439.28 m^2. The relevant building ownership certificates of the buildings under construction will be obtained by us or our relevant subsidiaries after construction and property registration with the relevant authorities. We intend to use these buildings for office and production purposes. Among the 19 new buildings currently under constructions, 13 buildings have proceeded with the construction without first obtaining all relevant permits as we had decided to commence construction work and apply for the relevant permits concurrently. We are applying for all the relevant permits for commencement of the construction works.

According to our PRC legal advisers, Grandall Legal Group (Beijing), as we do not possess all the relevant permits in respect of some of the buildings under construction, if the construction has an impact on urban planning which cannot be rectified, there is a possibility that the relevant PRC government authority will confiscate or order us to demolish the buildings and impose a fine of up to 10% of the construction costs. Where the impact on urban planning can be rectified, a time limit will be imposed for us to rectify but we could still be fined between 5% and 10% of the construction costs involved.

Our Directors are of the view that apart from the 13 buildings that have commenced construction work without first obtaining all relevant permits, other construction in progress does not involve any material breach of urban planning regulations or that if there has been deviation to planning regulations, such deviation can be rectified, and that the relevant permits will be issued within 12 months from the Listing Date. Accordingly, we will not cease construction work purely to wait for the issue of the relevant permits.

We have formulated internal policies to ensure that construction work will not be commenced ahead of the granting of the necessary permits in the future. CSRG has undertaken to indemnify us for any loss or damages, claims, expenses and fees which we may suffer as a result of the failure to apply for the relevant permits.

Leased Land and Properties

As of 30 June 2008, we leased one parcel of land of approximately 5,000 m^2 and eight buildings with a total gross floor area of approximately 25,648.59 m^2 in the PRC.

We leased one parcel of land in the PRC from the PRC Government with valid title certificate. Of the eight buildings or units leased by us, the relevant lessors of four buildings or units with a total gross floor area of approximately 4,425.55 m^2 have been granted building ownership certificates while the remaining buildings or units with a total gross floor area of approximately 21,223.04 m^2 have not yet been provided or granted proper building ownership certificates. The leases of the eight buildings have not been registered. According to our PRC legal advisors, Grandall Legal Group (Beijing), registration is not a mandatory condition for the validity of the lease and the absence of such registration will not affect the legality of the lease agreements or affect our use of the relevant properties. As we can easily relocate to other premises to conduct the same activities, the Directors are of the view that absence of registration of such leased buildings will not affect the operations of our Company. Pursuant to the Restructuring Agreement, CSRG has undertaken to resolve any title disputes in respect of such leases and be responsible for all losses or damages as well as our costs and expenses for any such disputes. CSRG has also undertaken to assist the lessor in obtaining the relevant land use right certificates within 12 months from the date of our establishment.

A small portion of our land and buildings amounting to about 177,643.25 m^2. have been rented out to various independent third parties for production, office and ancillary facilities. We have entered into lease agreements with the tenants of these land and building but the agreements have not been registered. According to our PRC legal advisers, Grandall Legal Group (Beijing), registration of the leases is not mandatory. In addition, as we are the landlord of such land and buildings, Grandall Legal Group (Beijing) confirms that our rights as landlord will not be affected by such non-registration and the only relevant effect of non-registration is that the tenants may be subject to a fine or penalty if they sub-let the land or building. CSRG has, nevertheless, agreed to indemnify us for any loss and damage that might arise from the un-registered leases.

Overseas Properties

As of 30 June 2008, we leased three units with a total gross floor area of approximately 259.94 m^2 in Hong Kong, the U.S. and Germany. Such properties are rented to us from independent third parties. Our Directors are of the view that such tenancy agreements have been entered into in accordance with the local legal requirements and are valid and binding.

Waiver from Certain Valuation Report Requirements

Owing to the substantial number of properties we own and lease, we have applied for and obtained a waiver from the Hong Kong Stock Exchange from strict compliance with Rule 5.01, Rule 5.06(1), Rule 5.06(2), Rule 5.06(3), Rule 19A.27(4) and Paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules and an exemption from the SFC from strict compliance with paragraph 34(2) of the Third Schedule of the Companies Ordinance on the grounds that:

(a) it would be unduly burdensome to list each of the properties in the valuation report included in Appendix IV to this Prospectus and show their particulars and values individually in this Prospectus; and

(b) it would be unduly burdensome to prepare an English translation of the full valuation report in respect of properties in the valuation report included in Appendix IV to this Prospectus, as all of the properties of our Company are located in the PRC and consequently the underlying valuation and title information is in Chinese.

The exemptions were granted with conditions which are set out in "Appendix IX—Statutory and General Information".

See "Appendix X—Documents Delivered to the Registrar of Companies and Available for Inspection—Documents available for inspection" for the time and place that the full valuation report will be available for public inspection.

EMPLOYEES

Currently, we have entered into employment agreements with every member of our entire work force. The agreements specify the employee's position, responsibilities, remuneration and grounds for termination pursuant to PRC Labor Law and other relevant regulations. Some of our subsidiaries are parties to collective bargaining agreements with their employees. These collective bargaining agreements are entered into and executed after fair and equal negotiations on the relevant conditions in accordance with all relevant laws and regulations and therefore, are valid and effective. Our employees are selected through a competitive hiring process. As of 31 March 2008, our Company had approximately 79,575 employees, 9,302 of whom hold bachelor's degrees, 620 of whom hold master's degrees and 14 of whom hold doctorates. The table below sets forth the number of our employees by their functions:

	As of 31 March 2008	
	Number of Employees	**% of Total**
Manufacturing personnel	53,698	67.5
Technical personnel	9,423	11.8
Managerial personnel	7,164	9.0
Others	9,290	11.7
Total	79,575	100.0

We have implemented a number of initiatives in recent years to enhance the productivity of our employees. We conduct periodic performance reviews for our employees, and offer performance-based salaries and bonuses. In addition, we have implemented training programs according to different job requirements. We believe that these initiatives have contributed to increased employee productivity.

The remuneration package for our employees generally includes salary and bonuses. Employees also receive welfare benefits, including medical care, housing subsidies, retirement benefits, occupational injury insurance and other miscellaneous items. We paid our employees, in the foregoing wages, salaries and other employee's benefits, an aggregate of RMB2,479.7 million, RMB2,682.6 million, RMB2,788.4 million and RMB742.7 million for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008, respectively.

As required by the applicable regulations, we participate in various pension schemes for our staff organized by municipal and provincial governments as well as supplemental pension schemes, pension subsidies and early retirement benefits programs. We are required to make contributions of approximately 20% of the wages, salaries and other employee's benefits to government pension schemes. Members of the plan are entitled to a pension equal to a fixed proportion of the salary prevailing at their retirement date. We have no other material obligations for the payment of pension benefits associated with these plans beyond the annual contributions described above. Our costs incurred in respect of government and supplemental pension schemes as well as pension subsidies and early retirement benefits programs for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008 were RMB447.9 million, RMB436.2 million, RMB516.7 million and RMB139.2 million, respectively. Each of our employees currently pays a percentage of their salary as contribution to the government pension scheme. Upon retirement, our employees are entitled to a pension payment from the scheme. All employees who are unable to work due to illness or disability are entitled to receive certain benefits during their period of absence from the workplace.

We have labor unions that protect our employees' rights, assist us in attaining the economic objectives of our Company, encourage employee to participate in management decisions and assist us in mediating disputes with union members. Our subsidiaries and their operating units both have separate labor union branches. During the Track Record Period, we did not experience any material disruption during our normal business operations due to strikes or labor disputes, and we believe that we have and will continue to maintain positive relations with our employees.

INSURANCE

Pursuant to general practice in the industry, we are required to obtain fire, liability or other property insurance for the property, equipment or inventories in relation to our operations. We have also purchased pension insurance, medical insurance, unemployment insurance, work-related injury insurance, personal injury insurance and maternity insurance for our employees, in compliance with the relevant PRC laws and regulations. See "Risk Factors—Risks Relating to Our Business Operations—Insurance coverage for our business, products and properties may not be sufficient".

Consistent with what we believe to be customary practice in China, we do not carry any third-party liability insurance to cover claims in respect of personal injury, property or environmental damages arising from accidents on our property or relating to our operations, nor do we carry any business interruption insurance, key-man life insurance, or director and supervisor liability insurance on our key employees. Our Company and our subsidiaries do not carry product liability insurance for any of our products. Such insurance policies are not mandatory according to PRC laws and regulations, and would impose additional costs on our operations, which would reduce our competitiveness. See "Risk Factors—Risks Relating to Our Business Operations—We may be held liable for any damages or losses incurred in connection with or arising from the use of our products".

We will continue to review and assess our risk portfolio. We will make necessary and appropriate adjustments to our insurance mechanisms in line with our needs and with industry practice in China. As of the Latest Practicable Date, we have not received any material claims from our customers regarding any of our products.

OFAC REGULATIONS

As a non-U.S. corporation with global operations, we engage in activities in, and with parties from, certain countries that U.S. laws prohibit the engaging of business activities by U.S. citizens and other persons subject to U.S. laws, including in some cases, foreign persons and corporations. The U.S. Economic Sanctions Laws, principally administered by OFAC, impose trade and economic restrictions and in some cases, comprehensive sanctions against certain countries and parties. Currently, Cuba, Iran and Sudan are subject to comprehensive sanctions. During the Track Record Period, we conducted business in Sudan and Iran. We also conducted business with entities in other OFAC sanctioned countries, including Syria, in a less material manner during the Track Record Period. For the years ended 31 December 2005, 2006 and 2007, total revenues generated from our operations in Sudan and Iran amounted to approximately RMB535.4 million, RMB480.0 million and RMB50.1 million, accounting for approximately 2.7%, 2.1% and 0.2% of our total revenue, respectively. We did not generate any revenue in and from Sudan and Iran in the three months ended 31 March 2008. However, we cannot assure you that we will not generate revenue from business activities in and from these countries or other countries subject to U.S. sanctions in the foreseeable future.

OFAC rules generally apply only to U.S. persons, non-U.S. entities owned or controlled by a U.S. person and in certain cases to non-U.S. entities which export goods containing more than 10% U.S. content. According to our U.S. legal advisors, except for TEUSA which does not engage in business with sanctioned countries, neither the Company nor any subsidiary of the Company is a U.S. person or a non-U.S. entity owned or controlled by a U.S. person. Moreover, none of our exports to sanctioned countries contains more than 10% U.S. content. Accordingly, we are not subject to sanctions administered by OFAC. In addition, the Company is not subject to sanctions administered by Iran Sanctions Act (ISA).

Although the relevant regulations are generally applicable only to U.S. persons and certain other persons subject to U.S. jurisdiction and therefore, only have a limited effect on us, they may potentially affect our ability to obtain investments or other financing from U.S. persons.

We will not use any of the proceeds of the Global Offering to fund activities that a U.S. corporation would be prohibited from undertaking under sanctions administered by OFAC or ISA.

LEGAL PROCEEDINGS

We may from time to time be involved in contract disputes or legal proceedings arising from the ordinary course of our business. As of the Latest Practicable Date, neither the Company nor any of its subsidiaries was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations. Moreover, the Company and its subsidiaries were not subject to any material claims, damages, losses or product recalls during the Track Record Period. As of the Latest Practicable Date, no such material litigation, arbitration or administrative proceedings have been threatened.

OVERVIEW

CSR was established as a joint stock company with limited liability on 28 December 2007. CSRG and BRIT, a wholly-owned subsidiary of CSRG, are the Company's promoters and owned 100% of the Company's share capital upon its establishment and immediately prior to completion of the A Share Offering. Immediately after completion of the A Share Offering, CSRG directly and indirectly through BRIT will own approximately 69% and 1% of the Company's total issued share capital, respectively, or will beneficially own an aggregate of approximately 70% of the Company's total issued capital. Immediately after completion of the A Share Offering (assuming 3,000,000,000 A Shares are issued) and the Global Offering, CSRG directly and indirectly through BRIT will own approximately 58.13% and 0.84% of the Company's total issued share capital, respectively, or will beneficially own approximately 58.97% of the Company's total issued share capital assuming the Over-allotment Option is not exercised or approximately 57.57% if the Over-allotment Option is exercised in full and will be our controlling shareholder.

Pursuant to the Restructuring, CSRG transferred to us all its core businesses and related assets and liabilities it owned or operated. The core businesses and related assets and liabilities transferred by CSRG to us include research and development, manufacturing, sale, 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. Upon completion of the Restructuring, CSRG does not have the capability to engage in the core businesses of our Company. The businesses retained by CSRG are detailed in the "Relationship with CSRG— Delineation of Business and Competition" below.

DELINEATION OF BUSINESS AND COMPETITION

Retained Operations

As part of our Restructuring, certain business operations are retained by CSRG (the "Retained Operations") which principally include:

- 100% equity interest in BRIT, which mainly engages in property management, hotel management and equity management etc.;
- operations on the provision of ancillary production products (such as raw materials, rolling stock components, building materials and fuel) and social support services;
- two vocational training schools; and
- 42.64% equity interest in South Huiton, a joint stock limited company established in the PRC, the A shares of which are listed on the Shenzhen Stock Exchange. South Huiton is principally engaged in development and manufacturing of certain types of freight wagons as well as regionalized freight wagon refurbishment and other businesses which are unrelated to our core business, such as research and manufacturing of palm fibre products. South Huiton is currently undergoing a reorganization under which, subject to approvals by its shareholders and relevant PRC regulatory authorities, CSRG proposes to dispose of its 42.64% interest in South Huiton in exchange for the transfer of all the businesses and assets of South Huiton to CSRG.

BRIT

BRIT is principally engaged in property management, hotel management and equity management. Its principal equity investments are its 1.4% equity interest (prior to the A Share Offering and Global Offering) in the Company and 11.3% equity interest in Zhuzhou Times New Material Technology Co., Ltd., whose A shares are listed on the Shanghai Stock Exchange. Other than the above, it does not have any other equity interest in our Company. For the three years ended 31 December 2007 and the three months ended 31 March 2008, and based on the financial information audited under PRC GAAP, the turnover of BRIT amounted to approximately RMB50.4 million, RMB45.0 million, RMB62.4 million, and RMB10.4 million, respectively. As the businesses of BRIT are not related in anyway related to the core businesses of our Company, the Directors are of the view that BRIT does not compete and is unlikely to compete with the businesses of our Company. There is no overlap of directors and senior management between us and BRIT.

Operations on the provision of production products and social support services

As part of the Restructuring, CSRG reorganized its 12 production plants by transferring their core businesses and assets to nine limited liability companies and subsequently transferring the entire equity interests of the nine limited liability companies to us. The 12 production plants continue to retain their legal entity status, each of which is wholly owned by CSRG, and continue to hold their ancillary operations. Such ancillary operations together with other ancillary operations previously retained by CSRG are mainly engaged in the provisions of vocational training services, property management, greening and environmental protection services, hospitals, guesthouse services etc. as well as the provisions of raw materials, such as rubber, steel and copper, simple or standard rolling stock components, such as springs, gears, cover plates and bearings as well as building materials and fuel. These operations are inherently not related to and do not compete with our business operations. In accordance with the relevant policy of the PRC Government relating to the restructuring of PRC State-owned enterprises, the equity interests or assets of such ancillary or support operations, including those providing ancillary production products and social support services, will be centrally managed by CSRG, and are intended to be eventually disposed of or discontinued through equity sale or asset transfers or termination of the relevant operations. The management of each of such operations is independent from us. There is no stipulated timeframe for the completion of asset transfer or termination of relevant operations under current policy. For the three years ended 31 December 2007 and the three months ended 31 March 2008, the value of production products, include raw materials, rolling stock components, construction installation materials, packing materials and fuels, which our Company purchased from CSRG or its associates amounted to approximately RMB285.7 million, RMB285.8 million, RMB306.6 million, and RMB60.7 million, respectively, which accounted for 1.8%, 1.7%, 1.6% and 1.1%, respectively, of the purchase cost of our Company for the respective periods. For further information relating to the supply of production products by CSRG or its associates to our Company, see "Connected Transactions—Non-exempt Continuing Connected Transactions—1. Product Mutual Provision Framework Agreement".

In addition, in order to form strategic alliance with component suppliers, some of the ancillary operations retained by CSRG have long-term investments with minority interests of less than 30% in enterprises which are engaged in the manufacture, sale and maintenance of simple or standard components. Transactions by our Company with such long term investments of CSRG (in which CSRG has more than 10% but less than 30% equity interest) do not constitute connected transactions under the Hong Kong Listing Rules. CSRG does not have any management role in such long-term investments. Most of the components produced by such enterprises are supplied to our Company for use in our core businesses in the manufacture of locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles. The Directors are of the view that such operations complement our core business and do not compete with our Company's operations. However, purchase of components by our Company from CSRG and its associates (in which CSRG has 30% equity interest or more) forms part of the continuing connected transactions between our Company and CSRG covered by the Product Mutual Provision Framework Agreement. For the historical amounts of the purchase of production products, including components, by our Company from CSRG and its associates, see "Connected Transactions—Non-exempt Continuing Connected Transactions—1. Product Mutual Provision Framework Agreement".

South Huiton

CSRG owns a total of 179,940,000 shares, representing approximately 42.64% in the issued share capital, in South Huiton, which is a joint stock limited company established in the PRC. South Huiton is principally engaged in development and manufacturing of certain types of freight wagons as well as regionalized freight wagon refurbishment and other businesses which are unrelated to our core business, such as research and manufacturing of palm fibre products. As part of the Restructuring, CSRG intends to acquire all the operating businesses and assets of South Huiton with a view to further transferring South Huiton's freight wagon manufacturing and refurbishment businesses and assets to us. Trading of the A shares of South Huiton on the Shenzhen Stock Exchange was suspended since 15 January 2008 pending the release of a proposed reorganization plan relating to South Huiton. Subject to approval by the shareholders of South Huiton and relevant PRC regulatory authorities, the proposed reorganization will in principle involve:

(1) the disposal by CSRG of its 42.64% equity interest or part thereof in South Huiton to a purchaser in exchange for the transfer of all the operating businesses and assets of South Huiton to CSRG and at the same time, the injection by the purchaser of viable and sustainable businesses and assets into South Huiton; and

(2) conditional upon South Huiton's transfer of such businesses and assets to CSRG, CSRG will, subject to compliance with the relevant laws and regulations and the listing rules including approval by independent shareholders, transfer the freight wagon manufacturing and refurbishment businesses and assets to us within three months from the date of CSRG's acquisition of such businesses and assets.

As the freight wagon manufacturing and refurbishment businesses and assets are state-owned assets, the consideration for such transfer will be determined based on the valuation conducted by an independent valuer jointly appointed by CSRG and us. If for any reason such businesses and assets are not transferred to us, we are still entitled to acquire such businesses and assets pursuant to the options and pre-emptive rights under the Non-competition Agreement.

CSRG prefers the above method of reorganizing South Huiton for the following reasons:

- CSRG's equity interest of 42.64% in South Huiton is less than absolute control and is subject to other shareholders' interests. As compared with transfer of equity interest, transfer of the freight wagon manufacturing and refurbishment businesses and assets will allow the Company to have direct control and management of such businesses and assets and enable the Company to consolidate 100% of their financial performance; and
- The proposed reorganization plan allows CSRG to dispose of its equity interest in South Huiton while at the same time enables CSRG to inject only the freight wagon manufacturing and refurbishment businesses and assets into our Company.

CSRG has not transferred but instead retained its 42.64% equity interest in South Huiton for the following reasons:

- In June 2006, South Huiton completed the non-tradable share reform in accordance with the PRC policy requirements. Upon completion of the non-tradable share reform and in exchange for the trading status, all the State-owned legal person shares held by CSRG in South Huiton were converted into tradable A shares. In accordance with the relevant laws and regulations relating to non-tradable share reform, any transfer of the A shares held by CSRG in South Huiton within one year from the date of implementation of the share reform is prohibited. In addition, CSRG has undertaken not to transfer the converted A shares within 36 months from the date of resumption of trading of the A shares of South Huiton on the Shenzhen Stock Exchange on 26 June 2006.
- Part of the business operations and assets of South Huiton is not related to the core businesses of our Company and it is inappropriate to transfer the entire equity interest held by CSRG in South Huiton to our Company.

Subject to approval by the shareholders of South Huiton in the meantime, CSRG expects to complete the disposal of its 42.64% equity interest in exchange for all the operating businesses and assets of South Huiton before 31 December 2009, with the completion procedures to take place after the expiry of the 36 months' moratorium period on 25 June 2009, unless otherwise approved by the relevant PRC regulatory authorities. In the meantime and before the expiry of the moratorium period, CSRG will proceed to enter into a sale and purchase agreement with a potential purchaser and to convene an extraordinary general meeting to obtain the approval of the shareholders of South Huiton for the proposed reorganization. The Directors expect that the injection of the freight wagon manufacturing and refurbishment businesses and assets of South Huiton could be completed on or before 31 December 2010.

For the three financial years ended 31 December 2007 and based on PRC GAAP, South Huiton generated total revenue of RMB1,238.6 million, RMB1,119.8 million and RMB1,335.3 million, respectively, and incurred a net loss of approximately RMB149.9 million, RMB133.1 million for the years ended 31 December 2005 and 31 December 2006, respectively, and generated a net profit of RMB12.8 million for the year ended 31 December 2007. During the same period, the total revenue generated from the freight wagon manufacturing business was RMB327.0 million, RMB267.0 million and RMB293.3 million for each of the three financial years ended 31 December 2007, representing approximately 28.3%, 23.8% and 21.9% of the total revenue of South Huiton during the same period. The gross profit of the freight wagon manufacturing business of South Huiton for each of the three financial years ended 31 December 2007 was RMB46.1 million, RMB60.3 million, and RMB 65.2 million, respectively. There are no overlapping directors or management in South Huiton, and our Company and the management of South Huiton is independent from ours.

As compared with our Company and for indicative purpose only, the audited total revenue and gross profit of the freight wagon manufacturing business of South Huiton prepared based on PRC GAAP only represented approximately 8.2%, 5.7% and 5.1% and approximately 10.0%, 10.2% and 7.4% of the unaudited total revenue and gross profit (prepared based on IFRS but unaudited) of our Company's freight wagon manufacturing business for each of the three financial years ended 31 December 2007, respectively. The freight wagon manufacturing operations of South Huiton are therefore small in scale as compared with ours and the competition, if any, by South Huiton is immaterial.

The Directors are of the view that the freight wagon refurbishment business of South Huiton is not in competition with the refurbishment business of our Company for the following reasons:

- South Huiton is located in Guiyang City of Guizhou Province. Our freight wagon refurbishment plants are located in northern and central China, including Beijing (CSR Feb.7th), Shijiazhuang, Hebei Province (CSR Shijiazhuang) and Wuhan, Hubei Province (CSR Yangtze). None of our manufacturing or refurbishment plants is located in or close to Guiyang City or Guizhou Province, which is in southern China.
- The decision as to where to refurbish a freight wagon is made by the MOR and hinges on the location of the nearest freight wagon refurbishment plant. In this regard, the freight wagon refurbishment business of South Huiton, which is mainly on overhaul, does not compete with ours as there is a geographical restriction on where freight wagons refurbishment services could be provided.

The Directors are of the view that other than the freight wagon manufacturing business of South Huiton, the competition of which, if any, is immaterial, CSRG does not have any business, assets or capacity which compete or may compete with our Company. Upon completion of the reorganization of South Huiton, if we acquire the freight wagon manufacturing and refurbishment businesses of South Huiton from CSRG, which will constitute a connected transaction under the Hong Kong Listing Rules, we will comply with the Non-Competition Agreement and relevant requirements of the Hong Kong Listing Rules, including review and/or recommendations by the Independent non-executive Directors and independent shareholders' approval requirements, if applicable. In addition, after the implementation of the protective measures set out in "Relationship with CSRG—Non-Competition Agreement and Undertakings", the Directors believe that our Company will not face competition, whether directly or indirectly from CSRG. For details of our Restructuring, please refer to the "Restructuring" section. For details of the businesses and assets retained by CSRG after the Restructuring, see "Relationship with CSRG—Delineation of Business and Competition" above. In connection with our Restructuring, we have entered into a number of agreements and arrangements with CSRG and other connected persons (as defined under the Hong Kong Listing Rules). For details of such agreements and arrangements, see "Connected Transactions". In addition, we have entered into a Non-Competition Agreement with CSRG. For details, see "Non-Competition Agreement and Undertakings" below.

NON-COMPETITION AGREEMENT AND UNDERTAKINGS

The Company entered into a Non-Competition Agreement with CSRG on 10 January 2008 as supplemented by a supplementary agreement dated 15 July 2008 (collectively, the "Non-Competition Agreement"), under which CSRG agreed not to and will procure that its associates will not compete with us in our core businesses and granted us options and pre-emptive rights to acquire from CSRG the Retained Operations which compete or may compete with our Company's operations. Saved for the immaterial competition from South Huiton in relation to our freight wagon manufacturing business, no other associate of CSRG is engaged in business in competition with our Company. Our core businesses are research and development, manufacturing, sale, 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.

CSRG has undertaken in the Non-Competition Agreement that during the term of the Non-Competition Agreement and subject to the acquisition of the freight wagon manufacturing and refurbishment businesses and assets of South Huiton by us from CSRG (details of the proposed reorganization of South Huiton are set out in “Relationship with CSRG—Delineation of Business and Competition—South Huiton”), CSRG and its associates:

- will not compete with us, directly or indirectly, whether on its own or jointly with other entities in any activities or businesses which directly or indirectly compete with our core businesses including future businesses that we may develop, whether inside or outside the PRC;
- shall not invest in and shall procure that any other company in which CSRG is a controlling shareholder (as defined in the Hong Kong Listing Rules) will not invest in projects which are the same as or similar to the projects invested by our Company or any such replacement projects; and
- will not invest in any enterprises engaged in the same or similar business as ours, whether as associate or controlling shareholder, or any other means of control or any other means so as to engage in any production operations which are the same as or similar to the business of our Company.

In addition, CSRG has agreed not to compete with our core businesses, and has granted us options and pre-emptive rights to acquire those parts of the Retained Operations which may compete with our Company under the Non-Competition Agreement. Upon completion of the Restructuring, CSRG does not have the capability to engage in the core businesses of our Company and cannot utilize any new business opportunities that it may come across. It has therefore undertaken in the Non-Competition Agreement to notify us of such business opportunity upon becoming aware of it. The Non-Competition Agreement provides, among other things, that during the period of the Non-Competition Agreement:

(a) we have the following rights:

(i) options to purchase the following interests of CSRG on the basis of valuation conducted by an independent valuer jointly appointed by CSRG and us, subject to any relevant laws and applicable listing rules and existing third party pre-emptive rights:

- upon completion of the transfer of all the operating businesses and assets of South Huiton to CSRG pursuant to the proposed reorganization plan relating to South Huiton as described in “Relationship with CSRG—Delineation of Business and Competition—South Huiton”, the freight wagon manufacturing and refurbishment business and assets of South Huiton that may be acquired by CSRG;
- any interest (if any) in the Retained Operations which may directly or indirectly compete with our core businesses and which are retained by CSRG after our Restructuring;

(ii) pre-emptive rights to purchase the following interests of the Retained Operations on terms no less favorable than those of third parties, if CSRG or any of its associates intends to transfer, sell, lease or license such interests to any third party:

- upon completion of the transfer of all the operating businesses and assets of South Huiton to CSRG pursuant to the proposed reorganization plan relating to South Huiton as described in “Relationship with CSRG—Delineation of Business and Competition—South Huiton”, the freight wagons manufacturing and refurbishment business and assets of South Huiton that may be acquired by CSRG;

- any interest (if any) in the Retained Operations which directly or indirectly competes with our core businesses; and

(iii) upon the exercise of such option or the pre-emptive right, CSRG or its relevant subsidiary shall transfer such interest to us; and

(b) if CSRG becomes aware of a business opportunity which directly or indirectly competes, or may lead to competition, with our core business, CSRG will notify us of such business opportunity immediately upon becoming aware of it. CSRG shall also procure the companies of which it is a controlling shareholder to comply with this provision.

In relation to our pre-emptive rights described in paragraph (a)(ii) above, under the Non-Competition Agreement, CSRG must notify us in writing before the transfer of its relevant interest to a third party. Such notice must set out the full terms of the proposed transfer and any information which may reasonably be required by us, so that we can be provided with sufficient details to make an informed decision as to whether we ought to exercise the pre-emptive rights. Any decision on whether to exercise the pre-emptive rights will be made by the independent non-executive Directors.

CSRG has undertaken in the Non-competition Agreement that if the freight wagon manufacturing and refurbishment businesses and assets of South Huiton are, for any reason, not acquired by us within three months from the date of acquisition of such businesses and assets by CSRG, we are still entitled to acquire such businesses and assets pursuant to the options and pre-emptive rights under the Non-competition Agreement.

In respect of the new business opportunity notified by CSRG to us as described in paragraph (b) above, our Company has the right to decide whether to proceed with such business opportunity.

In addition, CSRG has also undertaken to provide and use reasonable endeavors to procure the provision to our Company such other information as may be necessary for us to properly consider whether to exercise the options or pre-emptive rights under the Non-Competition Agreement. Decisions on whether to exercise the options or pre-emptive rights will be decided by the independent non-executive Directors. Based on the information provided by CSRG, the independent non-executive Directors will have a reasonable opportunity to consider whether any option or pre-emptive right should be exercised. When considering whether to exercise any options or pre-emptive rights, the independent non-executive Directors will consider various factors including, among other things, (i) whether the Retained Operations to be acquired accord with our then development strategy; (ii) whether consents from the joint venture partners, if necessary, can be obtained; and (iii) the performance of the business to be acquired and the prevailing conditions, for instance, in respect of interest in a component manufacturing business retained by CSRG, the benefits of acquiring an interest in such component manufacturing business and whether it would be in the interest of our Company and shareholders as a whole to exercise the options or pre-emptive rights. The independent non-executive Directors may employ an independent financial adviser as they consider necessary to advise them on the exercise of the options or pre-emptive rights, which expenses shall be borne by us. Further, any exercise or non-exercise of any option under the Non-Competition Agreement would constitute a connected transaction. When our Board decides whether to exercise such an option or a pre-emptive right, only the independent non-executive Directors have the right to vote. The independent non-executive Directors will have a reasonable opportunity to consider whether to exercise the options or pre-emptive rights under the Non-Competition Agreement. When we decide whether to exercise or not to exercise any option or any pre-emptive right under the Non-Competition Agreement, we shall comply with the disclosure requirements under the Hong Kong Listing Rules, and shall disclose the decision in our annual report or announcement.

The independent non-executive Directors will review on an annual basis the compliance by CSRG with the Non-Competition Agreement and the results of such reviews will be disclosed in our annual reports. CSRG has undertaken to provide us with such information as is required for reviews by the independent non-executive Directors on the enforcement of the Non-Competition Agreement. In addition, CSRG has undertaken to make a statement in our annual report relating to its compliance with the Non-Competition Agreement. The disclosure on how the Non-Competition Agreement was complied with and enforced is consistent with the principles of making voluntary disclosures in the Corporate Governance Report.

The Non-Competition Agreement took effect on 10 January 2008 and shall remain effective until the earlier of (a) the date on which CSRG directly or indirectly beneficially holds less than 30% of the issued share capital of the Company; and (b) the date on which the Shares cease to be listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange.

INDEPENDENCE FROM CSRG

Having considered the following factors, we are satisfied that we can conduct our business independently from CSRG and its associates after the Global Offering:

Restructuring

The separation of businesses, assets and liabilities between CSRG and the Company in connection with our Restructuring, including adopting relevant legal procedures, implementing internal control and management functions, making required governmental registrations and obtaining third party consents, has been, or is expected to be, completed before the Global Offering. The Company has obtained all governmental approvals required for the completion of the separation.

Independence of the board and the management

Composition of the Board and the senior management: The Board comprises nine Directors, comprising four executive Directors and five independent non-executive Directors. Only one member of the Board, namely, Mr. Zhao Xiaogang, has an overlapping position in CSRG. Mr. Zhao Xiaogang remains as the General Manager of CSRG as he is the person who is most familiar with the ancillary operations retained by CSRG, which will facilitate the implementation of the policy of eventually dealing with the ancillary operations. Although Mr. Zheng Changhong, Mr. Zhao Xiaogang, and Mr. Liu Hualong serve as CSRG's Party Secretary; CSRG's Deputy Party Secretary; and CSRG's Deputy Party Secretary and Secretary of the Disciplinary Committee, respectively, these are merely party roles responsible for political education purpose, and are not business or operational in nature. As the ancillary operations retained by CSRG have their own decision-making bodies and management teams, Mr. Zheng Changhong and Mr. Liu Hualong do not have the right to participate in the day-to-day management of such retained operations. Such overlapping positions therefore will not affect the independence of the two Directors from CSRG. Other than the above and the overlapping positions of

Mr. Zhao, there is no other overlapping Director or senior management between the Company and CSRG, its subsidiaries and associates during the Track Record Period. Set out below is a table summarizing the positions held by the Directors at the Company and CSRG:

No	Name	Position with the Company	Position with CSRG
1.	Zhao Xiaogang	Chairman of the Board and Executive Director	General Manager
2.	Zheng Changhong	Vice Chairman, executive Director and President	None
3.	Tang Kelin	Executive Director and Vice President	None
4.	Liu Hualong	Executive Director	None
5.	Zhao Jibin	Independent non-executive Director	None
6.	Yang Yuzhong	Independent non-executive Director	None
7.	Chen Yongkuan	Independent non-executive Director	None
8.	Dai Deming	Independent non-executive Director	None
9.	Tsoi, David	Independent non-executive Director	None

Although Mr. Zhao Xiaogang serves as the Company's Chairman and executive Director and at the same time the General Manager of CSRG, he spends substantially all of his time on the Company's operations and management. He is principally responsible for formulating our corporate and business strategies and making corporate and operational decisions of the Company. Upon completion of the Restructuring, and since CSRG has transferred substantially all of its core businesses and assets to our Company, the Directors expect that any conflicts of interest situation involving CSRG or its associates is unlikely to arise. In the event of any conflicts of interests, we believe that we have sufficient and effective control mechanism to enable the Directors to discharge their duties and avoid actual or potential conflicts of interest on the following grounds:

- CSRG has entered into the Non-Competition Agreement by undertaking not to compete, either directly or indirectly, with us and by providing us with options and pre-emptive rights to acquire the Retained Operations which compete or may compete with our Company's operations. Any decision on whether to exercise the options or pre-emptive rights will be made by the independent non-executive Directors. A set of protective measures has been adopted by the Company to ensure implementation of the Non-Competition Agreement. Details of such measures have been set out in "Relationship with CSRG—Non-Competition Agreement and Undertakings".
- According to the Articles of Association of the Company, in respect of any matters of conflicts or potential conflicts of interest which involve a transaction between the Company and another company or entity with overlapping Director(s) or conflicted Directors or his associates and/or matters in which any such overlapping Director(s) or his associates have an interest, the overlapping or conflicted Director(s) shall abstain from voting, not to be counted in the quorum and not to attend in the discussion (unless his attendance is specifically invited by the disinterested Directors) of the particular matter to be resolved. Accordingly, Mr. Zhao Xiaogang has the right to discuss matters relating to CSRG at Board meetings, if his attendance is specifically invited by the disinterested Directors. However, Mr. Zhao shall abstain from voting and not to be counted in the quorum on matters relating to CSRG and which are tabled at Board meetings.
- Further, the Board of Directors comprises nine members. Of them, five are Independent Non-Executive Directors (exceeding the minimum threshold under the Hong Kong Listing

Rules) who will ensure that the interests of our Company and those of our Shareholders are protected;

- Mr. Zhao will not receive any remuneration, benefits or rewards from CSRG.

The Board of Directors and senior management are relatively strong in terms of their independence.

Non-competition undertaking

As stated in the sub-section headed "Non-Competition Agreement and Undertakings" in this section and as we have put in place various mechanisms to ensure the enforceability of the protective measures of the Non-Competition Agreement, our Directors believe that we will not face significant competition, directly or indirectly, from CSRG.

Operational independence

Pursuant to our Restructuring, CSRG has transferred to us substantially all its core businesses, assets and liabilities relating to research and development, manufacture, sale, refurbishment and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as other business that utilize proprietary rolling stock technologies. The production, supply and sales chain of the above businesses are complete, and their operations are independent. We are in possession of all production and operating facilities and technology relating to core business. Currently, we engage in the core businesses independently, with independent right on operational decisions and on the implementation of decisions. We have independent access to customers and suppliers and are not dependent on CSRG with respect to raw material or supplies for production. We have sufficient operation and production capacity in terms of capital, equipment and employees to operate our business independently from CSRG. Other than some minor sharing of public utilities, such as water and heat, and use of common facilities such as washrooms and telephone wires, which are minimal, there is no other sharing of resources among our Company and CSRG and its associates.

CSRG has retained its interests in certain ancillary operations, which provide production products and ancillary support services to us. We will continue to have transactions with several of our connected persons at the subsidiary levels. To regulate the transactions between CSRG, its associates and us arising from the above Retained Operations as well as transactions with the relevant connected persons, CSRG, the relevant connected persons and us have entered into several connected transaction agreements. The terms and conditions of these agreements are on normal commercial terms which we believe to be fair and reasonable and in the interests of our Shareholders as a whole. Further details about these transactions between the Company and CSRG are set out in "Connected Transactions".

We have our own organizational structure with independent departments and business and administrative units, each with specific areas of responsibility. In addition to maintaining a set of comprehensive internal control procedures to facilitate the effective operation of our business, we have protective measures to avoid conflicts or potential conflicts of interest and to safeguard the interests of our shareholders as a whole. We have also adopted protective measures to ensure the enforceability of the Non-Competition Agreement between our Company and CSRG. For further details of the enforceability of such protective measures, see "Relationship with CSRG—Non-Competition Agreement and Undertakings". We have also a set of corporate governance manuals, such as

Shareholders Meeting Manuals, Board Meeting Manuals, Rules on the Conduct of Connected Transactions etc., which are modeled based on the PRC laws and regulations, the relevant listing rules of the Shanghai Stock Exchange as well as rules and guidelines formulated by CSRC and which set out our corporate governance framework.

Based on the above reasons, the Directors are of the view that there is no operational dependence by us on CSRG.

Financial independence

We have our own finance department and have established our own financial auditing system independent of CSRG. We have an independent bank account, have made independent tax registrations and have employed a sufficient number of dedicated financial accounting personnel.

We have settled all amounts due from us to CSRG and its associates and have released of all guarantees provided to us by CSRG and its associates. We have sufficient capital to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations. See “Financial Information—Working Capital”.

CONNECTED TRANSACTIONS

Upon completion of the Global Offering and the H Share Listing, certain transactions between us and our connected persons (as defined under the Hong Kong Listing Rules) will constitute connected transactions for us under Chapter 14A of the Hong Kong Listing Rules. The definition of "connected persons" under Chapter 14A of the Hong Kong Listing Rules is different from the definition of "related parties" under International Accounting Standard, "Related Party Disclosures", and its interpretations by International Accounting Standards Board. Accordingly, connected transactions set out in this section, which are described and disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules, differ from the related party transactions set out in Note 43 of Section II of "Appendix I—Accountants' Report". Details of our connected transactions are set out below.

OUR RESTRUCTURING

Restructuring Agreement

CSR was established on 28 December 2007 as a joint stock limited company under the PRC law. Pursuant to the Restructuring Agreement entered into between CSRG and the Company on 7 January 2008, CSRG has made various representations and warranties in relation to the assets, liabilities and interests transferred to us under the Restructuring. CSRG has agreed to be responsible for all tax liabilities associated with such transferred assets, liabilities and interests incurred prior to the Restructuring. CSRG has also agreed to indemnify our Company against all claims, losses or expenses incurred by us in connection with or arising from the Restructuring. For further details regarding the terms of the Restructuring Agreement, see "Restructuring".

Non-Competition Agreement

In connection with the Restructuring, the Company entered into a Non-Competition Agreement with CSRG on 10 January 2008 as supplemented by a supplementary agreement dated 15 July 2008. Under the agreement, CSRG has undertaken to our Company that except in certain limited circumstances, for so long as the agreement remains effective, it shall not, and shall procure its associates (excluding our Company) not to, directly or indirectly and in whatever manner, engage, participate or be interested in, or provide support to, any business or activity which competes or may compete with our current or future core businesses. CSRG has also granted us an option and pre-emptive rights to acquire certain interests retained by CSRG following the Restructuring and certain future business. Further details about the Non-Competition Agreement are set out in "Relationship with CSRG".

Implications under the Hong Kong Listing Rules

Any transaction that might take place after the H Share Listing pursuant to any agreement or arrangement described in this "—Our Restructuring" is made in the performance of the relevant transaction already entered into before the H Share Listing. Such transaction will therefore not constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Hong Kong Listing Rules, and will not be subject to further regulatory requirements under the Hong Kong Listing Rules. However, when we decide whether to exercise or not to exercise any options, including options to acquire the freight wagon manufacturing and refurbishment businesses and assets of South Huiton, provided for under the Non-Competition Agreement, we shall comply with the requirements under Chapter 14A of the Hong Kong Listing Rules.

CONNECTED PERSONS

In addition to the Restructuring Agreement and the Non-Competition Agreement, the Company has entered into certain other agreements or transactions with entities which will become connected persons (as defined under Chapter 14A of the Hong Kong Listing Rules) of the Company upon the H Share Listing, and such agreements or transactions will, upon completion of the H Share Listing, constitute connected transactions or continuing connected transactions of the Company under the Hong Kong Listing Rules. These entities include:

(i) CSRG: Immediately following completion of the Global Offering, CSRG will, directly and indirectly, own approximately 58.97% of the Company's then issued share capital if the Over-allotment Option is not exercised (or 57.57% if the Over-allotment Option is exercised in full). CSRG will therefore be our Controlling Shareholder, and hence a connected person, of the Company by virtue of Rule 14A.11(1) of the Hong Kong Listing Rules.

(ii) Certain associates (as defined under Chapter 19A of the Hong Kong Listing Rules) of CSRG, excluding us: Such associates will be connected persons of our Company by virtue of Rule 14A.11(4) of the Hong Kong Listing Rules.

(iii) The following entities are connected persons of the Company under the Hong Kong Listing Rules upon completion of the Global Offering by reason of it being a substantial shareholder (as defined under the Hong Kong Listing Rules) in a subsidiary of the Company, or an associate (as defined under the Hong Kong Listing Rules) of a substantial shareholder of a subsidiary of the Company. These entities, except for their respective shareholding interests in the relevant subsidiary of the Company, are otherwise independent of us:

- Xi'an Kaitian Railway Traction Electric Apparatus Co., Ltd (西安開天鐵路牽引電器有限公司) ("Xi'an Kaitian"): a 44% shareholder of Ziyang Chenfeng Electric Co., Ltd. (資陽晨風電氣有限公司) (one of our sub-subsidiaries).
- Jilin Midas Aluminum Industries Co., Ltd. (吉林麥達斯鋁業有限公司) ("Jilin Midas"): Jilin Midas is wholly-owned by Midas Holdings Limited (新加坡麥達斯控股有限公司), a 32.5% shareholder of Nanjing SR Puzhen Rail Transport Co., Ltd. (南京南車浦鎮城軌車輛有限公司) (one of our sub-subsidiaries).
- KTK Group Co., Ltd. (今創集團有限公司) ("KTK"): KTK holds 60% of the equity interest in Jiangsu Pengyuan Electronics Co., Ltd. (江蘇鵬遠電子有限公司), which is a substantial shareholder holding 29% equity interest in Nanjing Puzhen Haitai EMU Co., Ltd. (南京浦鎮海泰制動設備有限公司) (one of our sub-subsidiaries).

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As part of our Restructuring, the Company has entered into certain agreements with CSRG and certain connected persons of the Company to regulate transactions which will, upon our H Share Listing, constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. These transactions include:

Transactions	Parties to the transactions
Continuing connected transactions between the Company and CSRG and its associates	
A1. Product Mutual Provision Framework Agreement	The Company and CSRG
Continuing connected transactions between the Company and connected persons at our subsidiaries' level	
B1. Components Supply Framework Agreement	The Company and Xi'an Kaitian
B2. Aluminum Supply Framework Agreement	The Company and Jilin Midas
B3. MU Component Supply Framework Agreement	The Company and KTK

A. Continuing connected transactions between our Company and CSRG and its associates

1. Product Mutual Provision Framework Agreement

Following the Restructuring, CSRG has retained its interests in the production plants, after they have transferred their operating assets to the Company. For more information relating to our Restructuring, see "Restructuring—History and Development". These production plants continue to retain their legal entity status, each of which is wholly-owned by CSRG, and continue to hold their ancillary operations. For example, CSRG has retained Nanjing Puzhen Rolling Stock Works, after the transfer of its operating assets to CSR Nanjing Puzhen Rolling Stock Co., Ltd.. For identities of the principal entities retained by CSRG, see the notes to "Restructuring—Our Corporate Structure". Such ancillary operations continue to provide ancillary products such as rolling stock components, raw materials, construction installation materials and fuels to us. Such ancillary operations are retained by CSRG pursuant to the government's policies on separation of core and ancillary businesses for the restructuring of State-owned enterprises. In accordance with the State policies for separation of core and ancillary businesses, such ancillary operations will be centrally managed or dissolved or disposed of by CSRG gradually. Prior to their disposal, such ancillary operations will continue to provide ancillary products to our Company upon the H Share Listing. Provision of such ancillary products by CSRG is on a non-exclusive basis. We have also engaged third party suppliers and service providers to provide such ancillary products to us. In addition, some of the production plants retained by CSRG have long-term investment with minority interests of less than 30% in certain enterprises which are engaged in the manufacture, sale and maintenance of components. For more information relating to such long-term investments, see "Relationship with CSRG—Delineation of Business and Competition". Some of these enterprises continue to supply components to our Company on a non-exclusive basis after the Global Offering.

Reciprocally, we and certain of our associates provide raw materials and accessories to CSRG or its associates for processing into rolling stock components and to re-sell back all or part of such components to us for use in our core business.

In order to regulate such mutual provision of products between our Company and CSRG, the Company and CSRG entered into a Product Mutual Provision Framework Agreement on 10 January 2008 as supplemented by a supplementary agreement dated 15 July 2008 (collectively, the "Product Mutual Provision Framework Agreement"). The principal terms of Product Mutual Provision Framework Agreement are summarized as follows:

- CSRG or its associates will provide raw materials, rolling stock components (such as meter fittings, motors, cover plates, brake fittings, rubber metal pads), construction installation materials, packing materials and fuels to us.
- Our Company shall sell raw materials and accessories to CSRG or its associates for processing into rolling stock components.
- The sale of ancillary products by either party shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, either party is entitled to engage other supplier(s) for the ancillary products required.
- The parties (their relevant associates or subsidiaries) shall enter into separate contracts to set out the specific terms and conditions of the sale of products according to the principles and scope provided for under the Product Mutual Provision Framework Agreement.

The Product Mutual Provision Framework Agreement took effect on 1 January 2008 and shall expire on 31 December 2010, subject to renewal provided that it is in compliance with the relevant provisions on connected transactions under the Hong Kong Listing Rules.

Pricing

Under the Product Mutual Provision Framework Agreement, either party shall sell its products to the other party, according to the following pricing principles (and in the following order):

- price prescribed by the PRC Government; or
- where there is no government-prescribed price, the guidance price set by the PRC Government; or
- where there is neither government-prescribed price nor government guidance price, a price determined through tender process or other available market price; or
- where none of the above is applicable or available, a price to be agreed between the parties. The agreed price will be calculated based on the reasonable costs incurred in providing the products plus reasonable profits. In setting the price, the parties may refer to prices for previous related transactions, if available.

Historical figures

For the three years ended 31 December 2007 and the three months ended 31 March 2008, the revenue and expenditures in respect of the mutual provision of products between CSRG and us were as follows:

	2005	2006	2007	31 March 2008
		(RMB million)		
Revenue				
Sales of products to CSRG or its associates	104.0	81.7	92.2	28.9
Expenditure				
Purchase of products from CSRG or its associates	285.7	285.8	306.6	60.7

For the year 2006, sales of products by us to CSRG or its associates was approximately RMB81.7 million, representing a decrease of approximately RMB22.3 million as compared with that of the year 2005. Part of the revenue involved the sale of certain raw materials and accessories by us to CSRG or its associates for processing into rolling stock components and the subsequent sale of all or part of such rolling stock components back to us for use in connection with our core businesses. The decrease in the revenue in 2006 as compared with that of 2005 was mainly due to the cessation of production by us of a certain type of freight wagon which substantially reduced our component requirements for that type of freight wagon. As a result, the raw materials and accessories that we sold to CSRG or its associates substantially reduced in the year 2006. The slight increase in revenue from RMB81.7 million in 2006 to RMB92.2 million for the year ended 31 December 2007 is mainly attributable to our production of a new type of freight wagons and the consequential increase in the demand for freight wagon components in 2007.

There was a steady increase in the raw materials, rolling stock components, construction installation materials and packing materials which we purchased from CSRG or its associates in the financial years ended 31 December 2005, 2006 and 2007. However, due to seasonal fluctuation, for the three months ended 31 March 2008, our purchase of such products from CSRG or its associates only amounted to RMB60.7 million. The seasonal fluctuation was partly attributable to the fact that the amount of construction installation materials which we purchased from CSRG or its associates in the first quarter of 2008 only accounted for a very small part of our total anticipated demand for such materials for the year 2008. In addition, we did not purchase any packing materials and fuels from CSRG or its associates in the first quarter of 2008.

Annual caps

We expect China's rapid economic development and urbanization will result in a growing demand for new freight wagons. At the same time, we expect the production volume of the new type of freight wagons which we first started production in 2007 will continue to increase and that the cost of the raw materials will continue to rise. Based on the highest historical revenue of RMB104.0 million, which was recorded in 2005, during the Track Record Period, our Company expects a stable growth at an annual rate of 15% in the amount of raw materials and accessories which we sell to CSRG or its associates, in order to meet with the projected increasing demand for new freight wagons. It is expected that the annual caps for the amount of raw materials and accessories which we sell to CSRG or its associates would be approximately RMB119.6 million in 2008, RMB137.5 million in 2009 and RMB158.2 million in 2010.

Although our purchase of raw materials, rolling stock components and construction installation materials from CSRG or its associates only amounted to RMB60.7 million for the three months ended 31 March 2008, this seasonal fluctuation does not fully reflect our anticipated demand for such products in the next three years. This was partly attributable to the fact that the amount of construction installation materials which we purchased from CSRG or its associates in the first quarter of 2008 only accounted for a very small part of our total anticipated demand for such materials for the year 2008. In addition, we did not purchase any packing materials and fuels from CSRG or its associates in the first quarter of 2008. With China's rapid economic growth and urbanization, we expect that the demand for such products will continue to grow. In particular, we expect that some new construction installation projects will commence in the latter half of 2008, and we anticipate that we would need to purchase more construction installation materials for such projects in the latter half of 2008. We expect a stable increase at an annual rate of 10% in the amount of raw materials, rolling stock components, construction installation materials, packing materials and fuels which we purchase from CSRG or its associates. We anticipate the annual caps for the amount of such products which we purchase from CSRG or its associates will be RMB337.3 million in 2008, RMB371.0 million in 2009 and RMB408.1 million in 2010.

	2008	**2009**	**2010**
	(RMB million)		
Revenue			
Sales of products to CSRG or its associates	119.6	137.5	158.2
Expenditure			
Purchase of products from CSRG or its associates	337.3	371.0	408.1

B. Continuing connected transactions between our Company and connected persons at our subsidiaries' level

1. Components Supply Framework Agreement

Following the Restructuring, Xi'an Kaitian, which is a supplier of components and accessories for locomotives, will continue to supply to us electrical accessories, components and other accessories for locomotives. Xi'an Kaitian is a connected person by virtue of its 44% equity interest in or it being a substantial shareholder of Ziyang Chenfeng Electric Co., Ltd., one of our sub-subsidiaries. In order to regulate the business relationship between our Company and Xi'an Kaitian, Xi'an Kaitian and the Company entered into a Components Supply Framework Agreement in 29 July 2008. The principal terms of the Components Supply Framework Agreement are as follows:

- Xi'an Kaitian will sell products including electrical accessories, components and other accessories for locomotives to our Company.
- The sale of products by Xi'an Kaitian to our Company shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, our Company is entitled to engage supplier(s) for the products required.
- The parties (their relevant associates or subsidiaries) shall enter into separate contracts to set out the specific terms and conditions of the sale of products according to the principles and scope provided for under the Components Supply Framework Agreement.

The Components Supply Framework Agreement took effect on 1 January 2008 and shall expire on 31 December 2010, subject to renewal provided that it is in compliance with the relevant provisions on connected transactions under the Hong Kong Listing Rules.

Pricing

Under the Components Supply Framework Agreement, Xi'an Kaitian shall sell the products to our Company in accordance with the following pricing principles (and in the following order):

- price prescribed by the PRC Government; or
- where there is no government-prescribed price, the guidance price set by the PRC Government; or
- where there is neither government-prescribed price nor government guidance price, a price determined through tender process or other available market price; or
- where none of the above is applicable or available, a price to be agreed between the parties. The agreed price will be calculated based on the reasonable costs incurred in providing the products plus reasonable profits. In setting the price, the parties may refer to prices for previous related transactions, if available.

Historical figures

For the three years ended 31 December 2007 and the three months ended 31 March 2008, the expenditures in respect of our purchase from Xi'an Kaitian were as follows:

	2005	**2006**	**2007**	**31 March 2008**
		(RMB million)		
Expenditure				
Purchase of Electrical accessories, components and other accessories for locomotives from Xi'an Kaitian	14.5	21.1	47.9	10.5

For the three years ended 31 December 2005, 2006 and 2007, and the three months ended 31 March 2008, our purchase from Xi'an Kaitian for the supply of electrical accessories, components and other accessories for locomotives were approximately RMB14.5 million, RMB21.1 million, RMB47.9 million and RMB10.5 million. In 2006, there was approximately a 45% increase in our purchase from Xi'an Kaitian as compared with that of 2005. In 2007, our purchase from Xi'an Kaitian for the supply of components and accessories jumped by 127% when compared to those in 2006. The increases in our purchase from Xi'an Kaitian in the two years ended 31 December 2007 were mainly due to the rapid development in our electrical locomotive operations.

Annual caps

	2008	**2009**	**2010**
		(RMB million)	
Expenditure			
Purchase of electrical accessories, components and other accessories for locomotives from Xi'an Kaitian	57.5	69.0	82.8

Based on the highest historical amount of RMB47.9 million during the Track Record Period and a projected annual rate of increase of 20%, which was based on our plan to further expand our electrical locomotive operations, we estimate that the annual caps for the amount of products which we purchase from Xi'an Kaitian would be approximately RMB57.5 million for 2008, RMB69.0 million for 2009 and RMB82.8 million for 2010.

2. Aluminum Supply Framework Agreement

Following the Restructuring, Jilin Midas, an aluminum and raw materials supplier, will continue to supply raw materials, components and aluminum to our Company. Jilin Midas is a connected person by reason of it being a wholly-owned subsidiary of Midas Holdings Limited, which has a 32.5% equity interest in Nanjing SR Puzhen Rail Transport Co., Ltd., one of our sub-subsidiaries. In order to regulate the business relationship between the Company and Jilin Midas, Jilin Midas and the Company entered into an Aluminum Supply Framework Agreement on 29 July 2008, the principal terms of which are summarized as follows:

- Jilin Midas shall sell raw materials, components and aluminum to us.
- The sale of products by Jilin Midas to us shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, we are entitled to engage other supplier(s) for the products required.
- The parties (their relevant associates or subsidiaries) shall enter into separate contracts to set out the specific terms and conditions of the sale of products according to the principles and scope provided for under the Aluminum Supply Framework Agreement.

The Aluminum Supply Framework Agreement took effect on 1 January 2008 and shall expire on 31 December 2010, subject to renewal provided that it is in compliance with the relevant provisions on connected transactions under the Hong Kong Listing Rules.

Pricing

Under the Aluminum Supply Framework Agreement, Jilin Midas shall sell its products to our Company in accordance with the following pricing principles (and in the following order):

- price prescribed by the PRC Government; or
- where there is no government-prescribed price, the guidance price set by the PRC Government; or
- where there is neither government-prescribed price nor government guidance price, a price determined through tender process or other available market price; or
- where none of the above is applicable or available, a price to be agreed between the parties. The agreed price will be calculated based on the reasonable costs incurred in providing the products plus reasonable profits. In setting the price, the parties may refer to prices for previous related transactions, if available.

Historical figures

For the three years ended 31 December 2007 and the three months ended 31 March 2008, the expenditures in respect of our purchase of raw materials, components and aluminum from Jilin Midas were as follows:

	2005	2006	2007	31 March 2008
		(RMB million)		
Expenditure				
Purchase of raw materials, components and aluminum from Jilin Midas	6.0	0.4	43.2	32.2

In 2005, we purchased raw materials, components and aluminum of approximately RMB6.0 million from Jilin Midas as materials for the production of a specific type of freight wagon, Model C80. However, our purchase from Jilin Midas for the supply of raw materials, components and aluminum decreased to RMB0.4 million in 2006 mainly because we temporarily ceased to produce that specific type of freight wagon. In 2007, our purchase from Jilin Midas increased substantially from RMB0.4 million in 2006 to RMB43.2 million in 2007 as a result of a substantial increase in our production of rapid transit vehicles, which boosted our demand for raw materials, components and aluminum. For the three months ended 31 March 2008, our purchase from Jilin Midas was RMB32.2 million, which continued to show a rising trend.

Annual caps

With China's rapid economic growth and urbanization, we anticipate that the volume of our rapid transit vehicle production will rapidly increase in the coming years. As aluminum is one of the raw materials for our rapid transit vehicles, we expect that our demand for aluminum products from our suppliers, including Jilin Midas, will substantially increase. This is especially so with the commencement of new rapid transit construction projects in various cities such as Shanghai, Nanjing, Guangzhou and Shenzhen. With the construction of rapid transit lines in these cities, the number of contracts which two of our subsidiaries CSR Zhuzhou and Nanjing SR Puzhen Rail Transport Co., Ltd. are awarded for the production of rapid transit vehicles has rapidly increased in 2008. To meet with the increasing demand for new rapid transit vehicles, our demand for aluminum products has jumped for the three months ended 31 March 2008. For the first quarter of 2008 alone, our purchase of raw materials, components and aluminum from Jilin Midas amounted to RMB32.2 million. Based on such a rapid rate of increase in the three months ended 31 March 2008, the projected annual demand for aluminum products from Jilin Midas for rapid transit vehicle production would be approximately RMB140.0 million in 2008. As the construction of more subway and light rail lines are on the pipelines in various cities in China, and with our dominant market position in the rapid transit vehicle market as well as the global increasing trend of aluminum price, we expect an annual growth rate of 50% in our purchase of raw materials, components and aluminum from Jilin Midas in the next two years. The annual caps for 2009 and 2010 will be approximately RMB210.0 million and RMB315.0 million, respectively.

	2008	**2009**	**2010**
		(RMB million)	
Expenditure			
Purchase of raw materials, components and aluminum from Jilin Midas	140.0	210.0	315.0

3. MU Components Supply Framework Agreement

Following the Restructuring, KTK together with two of its subsidiaries, Changzhou KOITO KTK Traffic Equipment Co., Ltd. (常州小系今創交通設備有限公司) and Shanghai VOITH Scharfenberg KTK Coupler Technology Co., Ltd. (上海福依特夏固今創車鉤技術有限公司) (collectively, the "KTK Group"), will continue to supply electrical accessories for MUs (including EMUs & DMUs), raw materials and other accessories to us. KTK is a connected person of the Company by reason of it being the holding company (holding 60% equity interest in Jiangsu Pengyuan Electronics Co., Ltd.) of a substantial shareholder of Nanjing Puzhen Haitai EMU Co., Ltd., one of our sub-subsidiaries. In order to regulate the business relationship between our Company and the KTK Group, the Company entered into a MU Components Supply Framework Agreement with KTK on 29 July 2008, the principal terms of which are summarized as follows:

- the KTK Group will sell electrical accessories, raw materials and other accessories for MUs to us.
- The sale of such raw materials and accessories by the KTK Group or its subsidiaries to us shall be made on terms no less favorable than those available to or, where appropriate, from independent third parties under comparable conditions. Otherwise, we are entitled to engage other supplier(s) for such electrical accessories, raw materials and other accessories for MUs required.
- The parties (their relevant associates or subsidiaries) shall enter into separate contracts to set out the specific terms and conditions of the sale of raw materials and accessories according to the principles and scope provided for under the MU Components Supply Agreement.

The MU Components Supply Framework Agreement took effect on the 1 January 2008 and shall expire on 31 December 2010, subject to renewal provided that it is in compliance with the relevant provisions on connected transactions under the Hong Kong Listing Rules.

Pricing

Under the MU Components Supply Framework Agreement, the KTK Group shall supply electrical accessories, raw materials and other accessories for MUs to our Company in accordance with the following pricing principles (and in the following order):

- price prescribed by the PRC Government; or
- where there is no government-prescribed price, the guidance price set by the PRC Government; or
- where there is neither government-prescribed price nor government guidance price, a price determined through tender process or other available market price; or
- where none of the above is applicable or available, a price to be agreed between the parties. The agreed price will be calculated based on the reasonable costs incurred in providing the products plus reasonable profits. In setting the price, the parties may refer to prices for previous related transactions, if available.

Historical figures

For the three years ended 31 December 2007, and the three months ended 31 March 2008, the expenditures in respect of our purchase of raw materials and accessories for MUs from the KTK Group were as follows:

	2005	**2006**	**2007**	**31 March 2008**
		(RMB million)		
Expenditure				
Purchase of electrical accessories, raw materials and other accessories for MUs from the KTK Group	1.4	20.7	146.2	19.2

Since we only started our production of EMUs in 2006, our purchase of components for MUs including EMUs from the KTK Group for the two years ended 31 December 2006 were very small. The substantial increase in the purchase from the KTK Group from RMB20.7 million in 2006 to RMB146.2 million in 2007 was due to the rapid development of our EMU operation. However, for the three months ended 31 March 2008, our purchase of MU components from the KTK Group only amounted to RMB19.2 million. The decrease in our purchase for the first quarter of 2008 was due to our practice of making such orders in bulk in the latter half of a year.

Annual caps

	2008	2009	2010
		(RMB million)	
Expenditure			
Purchase of electrical accessories, raw materials and other accessories for MUs from the KTK Group	175.4	210.5	252.6

Although our purchase of MU components from the KTK Group only amounted to RMB19.2 million for the three months ended 31 March 2008, the decrease in our purchase for the first quarter of 2008 was due to our practice of making such orders in bulk in the latter part of a year. According to the Company's production plan and arrangements, most of the raw materials and accessories which we used in the first quarter of 2008 were purchased from the KTK Group in the latter half of 2007. Meanwhile, our bulk purchase for raw materials and accessories will take place in the latter half of 2008. Assuming a steady annual growth rate of 20% in our EMU production for the years 2008, 2009 and 2010 after the rapid expansion in 2007, we anticipate that the annual caps for MU components, including EMU components, which we purchase from the KTK Group would be approximately RMB175.4 million for 2008, RMB210.5 million for 2009 and RMB252.6 million for 2010. The annual growth rate of 20% was estimated based on an anticipated growth in the volume of our EMU production.

Implications under Hong Kong Listing Rules

According to "Our Restructuring" above, any transaction that might take place after the H Share Listing pursuant to the Restructuring Agreement is made in the performance of the relevant transaction already entered into before the H Share Listing. Such transaction will therefore not constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Hong Kong Listing Rules, and will not be subject to further regulatory requirements under the Hong Kong Listing Rules. As for the indemnities under the Restructuring Agreement, any payment which might be made in the future by either party in performance of its obligations after the Global Offering also would not constitute a new transaction.

The exercise of any options granted under the Non-Competition Agreement, including options to acquire the freight wagon manufacturing and refurbishment businesses and assets of South Huiton, after the H Share Listing would constitute a connected transaction under the Hong Kong Listing Rules. In addition, the non-exercise of any option, including options to acquire the freight wagon manufacturing and refurbishment businesses and assets of South Huiton, will be treated as if the option were exercised and would constitute a connected transaction. We shall comply with the relevant disclosure and, where appropriate, independent shareholders' approval requirements under the Hong Kong Listing Rules relating to the exercise or non-exercise of any options under the Non-competition Agreement.

The transactions described in paragraphs A1, and B1 to B3 above will constitute "Non-exempt Continuing Connected Transactions" under the Hong Kong Listing Rules once our H Shares are listed on the Hong Kong Stock Exchange. Pursuant to the Hong Kong Listing Rules, the relevant percentage ratio for the above continuing connected transactions is less than 2.5% but more than 0.1% on an annual basis. Accordingly, the above continuing connected transactions are exempted from independent shareholders' approval but are still subject to the announcement and reporting requirements under the Hong Kong Listing Rules. The Directors including the independent non-executive Directors believe that it is in the interests of the Company and the shareholders of the Company as a whole to continue with the transactions after the H Share Listing.

In addition, the Directors, including the independent non-executive Directors, consider that all such continuing transactions have been entered into and will be carried out in the ordinary and usual course of business on normal or on better than normal commercial terms and are in the interests of the shareholders of the Company as a whole and that all such continuing connected transactions and their annual limits described in paragraphs A1, and B1 to B3 above are fair and reasonable so far as our shareholders as a whole are concerned.

Table showing proposed annual limits of the non-exempt continuing connected transactions

	Proposed annual limits		
	2008	**2009**	**2010**
		(RMB million)	
Revenue			
A1. Product Mutual Provision Framework Agreement with CSRG	119.6	137.5	158.2

	Proposed annual limits		
	2008	**2009**	**2010**
		(RMB million)	
Expenditure			
A1. Product Mutual Provision Framework Agreement with CSRG	337.3	371.0	408.1
B1. Components Supply Framework Agreement with Xi'an Kaitian . .	57.5	69.0	82.8
B2. Aluminum Supply Framework Agreement with Jilin Midas	140.0	210.0	315.0
B3. MU Components Supply Framework Agreement with KTK	175.4	210.5	252.6

We have applied to the Hong Kong Stock Exchange for waivers in accordance with Rule 14A.42(3) and the Hong Kong Stock Exchange has granted waivers in relation to the non-exempt continuing connected transactions under the agreements referred to in paragraphs A1, and B1 to B3 above from the announcement requirement of the Hong Kong Listing Rules pursuant to Rule 14A.47.

As required under Rule 14A.42(3), we have agreed that we will comply with the requirements specified under Chapter 14A of the Hong Kong Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that the Company's continuing connected transactions described in this "Non-exempt Continuing Connected Transactions" sub-section are in the ordinary and usual course of business of the Company, on normal commercial terms, are fair and reasonable and in the interests of our shareholders as a whole, and that the proposed annual limits (where applicable) for these continuing connected transactions referred to above are fair and reasonable.

OVERVIEW

The Board currently consists of nine Directors, of whom five are independent non-executive directors. The Directors are all elected at our shareholders' meetings for a term of three years, which is renewable upon re-election and re-appointment.

The functions and authorities of our Board include, but not limited to :

- convening shareholders' meetings and reporting its work to the shareholders at such meeting;
- implementing shareholders' resolutions;
- making decisions on business plans and investment proposals;
- formulating annual financial budgets and final accounts;
- formulating profit distribution plans and, if applicable, plans for making up losses;
- formulating proposals relating to the increase or reduction of the Company's registered capital, the issuance of bonds or other securities and listing plans;
- formulating proposals for material acquisition, share repurchase by the Company, or merger, division, dissolution and transformation;
- deciding on internal management structure;
- proposing the appointment or change of the reporting accountants of the Company at its shareholders' general meetings; and
- exercising other powers authorized by the Shareholders' general meeting or the Articles of Association.

The board of Supervisors of the Company currently consists of three members. Except for the employee representative supervisor elected by employees, the Supervisors are elected by our shareholders for a term of three years, which is renewable upon re-election and re-appointment.

The functions and authorities of the board of Supervisors include, but not limited to:

- reviewing and verifying financial reports, business reports and profit distribution proposals prepared by the Board; and, if in doubt, appointing certified public accountants and practising auditors to re-examine the Company's financial information;
- monitoring the financial activities of the Company;
- supervising the performance of Directors, President and other senior management members, and monitoring as to whether they had acted in violation of the law, administrative stipulations and Articles of Association in the execution of their duties;
- requesting Directors, President and senior management members to rectify any actions which are damaging to the Company's interests; and
- exercising other rights given to them under the Articles of Association.

Directors

The following table sets forth information regarding the Directors. All of the Directors meet the qualification requirements under the relevant PRC laws and regulations for their respective positions.

The Executive Directors of the Company were all involved in the core business of the Company's predecessors before joining the Company.

Name	Age	Position
Mr. Zhao Xiaogang (趙小剛)	56	Chairman of the Board and Executive Director
Mr. Zheng Changhong (鄭昌泓)	52	Vice-Chairman of the Board, Executive Director and President
Mr. Tang Kelin (唐克林)	55	Executive Director and Vice President
Mr. Liu Hualong (劉化龍)	45	Executive Director
Mr. Zhao Jibin (趙吉斌)	56	Independent non-executive Director
Mr. Yang Yuzhong (楊育中)	64	Independent non-executive Director
Mr. Chen Yongkuan (陳永寬)	62	Independent non-executive Director
Mr. Dai Deming (戴德明)	45	Independent non-executive Director
Mr. Tsoi, David (蔡大維)	61	Independent non-executive Director

Mr. ZHAO Xiaogang (趙小剛), born in 1951, aged 56, has, since December 2007, served as Chairman, Executive Director and Party Secretary of the Company, and General Manager and Deputy Party Secretary of CSRG. Mr. Zhao had many years of senior managerial experience in the manufacture of rail transportation equipment, abundant industry knowledge and extensive operations management experience. Mr. Zhao joined the predecessor of CSRG in December 1975. Between November 1990 and April 1997, Mr. Zhao was Deputy Director, and then Party Secretary and Deputy Director of Zhuzhou Electric Locomotive Research Institute under the Ministry of Railways. Between April 1997 and September 2000, Mr. Zhao worked as the head and Deputy Party Secretary of Zhuzhou Electric Locomotive Works under the Ministry of Railways. Between September 2000 and June 2002, Mr. Zhao was CSRG's Vice Chairman and General Manager as well as Deputy Party Secretary. Mr. Zhao has become General Manager (Legal Representative) and Deputy Party Secretary of CSRG since June 2002. Mr. Zhao graduated from the International Business School of Hunan University with a master's degree majoring in Engineering Management, and obtained the Senior Professional Manager qualification (a talent with unique contribution) awarded by China Enterprise Confederation and China Enterprise Directors Association. Mr. Zhao was a Deputy to the 9th session of the National People's Congress, standing council member of the China Communication and Transportation Association, standing council member of the China Railway Society. Mr. Zhao is a senior engineer.

Mr. ZHENG Changhong (鄭昌泓), born in 1955, aged 52, has served as the Vice-Chairman, Executive Director, President and Deputy Party Secretary of the Company, and CSRG's Party Secretary since December 2007. Mr. Zheng possesses in-depth knowledge and extensive operational and management experience in the industry which the Company specializes in. Mr. Zheng joined the predecessor of CSRG in June 1982. Between June 1992 and August 1994, Mr. Zheng worked as Deputy Managing Director of Beijing Feb. 7th Locomotive Works under the Ministry of Railways. Between August 1994 and October 1999, Mr. Zheng was Director of the Head Office of LORIC (中國鐵路機車車輛工業總公司). Between October 1999 and September 2000, Mr. Zheng was a Director and the Deputy General Manager of LORIC (中國鐵路機車車輛工業總公司). Between September 2000 and June 2002, Mr. Zheng was CSRG's Director and Deputy General Manager. Between June 2002 and December 2007, Mr. Zheng was Deputy General Manager of CSRG. Mr. Zheng was Party Secretary of CSRG since May 2004. Mr. Zheng graduated from the Lanzhou Railway University (now known as Lanzhou Jiaotong University) majoring in electronics technology and Northern Jiaotong University (now known as Beijing Jiaotong University) majoring in Accounting, and obtained a doctorate Research Studentship in Traffic and Transportation Planning and Management from Beijing Jiaotong University. Mr. Zheng is a senior engineer and a part-time professor of Lanzhou Jiaotong University.

Mr. TANG Kelin (唐克林), born in 1952, aged 55, has been an Executive Director and Vice President of the Company since December 2007, and the Chairman of CSR Yangtze. Mr. Tang has extensive experience in technology management and operational management in the business of the Company. Mr. Tang joined the predecessor of CSRG in September 2000. Between December 1993 and September 2000, Mr. Tang was Head of the General Technology Division of the Engineering Section under the Ministry of Railways, Head of the Locomotive Technology Inspection Division of the Equipment Section under the Transport Bureau. Between September 2000 and June 2002, Mr. Tang was a Director and Deputy General Manager of the predecessor of CSRG. Mr. Tang had been CSRG's Deputy General Manager between June 2002 and December 2007 and was also CSRG's Chief Engineer between December 2006 and October 2007. He has served as the Chairman of CSR Yangtze since August 2006. Mr. Tang graduated from Southwest Jiaotong University majoring in combustion locomotive. Mr. Tang is a professor level senior engineer.

Mr. LIU Hualong (劉化龍), born in 1962, aged 45, has been the Executive Director, Deputy Party Secretary, and Secretary of the Disciplinary Committee of the Company since December 2007. Mr. Liu is also CSRG's Party Deputy Secretary, Secretary of the Disciplinary Committee, and Chairman of the Labor Union. Mr. Liu has in-depth knowledge and extensive management experience in the business of the Company. Mr. Liu joined the predecessor of CSRG in August 1983. Between May 1998 and May 2001, he served as the Deputy Manager of Qiqihar Rolling Stock Works (齊齊哈爾車輛廠) under the Ministry of Railways, and Deputy General Manager of CNRG Qiqihar Railway Rolling Stock (Group) Co. Ltd. From May 2001 to May 2003, he served as the Vice Chairman, General Manager and Deputy Party Secretary of CNRG Qiqihar Railway Rolling Stock (Group) Co. Ltd. Between May 2003 and May 2004, he served as the Chairman, General Manager and Deputy Party Secretary of CNRG Qiqihar Railway Rolling Stock (Group) Co. Ltd. Between May 2004 and December 2007, he was CSRG's Deputy General Manager. Mr. Liu graduated from Dalian Railway Institute (now known as Dalian Jaiotong University) majoring in welding. Mr. Liu is a senior engineer.

Mr. ZHAO Jibin (趙吉斌), born in 1952, aged 56, has been an Independent Non-executive Director of the Company since December 2007. He also serves as the Deputy General Manager and Member of Party Group of China Mobile Communications Corporation, and the Chairman and Party Secretary of China Tietong Communications Corporation. Mr. Zhao had held various posts ranging from Deputy Secretary and Secretary of the Youth League Committee of Shenyang Railway Administration Bureau Changchun Divisional Bureau, Vice Station Manager of the Changchun railway station, Deputy Director of the Political Bureau of Changchun Divisional Bureau, Station Manager and Party Secretary of the Changchun railway station, Deputy Head of the Divisional Bureau, Head and Party Secretary of the Divisional Bureau, Head and Deputy Party Secretary of Hohhot Railway Bureau, to Head and Deputy Party Secretary of Zhengzhou Railway Bureau. Since October 2003, Mr. Zhao has been Chairman and Party Secretary of China Tietong Communications Corporation. Since October 2003, after he was appointed the Chairman and Party Secretary of China Tietong Communications Corporation, Mr. Zhao no longer has any positions in railway bureaus. Mr. Zhao graduated from Southwest Jiaotong University majoring in railway transportation and obtained a master's degree in management in Changchun Institute of Optics and Fine Mechanics (now known as Changchun University of Science and Technology). Mr. Zhao was a Deputy to the 9th and 10th session of the National People's Congress and a National Model Worker. He is a senior engineer, and a part-time Professor at Beijing Jiaotong University.

Mr. YANG Yuzhong (楊育中), born in 1944, aged 64, has been an Independent Non-executive Director of the Company since December 2007. Mr. Yang also serves as the Chief Consultant of the civil aviation industry and Vice President of the Strategic Consultative Committee of China Aviation Industry Corporation I. He is an Independent Non-executive Director of China National Materials Company Limited. Mr. Yang had held various positions ranging from Deputy Chief of the China Aviation Research Institute; Deputy Head of the Science and Technology Bureau and Head of the Technology and Quality Supervision Bureau of Aviation Industries of China (中國航空工業總公司); Deputy General manager and Deputy Party Secretary of China Aviation Industry Corporation I; Head of China Aviation Research Institute, Chairman of AVIC I Commercial Aircraft Co., Ltd. Mr. Yang has served as Deputy Chairman of the Chinese Society of Aeronautics and Astronautics. Mr. Yang graduated from Beijing Aeronautical and Astronautical Institute (now known as Beijing University of Aeronautics & Astronautics) majoring in aircraft design and manufacture. He receives a special government subsidy from the State Council and is the Deputy Chairman of 2nd session of the standing council of China Hi-Tech Industrialization Institute. Mr. Yang was offered the title of Foreign Member of the Royal Aeronautical Society in the United Kingdom.

Mr. CHEN Yongkuan (陳永寬), born in 1946, aged 62, has been an Independent Non-executive Director of the Company since December 2007. Mr. Chen is Chairman of the board of directors of Zhenhua (Singapore) Engineering Pte. Ltd. Mr. Chen served as Dean of Changsha Communications University; Director of the Education Division of the Ministry of Transport; Vice-president and Party Secretary of China Harbour Construction (Group) Company; Party Secretary and Vice Chairman of China Communications Construction Group Company Ltd.; and the Vice Chairman of China Communications Construction Company Ltd. He served as Chairman of Zhen Hua Harbour Construction Co. Ltd. and Chairman of the CHEC Dredging Co., Ltd., Mr. Chen receives a special government subsidy from the State Council. Mr. Chen graduated from Wuhan Institute of Hydraulic and Electrical Engineering (now known as Wuhan University) majoring in Farmland Hydraulic Engineering, and received post-graduate education at Wuhan Institute of Hydraulic and Electrical Engineering where he obtained a master's degree in Engineering. Mr. Chen is a professor.

Mr. DAI Deming (戴德明), born in 1962, aged 45, has been an Independent Non-executive Director of the Company since December 2007. He is an external Supervisor of China Construction Bank Corporation, independent director of Northern Copper Industrial Co. (北方銅業股份有限公司) and independent director of Beijing Northking Technology Co., Ltd. (京北方科技股份有限公司), Director, Professor, and Instructor to Doctorate students of the Accounting Department of the School of Business of Renmin University of China, Vice-chairman of the China Accounting Institution, and Vice Secretary-General of the National MPAcc Education and Instruction Commission. Mr. Dai had served as Assistant Lecturer and Lecturer of Zhongnan University of Economics (now known as Zhongnan University of Economics and Law), as well as Lecturer, Vice Professor, and Deputy Director of the Accounting Department of Renmin University of China. He was appointed as an Independent Director of Qingdao Aucma Stock Company Limited, Tsinghua Unisplendour Guhan Bio-pharmaceutical Corporation Ltd., Yunnan Freetrade Science and Technology Co., Ltd. (雲南保稅科技股份有限公司), SDIC ZhongLu Fruit Juice Co., Ltd. and Guangdong MACRO Co., Ltd. He served as Director of the Accounting Department of the School of Business of Renmin University of China from October 2001. Mr. Dai graduated from Hunan College of Finance & Economics majoring in Industrial Financial Accounting, pursued master's and doctorate studies at Zhongnan University of Economics and Renmin University of China respectively, and obtained a doctorate degree in Economics at Renmin University of China. He had conducted post-doctorate research at Hitotsubashi University.

Mr. TSOI David (蔡大維), born in 1947, aged 61, has been an Independent Non-executive Director of the Company since March 2008. He also served as the Managing Director of Alliott, Tsoi CPA Limited and an Independent non-executive Director of Melco LottVentures Limited. He has been an independent non-executive director of another listed company, Enviro Energy International Holdings Limited, since 8 July 2008. Mr. Tsoi has been the Chairman of the Asia-Pacific region of Alliot Group, Chairman of the Association of Chartered Certified Accountants (Hong Kong Division), President of the Society of Chinese Accountants and Auditors, Council Member of the Taxation Institute of Hong Kong and member of the Hong Kong Institute of Certified Public Accountants's Practice Review Committee, Ethics Committee, and Registration and Practising Committee. He was a director of Alliott Tsoi Ha CPA Limited. He is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and Associate Member of the Institute of Chartered Accountants in England and Wales, the Society of Chinese Accountants and Auditors, the Association of Certified General Accountants of Canada, Macau Society of Certified Practising Accountants and Fellow Member of the Taxation Institute of Hong Kong. Mr. Tsoi is a member of the Selection Committee for the first Government of the Hong Kong Special Administrative Region, independent director of the Travel Industry Council of Hong Kong and Committee Member of Guangdong Overseas Friendship Association. He graduated from the University of East Asia in Macau (now called the University of Macau) majoring in Business Administration and holds a master's degree in Business Administration. Mr. Tsoi is a Certified Public Accountant.

Supervisors

The following table sets forth information regarding the Supervisors. The Supervisors all meet the qualification requirements under the relevant PRC laws and regulations for their respective positions.

Name	Age	Position
Mr. Wang Yan (王研)	53	Chairman of the Supervisory Committee
Mr. Li Jianguo (李建國)	57	Supervisor
Mr. Qian Yi (錢毅)	58	Supervisor

Mr. WANG Yan (王研), born in 1955 and aged 53, has been the Chairman of the Company's supervisory committee since December 2007. He also serves as an Assistant to CSRG's General Manager, the Chairman of Board of Supervisors of CSR Sifang Co., Ltd. and a Supervisor of CSR Ziyang. Mr. Wang is well-versed in policies and possesses significant knowledge in finance. He has many years of finance and management experience in the Company's specialized industry. Mr. Wang served as Deputy Director of the Finance Department of LORIC (中國鐵路機車車輛工業總公司) between September 1990 and December 2000, Head of the Finance Department and Director of the Accounting Information Division of CSRG between December 2000 and May 2004, Chairman of the Supervisory Committee of CSR Sifang Co., Ltd. (南車四方機車車輛股份有限公司) since July 2002; and Deputy Chief Accountant and Head of the Finance Department of CSRG between May 2004 and March 2007. He assumed the post of CSR Ziyang's Supervisor since May 2006. Between March 2007 and December 2007, he was an Assistant to the General Manager, and Head of the Directors' and Supervisors' Office of CSRG. Mr. Wang graduated from the Second College of Renmin University of China majoring in finance. Mr. Wang is a senior accountant.

Mr. LI Jianguo (李建國), born in 1950 and aged 57, is a supervisor of the Company since December 2007. Since January 2008, he also serves as Deputy Chief Economist, and Head of the Audit and Risk Department of the Company. He is the Chairman of CSR Sifang Ltd.'s Supervisory Committee. Mr. Li has many years of enterprise management and internal audit experience in the Company's specialized industry. During the period from August 1984 to December 2000, Mr. Li held various positions in LORIC ranging from Deputy Director of Enterprise Management Office, Deputy Director and Director of the Audit Office. He was Deputy Secretary of CSRG's Disciplinary Committee from December 2000 to March 2007, Director of CSRG's Monitoring Office from April 2001 to July 2004, and Deputy Chief Economist of CSRG from March 2007 to December 2007; part-time Supervisor (employee representative supervisor) of the State Council's Stated-owned Assets Supervision and Administration Commission for three times consecutively from April 2001 to date. Mr. Li graduated from Northern Jiaotong University (now known as Beijing Jiaotong University) majoring in Accounting and Management of Industrial Enterprisers. Mr. Li is a senior political engineer (政工師).

Mr. QIAN Yi (錢毅), born in 1949 and aged 58, the employee representative Supervisor elected by the employees of the Company since December 2007. Since January 2008, he has been the Deputy Director of the Labor Union Working Committee of the Company and Vice-Chairman of CSRG's labor union. Mr. Qian has extensive management experience in and significant understanding of the Company's specialized industry. Between December 1986 and December 2000, Mr. Qian held various positions in LORIC ranging from Deputy Director of the Disciplinary Committee's Vetting and Processing Department, Head of the Disciplinary Committee's Supervisory Department, Deputy Secretary of the Disciplinary Committee and Head of the Supervisory Department. Mr. Qian has served as Vice-chairman of the CSRG's labor union since December 2000. Mr. Qian graduated from the Chinese Communist Party's Central Party School (distance-learning) majoring in political economy. Mr. Qian is a senior political engineer (政工師).

Senior Management

The following table sets forth information regarding the senior management of the Company. The senior management of the Company all meet the qualification requirements under the relevant PRC laws and regulations for their respective positions. Except for Mr. Wong Kai Yan, Thomas, the senior management were all involved in the core business of the Company's predecessors before joining the Company. The senior management are responsible for the day-to-day management of the Company's business.

Name	Age	Position
Mr. Zheng Changhong (鄭昌泓)	52	President
Mr. Tang Kelin (唐克林)	55	Vice President
Mr. Zhang Jun (張軍)	53	Vice President
Mr. Fu Jianguo (傅建國)	44	Vice President
Ms. Zhan Yanjing (詹艷景)	45	Vice President and Chief Financial Officer
Mr. Shao Renqiang (邵仁强)	43	Secretary to the Board of Directors
Mr. Wong Kai Yan, Thomas (王佳欣)	37	Qualified Accountant

For the biographies of Mr. Zheng Changhong and Mr. Tang Kelin, please see the subsection on "Directors".

Mr. ZHANG Jun (張軍), born in 1955, aged 53, has been a Vice President of the Company since December 2007. Mr. Zhang has many years of senior operational management experience and extensive knowledge in the Company's specialized industry. Mr. Zhang joined the predecessor of CSRG in October 1970. He served as Deputy Director, Director and Deputy Party Secretary of Sifang Locomotive and Rolling Stock Works under the Ministry of Railways from April 1985 to September 2000; Director and Deputy Party Secretary, Party Secretary of CSR Sifang Locomotive and Rolling Works from September 2000 to July 2002. He also served as Chairman of the board of directors of Bombardier Sifang Power (Qingdao) Transportation Ltd. (now known as Bombardier Sifang (Qingdao) Transportation Ltd.) from November 1998 to March 2002; Chairman of the board of directors and Party Secretary of CSR Sifang Co., Ltd from July 2002 to May 2004; Deputy Party Secretary and Secretary of CSRG's Discipline Committee from May 2004 to December 2007; and Chairman of CSRG's labor union from August 2004 to December 2007. Mr. Zhang graduated from Northern Jiaotong University (now known as Beijing Jiaotong University) majoring in industrial enterprise management. He also obtained a degree in enterprise management from Fudan University. Mr. Zhang is a senior engineer.

Mr. FU Jianguo (傅建國), born in 1963, aged 44, has been a Vice President of the Company since December 2007. Mr. Fu has extensive operational and management experience in the Company's specialized industry. Mr. Fu joined the predecessor of CSRG in August 1984. He served as Deputy Director of Tangshan Locomotive and Rolling Stock Works under the Ministry of Railways from February 1997 to January 2000; Director and Deputy Party Secretary of CSR Shijiazhuang Rolling Stock Works under the Ministry of Railways from January 2000 to September 2000; Director and Deputy Party Secretary of CSR Shijiazhuang Rolling Stock Works from September 2000 to May 2004; CSRG's Deputy General Manager from May 2004 to December 2007. Mr. Fu graduated from Dalian Railway Institute (now known as Dalian Jiaotong University) specializing in rolling stock, and obtained his MBA from China Europe International Business School. Mr. Fu is a senior engineer.

Ms. ZHAN Yanjing (詹艷景), born in 1963, aged 45, has been a Vice President and Chief Financial Officer of the Company since December 2007. Ms. Zhan has extensive financial management experience in the equipment-manufacturing industry. She served as chief economist as well as director and deputy general manager of Henan Diesel Engine Group Co., Ltd., a subsidiary of China Shipbuilding Industry Corporation, from December 1997 to December 1998 and from December 1998 to February 1999, respectively; Deputy Manager of the Securities Department, Manager of the Finance Department, Deputy Chief Accountant and Manager of the Finance Department, General Manager Assistant and Manager of the Financial Planning Department, and then General Manager Assistant of Beiqi Foton Motor Co., Ltd. from February 1999 to April 2005. She joined CSRG in April 2005 and served as Chief Accountant of CSRG from April 2005 to December 2007. Ms. Zhan graduated from Huazhong Institute of Technology (now known as Huazhong University of Science & Technology) specializing in measure technology and industrial automation instrument, Luoyang Institute of Technology (now known as Henan University of Science and Technology) majoring in financial accounting and obtained her MBA from Peking University's Guanghua School of Management. Ms. Zhan is a senior economist and senior accountant.

Mr. SHAO Renqiang (邵仁强), born in 1964, aged 43, has been the Secretary of the Board since December 2007. He is also a Director of CSR Sifang Co., Ltd. Mr. Shao has extensive financial management and business management experience in the Company's specialized industry. Mr. Shao joined the predecessor of CSRG in August 1986. He was the Chief Accountant of CSR Sifang Locomotive and Rolling Stock Works under the Ministry of Railways from December 1997 to

September 2000; Chief Accountant of CSR Sifang Locomotive and Rolling Stock Works from September 2000 to July 2002; Director and Chief Accountant of CSR Sifang Co. Ltd. from July 2002 to August 2004; Director, Deputy General Manager and Chief Accountant of CSR Sifang Co., Ltd. from August 2004 to November 2007; and Head of CSRG's Audit Department and Director of CSR Sifang Co., Ltd. from November 2007 to January 2008. Mr. Shao graduated from Northern Jiaotong University (now known as Beijing Jiaotong University) specializing in financial accounting, and obtained his MBA from Tongji University. Mr. Shao, who studied public administration at the University of Illinois in USA, is a senior accountant.

Secretary of the Board of Directors

Mr. Shao Renqiang has served as Secretary of the Board since December 2007. Mr. Shao has more than 20 years of operational and management experience in the Company's specialized field. For Mr. Shao's biography, please see the subsection "Senior Management" above.

Qualified Accountant

Mr. Wong Kai Yan, Thomas, born in 1970, aged 37, has served as the Qualified Accountant of the Company since July 2008, Mr. Wong is employed by the Company on a full-time basis and is a member of the senior management as required under Rule 3.24 of the Hong Kong Listing Rules. Mr. Wong is a member of Hong Kong Institute of Certified Public Accountants since July 1999, and has abundant experience in accounting, auditing and financial management. He was engaged in audit service at Kwan Wong Tan & Fong BDO CPA between 1995 and 1997, had served as the Chief Financial Officer of Kong Sun Holdings Limited between 1997 and January 2004, and was engaged in consultancy service between March 2004 and April 2008. He graduated from the University of Wollongong in Australia and obtained a Bachelor of Commerce degree (accountancy). He is a certified practising accountant of the Australian Society of Certified Practising Accountants.

BOARD OF DIRECTORS' COMMITTEES

The Board delegates certain responsibilities to various dedicated committees. In accordance with relevant PRC laws, regulations and Articles, we have formed four board committees, including strategy committee, audit and risk management committee, nomination committee, and remuneration and assessment committee.

Strategy Committee

The strategy committee of the Company consists of five directors: Mr. Zhao Xiaogang, Mr. Zheng Changhong, Mr. Yang Yuzhong (independent non-executive Director), Mr. Zhao Jibin (independent non-executive Director), and Mr. Tang Kelin. Mr. Zhao Xiaogang currently 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 our overall development plans and investment decision-making procedures, include, 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.

Audit and Risk Management Committee

The audit and risk management committee of the Company consists of three directors: Mr. Dai Deming (independent non-executive Director), Mr. Yang Yuzhong (independent non-executive Director) and Mr. Tsoi, David (independent non-executive Director). Mr. Dai Deming currently serves as the chairman of the audit and risk management committee. The primary responsibilities of the Company's audit and risk management committee are to review and supervise the Company's financial reporting process, include, 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, earnings releases, critical accounting policies and practices used to prepare 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 organization, 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.

Remuneration and Assessment Committee

The remuneration and assessment committee of the Company consists of four directors: Mr. Chen Yongkuan (independent non-executive Director), Mr. Dai Deming (independent non-executive Director), Mr. Tsoi, David (independent non-executive Director) and Mr. Liu Hualong. Mr. Chen Yongkuan currently serves as the chairman of the Company's remuneration and assessment committee. The primary responsibilities of the remuneration and assessment committee are to formulate the evaluation standards and conduct evaluation of the Company's Directors and senior management; to determine, review the compensation policies and schemes for the Company's Directors and senior management, include, among others:

- approving and overseeing the total compensation package for the Directors and senior management, evaluating the performance of and determining and approving the compensation to be paid to the senior management;
- reviewing and making recommendations to the Board with respect to Director compensation; and
- reviewing and making recommendations to the Board regarding compensation philosophy, strategy and principles of Directors and senior management.

Nomination Committee

The nomination committee of the Company consists of three directors: Mr. Zhao Jibin (independent Non-executive Director), Mr. Chen Yongkuan (independent Non-executive Director) and Mr. Liu Hualong. Mr. Zhao currently serves as the chairman of the nomination committee. The primary responsibilities of the Company's nomination committee are to formulate the nomination procedures and standards for candidates for Directors and senior management, to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and senior management.

WAIVERS GRANTED BY THE HONG KONG STOCK EXCHANGE

Management Presence in Hong Kong: Rule 8.12 and Rule 19A.15

According to Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules, an issuer must have sufficient management presence in Hong Kong. This will normally mean that at least two of the issuer's executive directors must be ordinary residents in Hong Kong. Since we have our headquarters and most of our operations in the PRC, we do not, and for the foreseeable future, will not, have executive Directors who are ordinarily residents in Hong Kong. Currently, all of our executive Directors reside in the PRC.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules. We have made arrangements to maintain effective communication between us and the Hong Kong Stock Exchange as follows:

- Both of the Company's authorized representatives, Mr. Liu Hualong, a PRC resident, and Mr. Wong Kai Yan, Thomas, a resident in Hong Kong, will act as our principal channel of communication with the Hong Kong Stock Exchange. Although Mr. Liu resides in the PRC, he possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Accordingly, Mr. Liu will be able to meet with the relevant members of the Hong Kong Stock Exchange on short notice;
- Both of the authorized representatives of the Company have means of contacting all Directors (including the non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters;
- each of the Directors who is not ordinarily resident in Hong Kong possesses or will be able to apply valid travel documents to visit Hong Kong and will be able to meet with relevant members of the Hong Kong Stock Exchange within a reasonable period of time;
- One of the independent non-executive Directors, Mr. Tsoi, David is ordinarily resident in Hong Kong and will serve as an additional channel of communication with the Hong Kong Stock Exchange;
- The Company has appointed China International Capital Corporation (Hong Kong) Limited and Macquarie Capital Securities Limited as joint compliance advisers who will serve as an additional channel of communication with the Hong Kong Stock Exchange from the Listing Date to the date when the Company mails its annual reports to its Shareholders for the first full financial year immediately after the listing of our H Shares.

Appointment of Joint Company Secretaries: Rule 8.17 and Rule 19A.16

Rule 8.17

According to Rule 8.17 of the Hong Kong Listing Rules, the secretary of the Company must be a person who is ordinarily resident in Hong Kong and who has the requisite knowledge and experience to discharge the functions of secretary of a listed company and who:

(a) is an ordinary member of The Hong Kong Institute of Chartered Secretary, a solicitor or barrister as defined in the Legal Practitioners Ordinance or a professional accountant; or

(b) is an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of a company of an issuer.

Rule 19A.16

Rule 19A.16 of the Hong Kong Listing Rules, however, does not require the secretary of a PRC issuer to be ordinarily resident in Hong Kong, provided that such person can meet the other requirements under Rule 8.17.

Mr. Shao Renqiang does not possess the specified qualifications required by Rule 8.17(2) and (3) of the Hong Kong Listing Rules in that although he is a senior accountant and has held various senior positions as indicated in his biography, he may not possess the relevant experience as required by the Hong Kong Stock Exchange in terms of his familiarity with the Hong Kong Listing Rules. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Hong Kong Listing Rules and other relevant laws and regulations, we have the following arrangements:

- Mr. Shao Renqiang will endeavor to attend relevant training courses including briefing on the latest changes to the applicable Hong Kong laws and regulations and the Hong Kong Listing Rules organized by the Company's Hong Kong legal advisers on invitation basis and seminars organized by the Hong Kong Stock Exchange for PRC issuers from time to time.
- the Company has appointed Mr. Wong Kai Yan, Thomas, who meets the requirements under Rule 8.17(2) of the Hong Kong Listing Rules, as a joint company secretary to assist Mr. Shao so as to enable him to acquire the relevant experience (required under Rule 8.17(3) of the Hong Kong Listing Rules) to discharge the duties and responsibilities as company secretary of the Company.
- Mr. Wong Kai Yan, Thomas, who will familiarize himself with the affairs of the Company, will communicate regularly with Mr. Shao on matters relating to corporate governance, the Hong Kong Listing Rules as well as other laws and regulations which are relevant to us and our other affairs. Mr. Wong will work closely with, and provide assistance to, Mr. Shao in the discharge of his duties as a joint company secretary including organizing the Company's board meetings and shareholders' meetings.
- Mr. Shao Renqiang will be appointed for an initial period of three years from the date of listing of the H Shares, provided that he will be assisted by Mr. Wong Kai Yan, Thomas. Upon expiry of the three-year period, a further evaluation of the qualifications and experience of Mr. Shao and the need for on-going assistance would be made.

The Company has applied to the Hong Kong Stock Exchange for, and has been granted, a waiver from strict compliance with the requirements of Rule 8.17 and Rule 19A.16 of the Hong Kong Listing Rules.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company was incorporated on 28 December 2007. Prior to that, the Company did not exist as an independent legal entity and our operations were conducted by the various operating subsidiaries of the CSRG Group, which were members of our Company. The compensation information set forth below for the Directors, Supervisors and various other employees, insofar as it relates to periods prior to the Company's incorporation, is stated at historical amounts as if our current structure had been in existence throughout the relevant periods.

The Directors, Supervisors and senior management receive compensation in the form of salaries, bonuses, allowances and other benefits-in-kind, including the Company's contribution to the pension plan on their behalf. Total compensation paid to the Directors, Supervisors and senior management for the three years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008 were approximately RMB3.4 million, RMB3.8 million, RMB4.4 million, and RMB1.6 million respectively. As required by PRC regulations, we participate in various defined pension schemes for our employees, including those organized by provincial or municipal governments as well as supplemental pension schemes. The employees covered by such schemes include our Directors, Supervisors and management personnel. The Company contributed RMB0.23 million and RMB0.06 million as post-employment benefits for the Directors, Supervisors and senior management for the year ended 31 December 2007 and the three months ended 31 March 2008, respectively. The aggregate amount of compensation the Company paid to the five highest paid individual employees during the year ended 31 December 2007 and for the three months ended 31 March 2008 was approximately RMB3.32 million and RMB0.8 million, respectively. Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind receivable by the Directors (including five independent non-executive Directors) and Supervisors in respect of the year ending 31 December 2008 are estimated to be approximately RMB2.58 million (including RMB0.58 million to be received by the independent non-executive Directors) and RMB1.02 million, respectively.

Share Appreciation Rights Plan

In order to motivate and give incentive to the Company's employees (including the Directors and senior management), the Company intends to implement a share appreciation rights plan (the "SAR Plan"). The proposed adoption of the SAR Plan has been approved by the SASAC in principle. Before the implementation of the SAR Plan, the proposed SAR Plan is required to be approved by the SASAC and the shareholders of the Company.

Under the proposed SAR Plan, eligible participants will be entitled to a cash payment by the Company equal to the appreciation, if any, in the fair market value of the Shares from the date of the grant of such appreciation rights to the date of the exercise of such rights, subject to certain terms and conditions.

No Shares will be issued under the SAR Plan. Accordingly, the shareholding of the shareholders of the Company will not be diluted by the implementation of the SAR Plan.

JOINT COMPLIANCE ADVISERS

The Company has agreed to appoint China International Capital Corporation (Hong Kong) Limited and Macquarie Capital Securities Limited to be the joint compliance advisers upon listing in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The Company expects to enter into a compliance advisers' agreement with the joint compliance advisers prior to the Listing Date, the material terms of which are as follows:

(a) the Company will appoint China International Capital Corporation (Hong Kong) Limited and Macquarie Capital Securities Limited as the joint compliance advisers for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Hong Kong Listing Rules in respect of the financial results of the Company for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(b) the joint compliance advisers will provide us with certain services, including providing us with proper guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines;

(c) the joint compliance advisers will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines;

(d) the joint compliance advisers will act as one of the additional channels of communication of the Company with the Hong Kong Stock Exchange;

(e) the Company will agree to indemnify the joint compliance advisers for certain actions against and losses incurred by the joint compliance advisers arising out of or in connection with the performance by the joint compliance advisers of their duties under the agreement, or any material breach by us of the provisions of the agreement, provided that the indemnity will not apply to any action or loss which is finally judicially determined to have been caused by the willful default, fraud or gross negligence on the part of the joint compliance advisers; and

(f) the Company may terminate the appointment of a joint compliance adviser if the relevant joint compliance adviser's work is of an unacceptable standard or if there is a material dispute over fees payable to the joint compliance adviser (which cannot be resolved within 30 days); any one of the joint compliance advisers will have the right to terminate their appointment if we committed a breach of the compliance advisers' agreement, or by service of one month's written notice to the Company.

Upon incorporation, the entire issued share capital of the Company is beneficially owned by CSRG as follows:

Name	Number of Shares	Voting power (%)
CSRG	7,000,000,000[1]	100.00

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(1) *Beneficially owned by CSRG and through its wholly-owned subsidiary, BRIT.*

Assuming 3,000,000,000 A Shares are issued immediately following the completion of the A Share Offering, we expect that the only party beneficially interested in 10% or more of the voting power at any of the shareholders' general meeting of the Company will be as follows:

Name	Number of Shares	Voting power (%)
CSRG	7,000,000,000[1]	70.00

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(1) *Beneficially owned by CSRG and through its wholly-owned subsidiary, BRIT.*

Assuming 3,000,000,000 A Shares are issued pursuant to the A Share Offering and immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), we expect that the only party beneficially interested in 10% or more of the voting power at any of the shareholders' general meeting of the Company will be as follows:

Name	Number of Shares	Voting power (%)
CSRG	6,840,000,000[1]	58.97

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(1) *Beneficially owned by CSRG and through its wholly-owned subsidiary, BRIT.*

If the Over-allotment Option is exercised in full, CSRG will beneficially own approximately 57.57% of the Company's total Shares then in issue.

The H Shares held by NSSF are not subject to any lock-up restrictions under PRC laws after the listing of the Company for the reasons set out in the section headed "Share Capital" in this Prospectus.

None of the Directors or Supervisors is a legal or beneficial owner of any of the Shares. We are not aware of any arrangement currently in place which may at a subsequent date result in a change of control of the Company.

For more information on CSRG, see "Restructuring" and "Relationship with CSRG".

GENERAL

Upon incorporation, the registered capital of the Company was RMB7 billion divided into 7,000,000,000 Domestic Shares of nominal value of RMB1.00 each.

A SHARE OFFERING AND TRADING PRICE OF THE A SHARES

We announced the A Share Offering on 28 July 2008. The A Share Offering comprises an offering of not more than 3,000,000,000 A Shares for subscription, with no over-allotment. Assuming 3,000,000,000 A Shares are issued pursuant to the A Share Offering, the A Shares offered represent 30% of the Company's total share capital before the Global Offering (but as enlarged by the A Share Offering), or 25.86% of the Company's total share capital immediately after the Global Offering assuming that the Over-allotment Option is not exercised. The offer price for the A Shares is expected to be not less than RMB2.10 per A Share and not more than RMB2.18 per A Share, and will be determined based on prevailing market conditions and domestic customary pricing consultation mechanisms.

A Shares and H Shares are generally neither interchangeable nor fungible, however, the A Shares may be converted into H Shares. See "Share Capital—Transfer of our Domestic Shares for listing and trading on the Hong Kong Stock Exchange" for details. The market prices of the A Shares and H Shares may be different after the Global Offering.

Before the A Share Offering and the Global Offering

Before the A Share Offering and the Global Offering, the registered share capital of the Company is RMB7,000,000,000 divided into 7,000,000,000 Domestic Shares of nominal value of RMB1.00 each, of which 6,900,000,000 Domestic Shares are held by CSRG and 100,000,000 Domestic Shares are held by BRIT, a wholly-owned subsidiary of CSRG.

After the A Share Offering but before the Global Offering

Assuming 3,000,000,000 A Shares are issued upon completion of the A Share Offering but before the Global Offering, the registered share capital of the Company will be RMB10,000,000,000 divided into 10,000,000,000 Domestic Shares (including A Shares) of nominal value of RMB1.00 each and is categorized as follows:

Name	Nature	Number of Shares	Approximate Percentage of issued share capital (%)
CSRG	A Shares(1)	6,718,628,571	67.19%
CSRG	Domestic Shares (not publicly tradeable)(1)	181,371,429	1.81%
BRIT	A Shares(1)	97,371,429	0.97%
BRIT	Domestic Shares (not publicly tradeable)(1)	2,628,571	0.03%
Public holders of A Shares	A Shares	3,000,000,000	30.00%
Total		10,000,000,000	100.00%

Notes:

(1) Assuming 3,000,000,000 A Shares are issued upon completion of the A Share Offering, of the 7,000,000,000 Domestic Shares initially held by CSRG and BRIT upon the establishment of the Company as a joint stock limited company,

(a) 6,816,000,000 Domestic Shares will become A Shares on the date of the A Share Listing, which will be held as to 6,718,628,571 Domestic Shares by CSRG and as to 97,371,429 Domestic Shares by BRIT. According to the PRC Company Law, such A Shares will be subject to a lock-up period of one year from the date of A Share Listing. Pursuant to the listing rules of the Shanghai Stock Exchange, such A Shares held by CSRG and BRIT will be also subject to a lock-up period of 36 months from the date of A Share Listing; and

(b) 184,000,000 Domestic Shares, will, pursuant to the PRC regulations on reduction of State-owned shares, be reserved for disposal by CSRG as to 181,371,429 Domestic Shares and BRIT as to 2,628,571 Domestic Shares (by converting such Domestic Shares into H Shares) and be held by NSSF upon completion of the Global Offering. Such Domestic Shares are inclusive of (i) 160,000,000 Domestic Shares initially to be disposed of by conversion into H Shares at the Global Offering, and (ii) 24,000,000 Domestic Shares to be disposed of by conversion into H Shares if the Over-allotment Option is exercised in full. If the Global Offering does not proceed, such 184,000,000 Domestic Shares will become A Shares.

Upon Completion of the Global Offering

After the A Share Offering and immediately after the completion of the Global Offering (assuming 3,000,000,000 A Shares are issued pursuant to the A Share Offering but before the exercise of the Over-allotment Option), the share capital of the Company will be RMB11,600,000,000, comprising 1,760,000,000 H Shares and 9,840,000,000 Domestic Shares (including A Shares), representing 15.17% and 84.83%, respectively, of the total share capital of the Company. Particulars of the share capital of the Company will be categorized as follows:

Name	**Nature**	**Number of Shares**	**Approximate Percentage of issued share capital (%)**
CSRG	A Shares(1)	6,718,628,571	57.92%
CSRG	Domestic Shares (not publicly tradeable)(1)	23,657,143	0.21%
BRIT	A Shares(1)	97,371,429	0.84%
BRIT	Domestic Shares (not publicly tradeable)(1)	342,857	0.00%
Public holders of A Shares	A Shares	3,000,000,000	25.86%
H Shares issued and converted pursuant to the Global Offering	H Shares(2)	1,760,000,000	15.17%
Total		11,600,000,000	100.00%

Notes:

(1) Assuming 3,000,000,000 A Shares are issued upon completion of the A Share Offering and immediately after completion of the Global Offering but before the exercise of the Over-allotment Option, a total of 6,840,000,000 Domestic Shares will be held by CSRG and BRIT, of which,

(a) 6,816,000,000 Domestic Shares will become A Shares, which will be held as to 6,718,628,571 A Shares by CSRG and as to 97,371,429 A Shares by BRIT. According to the PRC Company Law, such A Shares will be subject to a lock-up period of one year from the date of A Share Listing. Pursuant to the listing rules of the Shanghai Stock Exchange, such A Shares held by CSRG and BRIT will also be subject to a lock-up period of 36 months from the date of A Share Listing; and

(b) 24,000,000 Domestic Shares will, pursuant to the PRC regulations on reduction of State-owned shares, be reserved for disposal by CSRG as to 23,657,143 Domestic Shares and BRIT as to 342,857 Domestic Shares (by converting such Domestic Shares into H Shares) and be held by NSSF upon the exercise of the Over-allotment Option in full. If the Over-allotment Option is not exercised or partly exercised, such 24,000,000 Domestic Shares or any part thereof will become A Shares.

(2) Such 1,760,000,000 H Shares are inclusive of (i) 1,600,000,000 H Shares offered in the Global Offering; and (ii) 160,000,000 H Shares (converted from Domestic Shares and disposed of by CSRG and BRIT pursuant to the PRC regulations on reduction of State-owned shares) held by NSSF.

After the A Share Offering and immediately after the completion of the Global Offering (assuming 3,000,000,000 A Shares are issued pursuant to the A Share Offering and assuming the Over-allotment Option is exercised in full and NSSF continues to hold the H Shares (converted from Domestic Shares)), our share capital will be RMB11,840,000,000, comprising 2,024,000,000 H Shares and 9,816,000,000 A Shares, representing 17.09% and 82.91% respectively, of the total share capital of the Company. Particulars of the share capital of the Company will be categorized as follows:

Name	Nature	Number of Shares	Approximate Percentage of issued share capital (%)
CSRG	A Shares[1]	6,718,628,571	56.75%
BRIT	A Shares[1]	97,371,429	0.82%
Public holders of A Shares	A Shares	3,000,000,000	25.34%
H Shares issued and converted pursuant to the Global Offering	H Shares[2]	2,024,000,000	17.09%
Total		11,840,000,000	100.00%

Notes:

(1) Assuming 3,000,000,000 A Shares are issued upon completion of the A Share Offering and immediately after completion of the Global Offering and assuming the exercise of the Over-allotment Option in full, an aggregate total of 6,816,000,000 A Shares will be subject to a lock-up period of one year from the date of the A Share Listing. Pursuant to the listing rules of the Shanghai Stock Exchange, such A Shares held by CSRG and BRIT will also be subject to a lock-up period of 36 months from the date of the A Share Listing.

(2) Such 2,024,000,000 H Shares are inclusive of (i) 1,840,000,000 H Shares offered in the Global Offering, assuming the exercise of the Over-allotment Option in full; and (ii) 184,000,000 H Shares (converted from Domestic Shares pursuant to the PRC regulations on reduction of State-owned shares) held by NSSF, comprising (a) 160,000,000 H Shares (converted from Domestic Shares) upon completion of the Global Offering but before the exercise of the Over-allotment Option; and (b) 24,000,000 H Shares (converted from Domestic Shares) upon the exercise of Over-allotment Option in full.

RANKING

A Shares and H Shares are ordinary shares in the share capital of the Company upon completion of the Global Offering. However, apart from the PRC qualified domestic institutional investors, H Shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Macau, Taiwan or any country or region other than the PRC and generally cannot be subscribed for by or traded between legal or natural persons of the PRC. A Shares, on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and qualified foreign institutional investors approved by CSRC and must be subscribed for and traded in Renminbi. All cash dividends in respect of H Shares are to be declared in Renminbi and to be paid by the Company in Hong Kong dollars, whereas all dividends in respect of A Shares are to be paid by the Company in Renminbi. In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares, however, must be approved by special resolution of the Shareholders. For holders of H Shares, dividends in the form of Shares will be distributed in the form of additional H Shares. For holders of A Shares, dividends in the form of Shares will be distributed in the form of additional A Shares.

In addition, A Shares and H Shares are regarded as different classes of shares under the relevant terms of our Articles of Association. The differences between the two classes of Shares are set out in the Articles of Association in details.

Further, under the Articles of Association, any change or abrogation of the rights of class shareholders should be approved by way of a special resolution of the general meeting of shareholders and by a separate meeting of shareholders convened by the affected class shareholders. However, as provided in the Articles of Association, the procedures for approval by separate class shareholders shall not apply (i) where we issue, upon approval by a special resolution of our Shareholders in a general meeting, either separately or concurrently every twelve months, not more than 20% of each of the existing issued A Shares and H Shares; (ii) where our plan to issue A Shares and H Shares on establishment is implemented within fifteen months from the date of approval by the CSRC; or (iii) where our promoter converts its Shares to overseas listed foreign invested shares to be listed and traded in a foreign stock exchange upon receiving the approval of the CSRC.

Except as described above and in relation to the dispatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in "Appendix VIII—Summary of Articles of Association", A Shares and H Shares will however rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Prospectus.

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of the A Shares and H Shares may be different after the A Share Offering and Global Offering.

TRANSFER OF THE DOMESTIC SHARES FOR LISTING AND TRADING ON THE HONG KONG STOCK EXCHANGE

With the approval from the CSRC, the holders of the Domestic Shares may transfer the Domestic Shares held by them to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange. The listing and trading of such transferred shares in an overseas stock exchange shall comply with the regulatory procedures, stipulations and requirements of the relevant stock exchange. No approval by separate class meeting is required for the listing and trading of such transferred shares on an overseas stock exchange.

In this regard, if any holder of the Domestic Shares is to transfer its Domestic Shares to overseas investors and for listing and trading on the Hong Kong Stock Exchange, such transfer and conversion will need to obtain the approval of the relevant PRC regulatory authorities, including the CSRC.

Based on the methodology and procedures for the transfer and conversion of the Domestic Shares into H Shares as disclosed below, we can apply for the listing of all or any portion of the Domestic Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed transfer to ensure that the transfer process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share Register. As any listing of additional Shares after the initial listing on the Hong Kong Stock Exchange is considered by the Hong Kong Stock Exchange to be a purely administrative matter, the relevant procedural requirements for the transfer and conversion of the Domestic Shares to H Shares are:

(1) The holder of Domestic Shares is to obtain the requisite approval of CSRC for the transfer of all or part of its Domestic Shares into H Shares.

(2) The holder of Domestic Shares is to issue to the Company a removal request in respect of a specified number of Shares attaching the relevant documents of title.

(3) Subject to obtaining the approval of the Board of Directors, the Company would then issue a notice to the H Share Registrar with instructions that, with effect from a specified date, the H Share Registrar is to issue the relevant holders with H Share certificates for such specified number of Shares.

(4) Such specified number of Domestic Shares to be transferred to H Shares are then re-registered on the H Share Register maintained in Hong Kong on the condition that:

   (a) the H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant Shares on the H Share Register and the due dispatch of share certificate; and

   (b) the admission of the H Shares (converted from Domestic Shares) to trade in Hong Kong will comply with the Hong Kong Listing Rules and the General Rules of CCASS and CCASS Operational Procedures in force from time to time.

(5) Upon completion of the transfer and conversion, the shareholding of the relevant holders of Domestic Shares in the domestic share register will be reduced by such number of Domestic Shares transferred and the number of H Shares in the H Share Register will correspondingly increase by the same number of Shares.

(6) The Company will comply with the Hong Kong Listing Rules to inform shareholders and the public by way of an announcement of such fact not less than three days prior to the proposed effective date.

Upon completion of the Global Offering, CSRG will be subject to the following regulatory transfer restrictions:

- Under the PRC Company Law, Shares which have been issued before the Company publicly issue Shares are prevented from being transferred within one year from the date of listing on a stock exchange.
- Under the Hong Kong Listing Rules, CSRG, as our controlling shareholder, is prevented from, amongst others, (i) disposing of or agreeing to dispose any of the Shares for a period of six months from the date of listing on the Hong Kong Stock Exchange; and (ii) during a period of six months thereafter, disposing of or agreeing to dispose of any of the Shares if, immediately after such disposal, it would cease to be our controlling shareholder.

TRANSFER OF SHARES TO NSSF

According to relevant State policy of the PRC, shareholders who hold State-owned shares are generally required to reduce their shares in an amount of 10% of the entire offering in any overseas public offering and either remit the sale proceeds of such shares to NSSF or transfer such shares to NSSF for retention or sale. Pursuant to the approvals of the relevant PRC authorities, CSRG is required to transfer to NSSF such number of Domestic Shares as shall be equivalent to 10% of the number of Offer Shares. These Domestic Shares will be converted into H Shares on a one-for-one basis upon the listing of the H Shares on the Hong Kong Stock Exchange and will be held by NSSF immediately thereafter. Such share transfer to NSSF was one of the conditions of obtaining the necessary PRC regulatory approvals for the Global Offering.

Assuming 3,000,000,000 A Shares are issued pursuant to the A Share Offering and upon completion of the Global Offering, NSSF will hold approximately 160,000,000 H Shares, representing approximately 1.38% of the total issued share capital, if the Over-allotment Option is not exercised, or 184,000,0000 H Shares, representing 1.55% of the total issued share capital if the Over-allotment Option is exercised in full. These H Shares will not constitute any part of the Global Offering but will be considered as part of Shares to be held by the public investors for the purpose of Rule 8.08 of the Hong Kong Listing Rules. Neither CSRG Group nor our Company will receive any proceeds from the transfer by CSRG to NSSF of such Shares or any subsequent disposal of such H Shares by NSSF. NSSF will have no presence in the Board or our management team and have no influence over our normal business activities. NSSF will become our shareholder if the aforesaid transfer of our H Shares is completed. There is no legal restriction on NSSF to transfer or dispose of the H Shares following the listing of such H Shares. NSSF has not entered or proposed to enter into any agreement, arrangement, understanding or undertaking with us or our connected person(s).

As advised by our PRC legal advisers, Grandall Legal Group (Beijing):

- Our Company has fulfilled the obligations in respect of the application procedures for approval of and the transfer procedures for the transfer of state-owned shares stipulated under the "the Provisional Measures on the Administration of the Reduction of the State-owned Shares for Raising Social Security Funds".
- The transfer of state-owned shares has been approved by the relevant PRC authorities and consented by NSSF and is in compliance with the relevant PRC laws.

Unless the context otherwise indicates, in the following discussion and analysis, the financial data for the periods referred to herein reflect our financial condition after the Restructuring and have been prepared as if our current structure had been in existence throughout the Track Record Period. In addition, the financial data include certain other business retained by CSRG that were historically associated with the Predecessor Operations.

SELECTED FINANCIAL DATA

Basis of Presentation

CSRG was spun off from LORIC and completed its business registration in 2002 as a large-scale state-owned enterprise administered directly under the SASAC. As a result of the Restructuring of CSRG, the Company was established in the PRC on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. During the Restructuring, CSRG transferred to our Company its operations relating to the research and development, manufacturing, sales, refurbishment and leasing of locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles and key related components, as well as operations relating to rolling stock technologies (the "Transferred Businesses"). In return, the Company issued 6,900 million Shares of nominal value RMB1.00 each to CSRG. In addition, the Company issued 100 million Shares of nominal value of RMB1.00 each to BRIT in exchange for consideration of RMB124.5 million in cash. Certain assets, liabilities and interests historically associated with the operations of CSRG were not transferred to us and were retained by CSRG (the "Retained Operations"). The Retained Operations of CSRG principally include certain auxiliary operations and social function businesses, such as hotels, schools and hospitals. For selected historical financial information relating to certain businesses retained by CSRG, see Note 1.2 to the Accountants' Report in Appendix I to this Prospectus.

CSRG controlled the Transferred Businesses prior to our Restructuring and will continue to be our controlling shareholder after the Restructuring. In addition, we are ultimately controlled by the SASAC. Thus, our historical consolidated financial information has been prepared as a combination of businesses under common control in a manner similar to a pooling of interests. Accordingly, our financial statements present the consolidated results and financial position of our Company as if the current structure of our Company had been in existence throughout the Track Record Period, and as if the Transferred Businesses were transferred to our Company by CSRG at the beginning of the Track Record Period. In addition, all assets and liabilities transferred to us are accounted for and based on their historical book value.

In 2007, the SASAC instructed CNRG to transfer 49% of the equity interests in each of CSR ZELRI and CSR Qishuyan Institute for no consideration to CSRG, thereby increasing CSRG's ownership of these two institutes from the previous 51% to 100%. Such 100% equity interests in the two institutes were then injected into our Company as a part of the Transferred Businesses upon the Restructuring. Since these two institutes were ultimately controlled by the SASAC both before and after the Restructuring, the transfer of such two institutes to us constituted reorganization under common control in a manner similar to a pooling of interests. Accordingly, our historical consolidated financial information throughout the Track Record Period has included these two institutes under the basis that they were our wholly-owned subsidiaries since the beginning of the Track Record Period.

Certain assets and liabilities with a net asset value of RMB1,329.9 million, which were historically associated with the Transferred Businesses were retained by CSRG upon the Restructuring.

These assets and liabilities have been included in the historical financial information up to the date when they were carved out from the Transferred Businesses and reflected as a distribution to CSRG.

The information presented in this "Financial Information" section may not necessarily reflect the actual operating results, financial conditions and cash flows of our Company had it been an independent operating entity during the Track Record Period.

Selected Historical Consolidated Financial Information

The following tables present our selected historical consolidated financial information for the periods indicated. The selected consolidated income statement information, cash flow information and other selected financial information for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, and the selected consolidated balance sheet information as of 31 December 2005, 2006 and 2007 and 31 March 2008 are derived from, and should be read in conjunction with, the consolidated financial information set forth in the Accountants' Report included as Appendix I to this Prospectus.

The consolidated financial information is prepared in accordance with the IFRS.

	Year ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	(RMB million)	**(RMB million)**	**(RMB million)**	**(RMB million) (unaudited)**	**(RMB million)**
Selected consolidated income statement information					
Revenue	19,784.5	23,047.0	26,803.5	6,065.8	6,586.1
Cost of sales	(17,094.8)	(19,803.2)	(22,785.0)	(5,221.3)	(5,387.7)
Gross profit	2,689.7	3,243.8	4,018.5	844.5	1,198.4
Other income and gains	174.3	173.7	430.1	61.2	225.6
Selling and distribution costs	(348.0)	(453.0)	(641.1)	(108.4)	(147.8)
Administrative expenses	(1,728.4)	(1,953.3)	(2,633.7)	(544.4)	(587.3)
Other expenses, net	(28.2)	(30.4)	(103.8)	(45.7)	(52.3)
Finance costs	(190.2)	(294.9)	(314.4)	(70.3)	(119.4)
Share of profits and losses of associates and jointly-controlled entities	24.7	26.2	192.3	15.2	32.7
Profit before tax	593.9	712.1	947.9	152.1	549.9
Tax	(99.2)	(70.4)	(73.2)	(36.9)	(142.6)
Profit for the year/period	494.7	641.7	874.7	115.2	407.3
Attributable to:					
Equity holders of the Company	407.1	544.8	613.0	101.5	367.6
Minority interests	87.6	96.9	261.7	13.7	39.7

	As of 31 December			As of 31 March
	2005	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Selected consolidated balance sheet information				
Non-current assets				
Lease prepayments[1]	863.3	940.9	2,804.1	2,790.6
Available-for-sale investments	81.7	109.4	82.3	50.0
Listed equity investments, in the PRC, at fair value	0.9	4.4	49.1	16.8
Unlisted equity investments, at cost less impairment	80.8	105.0	33.2	33.2
Other non-current assets	7,677.2	8,337.1	8,013.1	8,403.8
Total non-current assets	8,622.2	9,387.4	10,899.5	11,244.4
Current assets				
Cash and cash equivalent	2,887.5	5,320.8	7,792.5	3,386.8
Other current assets	10,906.8	11,636.1	13,998.9	16,863.4
Total current assets	13,794.3	16,956.9	21,791.4	20,250.2
Current liabilities				
Total current liabilities	15,073.9	16,079.0	21,682.7	20,221.7
Net current (liabilities)/assets[2]	(1,279.6)	877.9	108.7	28.5
Non-current liabilities				
Total non-current liabilities	4,223.0	4,881.0	4,627.3	4,484.3
Net assets	3,119.6	5,384.3	6,380.9	6,788.6
Equity				
Equity attributable to equity holders of the Company	2,598.9	3,461.1	4,311.0	4,679.7
Minority interests	520.7	1,923.2	2,069.9	2,108.9
Total equity	3,119.6	5,384.3	6,380.9	6,788.6

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(1) The lease prepayments increased by 198.0%, or RMB1,863.2 million, from RMB940.9 million in the year ended 31 December 2006 to RMB2,804.1 million in the year ended 31 December 2007, mainly due to land cost of RMB1,769.8 million injected into us by relevant government authorities pursuant to the Reorganization.

(2) We had net current liabilities of RMB1,279.6 million as of 31 December 2005, primarily due to the significant amount of short-term borrowings we used to finance our long-term assets. We had net current assets of RMB877.9 million as of 31 December 2006, mainly due to the IPO of one of our indirectly-owned subsidiaries, CSR Times Electric, in December 2006, with resulting net proceeds of RMB2,087.2 million.

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million) (unaudited)	(RMB million)
Selected consolidated cash flow information					
Net cash inflow/(outflow) from operating activities	559.1	1,711.5	1,438.8	(2,191.9)	(2,918.6)
Net cash (outflow) from investing activities	(1,313.3)	(1,168.0)	(2,349.2)	(213.6)	(220.4)
Net cash inflow/(outflow) from financing activities	1,508.0	1,997.4	2,502.6	(174.2)	(495.3)

Other Selected Financial Information

The following table sets forth a full quantitative reconciliation of EBITDA to its most direct comparable IFRS measures, profit for the year/period and the calculation of EBITDA margin.

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million) (unaudited)	(RMB million)
Other selected financial information					
Profit for the year/period	494.7	641.7	874.7	115.2	407.3
Add/ (less)					
Tax	99.2	70.4	73.2	36.9	142.6
Share of profits and losses of associates and jointly-controlled entities	(24.7)	(26.2)	(192.3)	(15.2)	(32.7)
Finance costs	190.2	294.9	314.4	70.3	119.4
Depreciation, impairment and amortization	570.2	635.2	723.1	175.2	186.1
EBITDA[1]	1,329.6	1,616.0	1,793.1	382.4	822.7
Revenue	19,784.5	23,047.0	26,803.5	6,065.8	6,586.1
EBITDA margin[2]	6.7%	7.0%	6.7%	6.3%	12.5%

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(1) EBITDA refers to earnings before minority interests, income tax, share of profits and losses of associates and jointly-controlled entities, finance costs, depreciation and impairment of property, plant and equipment and amortization and impairment of lease prepayments and other intangible assets as they are computed. EBITDA is not a measure of financial performance under the IFRS. We have presented EBITDA data in this Prospectus as we believe EBITDA is a useful supplement to cash flow data because it enables us to measure operating performance and provide a general indicator of the ability to service and incur debt as well as to internally fund capital expenditures. EBITDA is not a standard measure and should not be considered in isolation or construed as an alternative to net income or income from operations, or as an indicator of our operating performance or other combined operations or cash flow data prepared in accordance with the IFRS, or as an alternative to cash flow as a measure of liquidity. EBITDA does not consider any fluctuation or legal requirements of the business that may require us to conserve and allocate funds for purposes other than debt services for funding of capital expenditure. EBITDA measures presented in this Prospectus may not be comparable to similarly entitled measures of other companies.

(2) EBITDA margin represents EBITDA as a percentage of our revenue as computed.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our consolidated financial information set forth in the Accountants' Report included as Appendix I to this Prospectus, and our selected historical consolidated financial information and operating data and the notes thereto included elsewhere in this Prospectus. Our consolidated financial information has been prepared in accordance with the IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements".

Overview

We are one of the largest rolling stock manufacturers and solutions providers in the world, offering a wide range of rolling stock products and services. We were also the largest rolling stock manufacturer and solutions provider in China in terms of revenue in 2007. We are mainly engaged in the research and development, manufacturing, sale, refurbishment and leasing of locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles, as well as other businesses that utilize proprietary rolling stock technologies. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, our total revenue was RMB19,784.5 million, RMB23,047.0 million, RMB26,803.5 million, RMB6,065.8 million and RMB6,586.1 million, respectively. Our profit attributable to equity holders of the Company during the same periods was RMB407.1 million, RMB544.8 million, RMB613.0 million, RMB101.5 million and RMB367.6 million, respectively.

During the three years ended 31 December 2007, we occupied more than half of the PRC domestic market share for locomotive production and MU production in terms of production volume, respectively, as well as more than half of the PRC domestic market share for locomotive refurbishment and freight wagon refurbishment in terms of refurbishment volume, respectively. Building on our market-leading position in the rolling stock market in China, we also export our products to more than 30 countries and regions in the world. We develop, manufacture and sell a full range of rolling stock that can be divided into five principal product lines:

- *Locomotives*: We own China's largest research and development and manufacturing facility for electric locomotives in terms of 2006 production volume, which is also one of the world's leading research and development and manufacturing facilities for electric locomotives. Our locomotives include electric and diesel locomotives for passenger and freight trains. We possess world-leading technologies that we utilize to manufacture high-powered four-axle, six-axle and eight-axle electric and diesel locomotives. In addition, we own and operate a number of facilities in China where we refurbish, upgrade and maintain various types of locomotives.

- *Passenger carriages*: We are one of China's two major developers and manufacturers of passenger carriages. Our passenger carriages comprise rail vehicles that are mainly used for passenger transportation purposes, including seating coaches, berth sleeping cars, dining cars, power generation cars and double-deck passenger carriages. In addition, we own and operate a number of facilities in China where we refurbish, upgrade and maintain passenger carriages.
- *Freight wagons*: We own one of the world's leading research and development and manufacturing facilities for freight wagons. Our freight wagons mainly consist of open top wagons, flat wagons, box wagons, tank wagons, hopper wagons and other special purpose vehicles. We offer the most comprehensive series of freight wagon products that meet a wide range of freight transportation needs in the PRC domestic market.
- *Multiple units*: We offer MUs with maximum operating speeds of up to 200 km/h, over 200 km/h and over 300 km/h. In recent years, we have focused on the development and production of EMUs and own an EMU manufacturing facility that uses world-leading technologies. We possess world-leading core technologies that we utilize to manufacture EMUs.
- *Rapid transit vehicles*: We were the largest manufacturer of rapid transit vehicles in China in terms of total new bid value of contracts in 2007. In 2007, we were successful in bidding on sales and purchase agreements with a total contract value of approximately RMB12.0 billion, which accounted for more than 60% of the total new bid value of contracts in China. Our rapid transit vehicles, used on subway and rapid transit systems, consist of metro cars and light rail cars.

Our brand names, "CSR" and "南車", are widely recognized in both domestic and overseas markets. Over the years, our rolling stock products have been exported to over 30 countries and regions including the United States, Australia and Brazil. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, our revenue from overseas sales amounted to approximately RMB1,659.6 million, RMB1,777.1 million, RMB1,929.2 million, RMB605.8 million and RMB301.7 million, respectively, representing 8.4%, 7.7%, 7.2%, 10.0% and 4.6% of our total revenue, respectively.

Factors Affecting Our Results of Operations

Our results of operations and the period-to-period comparability of our financial results are affected by a number of factors, including the following:

Investment in transportation infrastructure driven by PRC macro-economic growth

China's economy continued its rapid growth in the past decade. From 1998 to 2007, China's GDP grew at a CAGR of 11.7% and the GDP growth rate in 2006 reached 10.7%, which was above the global average. Economic growth in China has propelled the development of transportation infrastructure and has subsequently driven the development of the rolling stock industry. In addition to the rapid growth of the rail transportation industry, accelerated urbanization and expanding urban areas in China have also provided additional opportunities for rapid transit businesses.

Our main operations consist of rolling stock manufacturing in China. As a result, our businesses have benefited significantly from the PRC Government's investments in transportation infrastructure, including investments in the construction and improvement of railways and urban rapid transit projects. The PRC Government's spending on transportation infrastructure in China increased by 14.6% from 2005 to 2006, while the year-on-year growth rate of our revenue for the same period was 16.5%. According to the Eleventh Five-Year Plan, to meet the demands for continued and sustainable economic growth, government investments in China's transportation infrastructure are expected to reach as high as RMB3.8 trillion during the five-year period between 2006 and 2010, among which approximately RMB1.25 trillion is expected to be invested in railway infrastructure construction. In addition, we estimate that, following the expected completion of 1,500 km of urban rapid transit lines, demand for rapid transit vehicles could reach 6,000 cars by 2010. We expect that continued investment in transportation infrastructure by the PRC Government will generate significant business opportunities for us in the next few years. However, if the PRC Government reduces spending on transportation infrastructure projects in China, and if we fail to develop non-railway markets in or outside China, our revenue growth could be adversely affected. See "Risk Factors—Risks Relating to Our Industry—Any decrease in public spending on, or any changes in the public procurement policies or industry standards relating to, rail transportation or rapid transit projects could impact our business."

Prices of products and services

The prices of our rolling stock products are generally determined by factors including: (i) the technologies utilized by each type of product manufactured as well as the service provided and our control over and proprietary rights to the technology; (ii) the number of manufacturers of similar types of products or providers of similar types of services; (iii) market demand and production scale for certain products; (iv) life cycle of the products; and (v) the costs of our products and services provided. Among these, technology is the most critical factor affecting the prices of our products and services. We generally can obtain higher prices for the products that are manufactured utilizing more sophisticated technologies. The majority of purchase orders are granted to us through an open bidding or price negotiation process. We determine the prices of our products based on the cost-plus-reasonable-profit method for PRC domestic sales. When determining the prices for our products sold to overseas customers, we generally consider factors such as the supply of and demand for similar products in the PRC domestic market as well as the prices of similar products on international markets. During the Track Record Period, we took into consideration the foregoing factors as well as other factors such as increases in raw material costs to price our products. However, we cannot give any assurances that we will be able to maintain the prices of our products and services at the same level in the future.

Product mix

During the Track Record Period, we generated our revenue from the production of rolling stock, including locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key components used in rail vehicles and rapid transit vehicles as well as the provision of maintenance, upgrade and refurbishment services for rolling stock. The profitability of both sales of goods and provision of services varies according to vehicle types. Changes in product mix in connection with the sales of goods and provision of services may affect our profitability and total revenue. Products manufactured utilizing more sophisticated technologies and advanced designs are generally more profitable than conventional products. If we adjust our product mix to reflect prevailing market demand, our profit could, to some extent, be affected.

Cost of raw materials

The main component of our cost of sales during the Track Record Period was the cost of raw materials, including steel, aluminum and copper. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, our raw materials consumed accounted for 78.3%, 79.2%, 81.9%, 80.1% and 81.3% of our total production cost, respectively. In recent years, the prices of metal materials have increased, including those for steel, aluminum and copper, resulting in increases in our cost of sales. For example, the price of 20 mm thick steel boards decreased by RMB2,000 per tonne in 2005 from the previous period. However, since 2006, the price of thick steel boards has steadily increased, with a slight decrease in June 2006, to approximately RMB5,500 per tonne in the first quarter of 2008. The copper spot price has also increased since early 2005 and peaked in mid-2006 at over RMB80,000 per tonne. The aluminum spot price fluctuated between approximately RMB15,800 per tonne and RMB24,000 per tonne during the Track Record Period and was approximately RMB19,120 per tonne as of 31 March 2008.

We have adopted a centralized procurement system and established relationships with key suppliers to enhance our bargaining power and to enjoy discounts on volume procurements. We have also established a cooperative partnership with key suppliers and have entered into direct sales or agency agreements with them on an annual basis, which enables us to enjoy the price benefits associated with direct sales. We believe that such a procurement scheme will lower our material costs and ensure the steady supply of these materials. Certain materials with relatively limited supplies, such as special steel materials, or steel used in the production of prototypes as well as components that involve advanced technologies or with high procurement risk are procured by each of our subsidiaries from qualified suppliers through a negotiation process. Any difficulty that we may encounter in connection with centralized procurement or the maintenance of relationships with our key suppliers may adversely affect our business operations.

Taxation

Currently, a number of our subsidiaries are entitled to 15% preferential income tax treatment due to their location in either western China or various high- and new-technology zones throughout China. Some of our other subsidiaries are entitled to tax deductions or exemptions because of their status as former science research and development institutes. In addition, a number of our subsidiaries are entitled to other various preferential tax treatments, such as an additional pre-tax deduction of technology development expenses. Moreover, a sum equal to 40% of domestically-manufactured equipment investments that such subsidiaries make in a given year may be offset against any increase in such year's enterprise income tax over the previous year. Other subsidiaries were generally subject to the normal income tax rate of 33% applicable to Chinese enterprises during the Track Record Period. In addition, according to the new *Enterprise Income Tax Law* (the "Tax Law") which took effect on 1 January 2008, the normal income tax rate of PRC business entities was reduced to 25%. The new Tax Law allows businesses that were entitled to an enterprise income tax rate lower than 25% before 1 January 2008 a five-year grace period to transition to the higher income tax rate of 25%.

As a result of the above preferential tax treatments and exemptions, our effective tax rates were 16.7%, 9.9%, 7.7%, 24.3% and 25.9% for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, respectively. Our first-quarter effective tax rates were higher than our yearly effective tax rates during the Track Record Period because we were generally afforded an income tax deduction during the second to fourth quarters, primarily as a result of our purchases of domestically-manufactured equipment. In addition, certain entities of our Company operating in government-encouraged industries and domiciled in third-tier PRC cities did not, entirely or partially, receive their non-taxable VAT refunds during the three months ended 31 March 2007 and 2008. Our effective tax rate for the three months ended 31 March 2008 was higher than that for the same period in 2007, notwithstanding the decrease in the normal income tax rate from 33% to 25% from 1 January 2008, primarily due to the termination of the tax-exempted status of a subsidiary of the Company since 1 October 2007, as well as the higher tax rates applicable to certain of our subsidiaries because of their pending classifications as high- and new-technology enterprises for receiving preferential tax rates during the first quarter of 2008.

Sales of our products are generally subject to a 17% VAT. Since 2001, revenues generated from the provision of maintenance, upgrade and refurbishment services to freight wagons have not been subject to VAT. Any modification or termination of the foregoing preferential tax treatments currently applicable to our subsidiaries, associated companies and jointly-controlled entities may adversely impact our financial condition and results of operations.

Exchange rates

Most of our cost of sales and operating expenses are denominated in Renminbi. In addition, we sell most of our products in the domestic market. However, during the Track Record Period, we have sold certain products to, and purchased certain materials from, overseas markets in transactions that involved foreign currencies. For the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008, our revenue from overseas sales amounted to approximately RMB1,659.6 million, RMB1,777.1 million, RMB1,929.2 million, RMB605.8 million and RMB301.7 million, respectively, representing 8.4%, 7.7%, 7.2%, 10.0% and 4.6% of our total revenue, respectively. We expect that the portion of our revenue and costs denominated in foreign currencies may increase following the expansion of our business scale. In addition, we incurred exchange loss of RMB26.3 million in 2007, mainly due to an increase in our Hong Kong dollar position from the global offering of CSR Times Electric, which was affected by the substantial appreciation of the Renminbi against the Hong Kong dollar. Substantial appreciation of the Renminbi against major foreign currencies could adversely impact our revenue from export sales, which in turn affects our profitability.

Critical Accounting Policies and Estimates

The discussion and analysis of our results of operations and financial condition is based on our audited consolidated financial information, which has been prepared in accordance with the IFRS. Our results of operations and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our consolidated financial information. Some of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty and are based on our historical experience, terms of existing contracts, management's view on trends in our industry and information from outside sources.

Our management considers the following factors in reviewing our consolidated financial information:

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited consolidated financial information. Our principal accounting policies are set forth in detail in Note 3 of "Appendix I—Accountants' Report" in this Prospectus. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our audited consolidated financial information.

Write down of inventories

We determine the write-down for obsolescence of inventories. These estimates are made with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgment. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realizable value. 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.

Obligation under early termination benefits and pension

We recognize the obligation under early termination benefits and pension as our liability. Expenses resulting from the payout of early termination and pension benefits and the amount of liability are calculated based on a number of assumptions. These assumptions include discount rate, the rate of wage increases, the rate of medical expense increases and other factors. Differences between actual results and actuarial estimates impact the accuracy of estimates. Although our Directors believe the estimate is reasonable, any changes to the assumptions will impact the estimated amount of our obligation under early termination benefits and pension.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available to offset any losses. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Provision for doubtful accounts

We set aside a provision for doubtful accounts based on the collectability of accounts receivable. We recognize the provision for doubtful accounts when we determine that certain accounts receivable are not collectible. Recognition of the provision for doubtful accounts requires judgment and estimates. The face value of our accounts receivable will be affected if the new estimate differs from the existing estimate.

Research and development costs

All research costs are charged to the income statement as incurred.

The expenditures incurred on projects to develop new products are capitalized and deferred only when we 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 reliably measure the expenditure during the development. Product development expenditures which do not meet these criteria are expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortized 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.

Description of Selected Income Statement Line Items

Revenue

We mainly generated our revenue from the production, sales and refurbishment of rolling stock, including locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as other businesses that utilize proprietary rolling stock technologies. The table below sets forth our revenue from operations in terms of contribution by type of rolling stock products or services and as a percentage of our total revenue by types of rolling stock we produced or serviced for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2005		2006		2007		2007		2008	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million) (unaudited)	%	(RMB million)	%
Revenue										
Locomotives	6,681.1	33.8	7,173.5	31.2	7,086.1	26.5	1,279.3	21.1	1,722.1	26.2
Passenger carriages	2,922.2	14.8	3,416.2	14.8	3,408.0	12.7	991.8	16.4	803.8	12.2
Freight wagons	7,184.7	36.3	8,073.3	35.0	9,193.3	34.3	2,341.8	38.6	2,161.8	32.8
MUs	74.2	0.4	1,113.4	4.8	2,679.7	10.0	663.4	10.9	791.9	12.0
Rapid transit vehicles	1,215.4	6.1	1,227.2	5.3	1,699.1	6.3	268.2	4.4	245.5	3.7
Others(1)	1,706.9	8.6	2,043.4	8.9	2,737.3	10.2	521.3	8.6	861.0	13.1
Total	19,784.5	100.0	23,047.0	100.0	26,803.5	100.0	6,065.8	100.0	6,586.1	100.0

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(1) Other businesses include those transferred to us by CSRG, except for our operations relating to locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles.

Cost of sales

Cost of sales represents the direct costs of production, which primarily include raw material costs, staff costs, depreciation and amortization expenses, fuel and energy costs and others.

The cost of raw materials was the main component of our cost of sales. Raw materials used in the manufacture and maintenance of our rolling stock products and their key components mainly include steel, aluminum, copper and related components.

Staff costs are mainly comprised of wages and other benefits for our direct labors.

Other income and gains

Other income and gains consist of government grants, interest income, VAT refunds, profit from sales of scrap materials, dividend income, net gain on disposal of subsidiaries, gain on disposal of available-for-sale investments and others.

PRC Government grants are made to our Company to encourage research and development activities and fixed asset construction. The criteria for awarding the government grants are: (i) the proceeds from the grant should be used in designated fixed asset investments or technical research projects; and (ii) the entity receiving the grant should operate within a government-encouraged industry, such as the rolling stock manufacturing industry. The grants are required to be used for the purposes or projects designated by the relevant government authorities. The government grants received by our Company are also generally available to other companies in the PRC.

Selling and distribution costs

Selling and distribution costs for our Company primarily consist of staff costs, traveling expenses, after-sale service expenses and others.

Administrative expenses

Administrative expenses consist primarily of salaries and benefits of administrative and management staff, research and development expenses, technology transfer expenses, depreciation of non-production related fixed assets, repair and maintenance cost and amortization of land use rights.

Other expenses, net

Other expenses, net, represent our non-operating expenses net of non-operating income, which primarily comprise the provision of impairment of trade receivables, provision of impairment of other receivables, provision of impairment of items of property, plant and equipment, net gain on disposal of items of property, plant and equipment and exchange gains or losses.

Finance costs

Finance costs consist primarily of interest on bank and other borrowings less interest capitalized in construction in progress.

Share of profits and losses of associates and jointly-controlled entities

Our share of profits and losses of jointly-controlled entities and associates is the profits attributable to us from our jointly-controlled entities and associates, net of the losses attributable to us from our jointly-controlled entities and associates, pursuant to our equity interests in such jointly-controlled entities and associates. 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. An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company 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.

Tax

Our tax expenses primarily consist of income tax payable by us and our subsidiaries under relevant PRC, and to a lesser extent, overseas income tax rules and regulations. The effective tax rates applicable to us for each of the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008 were 16.7%, 9.9%, 7.7%, 24.3% and 25.9%, respectively.

Minority interests

Minority interests represent the interests not held by us in the results and net assets of the subsidiaries of the Company.

Consolidated Results of Operations

The following table sets forth, for the periods indicated, information relating to certain income and expense items from our consolidated income statement:

	Year ended 31 December						Three months ended 31 March			
	2005		2006		2007		2007		2008	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million) (unaudited)	%	(RMB million)	%
Revenue	19,784.5	100.0	23,047.0	100.0	26,803.5	100.0	6,065.8	100.0	6,586.1	100.0
Cost of sales	(17,094.8)	(86.4)	(19,803.2)	(85.9)	(22,785.0)	(85.0)	(5,221.3)	(86.1)	(5,387.7)	(81.8)
Gross profit	2,689.7	13.6	3,243.8	14.1	4,018.5	15.0	844.5	13.9	1,198.4	18.2
Other income and gains	174.3	0.9	173.7	0.8	430.1	1.6	61.2	1.0	225.6	3.4
Selling and distribution costs	(348.0)	(1.8)	(453.0)	(2.0)	(641.1)	(2.4)	(108.4)	(1.8)	(147.8)	(2.2)
Administrative expenses	(1,728.4)	(8.7)	(1,953.3)	(8.5)	(2,633.7)	(9.8)	(544.4)	(9.0)	(587.3)	(8.9)
Other expenses, net	(28.2)	(0.1)	(30.4)	(0.1)	(103.8)	(0.4)	(45.7)	(0.7)	(52.3)	(0.8)
Finance costs	(190.2)	(1.0)	(294.9)	(1.3)	(314.4)	(1.2)	(70.3)	(1.2)	(119.4)	(1.8)
Share of profits and losses of associates and jointly-controlled entities	24.7	0.1	26.2	0.1	192.3	0.7	15.2	0.3	32.7	0.5
Profit before tax	593.9	3.0	712.1	3.1	947.9	3.5	152.1	2.5	549.9	8.4
Tax	(99.2)	(0.5)	(70.4)	(0.3)	(73.2)	(0.3)	(36.9)	(0.6)	(142.6)	(2.2)
Profit for the year/period	494.7	2.5	641.7	2.8	874.7	3.2	115.2	1.9	407.3	6.2
Attributable to:										
Equity holders of the Company	407.1	2.1	544.8	2.4	613.0	2.2	101.5	1.7	367.6	5.6
Minority interests	87.6	0.4	96.9	0.4	261.7	1.0	13.7	0.2	39.7	0.6

Three Months Ended 31 March 2008 Compared with Three Months Ended 31 March 2007

Revenue

Our total revenue increased by 8.6%, from RMB6,065.8 million in the three months ended 31 March 2007 to RMB6,586.1 million in the three months ended 31 March 2008, primarily due to the increase in revenue generated by the production, sales and maintenance, upgrade and refurbishment of locomotives, MUs and key related components, as well as other businesses that utilize proprietary rolling stock technologies. The increase of our revenue was partly offset by the decrease in revenue generated from production, sales and maintenance, upgrade and refurbishment of passenger carriages, freight wagons and rapid transit vehicles.

Revenue generated from our locomotive product line increased by 34.6%, from RMB1,279.3 million in the three months ended 31 March 2007 to RMB1,722.1 million in the three months ended 31 March 2008. This increase was primarily due to the increase in our electric locomotive sales volume resulting from the delivery of our locomotive products in the first quarter of 2008 as well as an increase in average unit prices resulting from the upgrade of our products.

Revenue generated from our MU product line increased by 19.4%, from RMB663.4 million in the three months ended 31 March 2007 to RMB791.9 million in the three months ended 31 March 2008. This increase was primarily attributable to an increase in the localization rate (self-production rate) of our EMU products as well as changes in our product mix.

Our other businesses include those that utilize proprietary rolling stock technologies and businesses other than our rolling stock business. Revenue generated from our other businesses increased from RMB521.3 million in the three months ended 31 March 2007 to RMB861.0 million in the three months ended 31 March 2008, representing a significant increase of 65.2%. The increase in our other businesses was primarily due to the increase in our sales of vessel diesel engines, crankshafts, hybrid-powered buses and components used in automobiles.

Revenue generated from our passenger carriage product line decreased by 19.0%, from RMB991.8 million in the three months ended 31 March 2007 to RMB803.8 million in the three months ended 31 March 2008. This decrease was primarily attributed to decreased sales volume of certain passenger carriages as a result of their replacement by MUs.

Revenue generated from our freight wagon product line decreased by 7.7%, from RMB2,341.8 million in the three months ended 31 March 2007 to RMB2,161.8 million in the three months ended 31 March 2008. This decrease was primarily attributable to the decrease in refurbishment volume resulting from the completion of an upgrade and refurbishment project for CR freight wagons, called “K2 Technology Reform”, at the end of 2007, despite the increase in the average unit prices of freight wagons we manufactured and refurbished.

Revenue generated from our rapid transit vehicle product line decreased by 8.5%, from RMB268.2 million in the three months ended 31 March 2007 to RMB245.5 million in the three months ended 31 March 2008. This decrease was primarily because certain of the rapid transit vehicle sales contracts were at the fulfillment phase and the relevant revenue had not been recognized during the first quarter of 2008.

Cost of sales

Our cost of sales increased by 3.2%, from RMB5,221.3 million in the three months ended 31 March 2007 to RMB5,387.7 million in the three months ended 31 March 2008. The increase was generally consistent with the increase in our revenue during the same period. However, due to our economies of scale and the effectiveness of our cost control, the growth rate of our cost of sales was lower than the growth rate of our revenue in the three months ended 31 March 2008.

Gross profit

As a result of the foregoing, our gross profit increased by 41.9%, from RMB844.5 million in the three months ended 31 March 2007 to RMB1,198.4 million in the three months ended 31 March 2008. Our gross profit margin increased from 13.9% in the three months ended 31 March 2007 to 18.2% in the three months ended 31 March 2008. The increase was primarily due to the change of product mix by which we were able to sell more products with higher profit margin, such as crankshafts, MUs, and high-powered electric locomotives. We also benefited from the decrease in raw material costs that resulted from higher localization rates and the increase in sales or service prices of similar types of products, as well as our effective cost control.

Other income and gains

Our other income and gains increased significantly by 268.6%, or RMB164.4 million, from RMB61.2 million in the three months ended 31 March 2007 to RMB225.6 million in the three months ended 31 March 2008, primarily due to the net fair value gain on derivative instruments of RMB83.9

million, an increase of RMB37.8 million in VAT refunds, as well as the gain on disposal of available-for-sale investments of RMB31.7 million.

In order to mitigate exchange rate risk of certain foreign currency bank loans, we entered into several forward foreign currency contracts during the Track Record Period, which resulted in a net fair value gain, due to the fluctuation of foreign exchange rates in the three months ended 31 March 2008. The significant increase in VAT refunds was primarily due to refunds received by certain entities of our Company operating in government-encouraged industries and domiciled in third-tier PRC cities. Such preferential tax treatment is in accordance with the relevant regulations issued by the MOF and the SAT. The gain on disposal of available-for-sale investments was primarily attributed to our investment in a listed company in China.

Selling and distribution costs

Our selling and distribution costs increased by 36.3%, from RMB108.4 million in the three months ended 31 March 2007 to RMB147.8 million in the three months ended 31 March 2008, primarily due to our increased marketing efforts in relation to new products and new markets.

Administrative expenses

Our administrative expenses increased by 7.9%, from RMB544.4 million in the three months ended 31 March 2007 to RMB587.3 million in the three months ended 31 March 2008, primarily due to the increase in research and development expenses and amortization of lease prepayments.

Other expenses, net

Our other operating expenses net of other operating income increased by 14.4%, from RMB45.7 million in the three months ended 31 March 2007 to RMB52.3 million in the three months ended 31 March 2008. This was primarily attributable to an increase in exchange losses of approximately RMB11.9 million in the three months ended 31 March 2008.

Finance costs

Our finance costs increased by 69.8%, from RMB70.3 million in three months ended 31 March 2007 to RMB119.4 million in the three months ended 31 March 2008, primarily due to an increase in bank loans and other borrowings to support our business expansion, as well as an increase in interest rates.

Share of profits and losses of associates and jointly-controlled entities

Share of profits and losses of associates and jointly-controlled entities significantly increased by 115.1%, from RMB15.2 million in the three months ended 31 March 2007 to RMB32.7 million in the three months ended 31 March 2008. This was primarily due to the increase in the share of profits of approximately RMB15.0 million from our jointly-controlled entity Bombardier Sifang (Qingdao) Transportation Ltd., as a result of their increased sales.

Tax

Our income tax expenses significantly increased by 286.4%, from RMB36.9 million in the three months ended 31 March 2007 to RMB142.6 million in the three months ended 31 March 2008, primarily due to an increase in our taxable income. Our effective tax rates increased from 24.3% in the three months ended 31 March 2007 to 25.9% in the three months ended 31 March 2008, notwithstanding the decrease in the normal income tax rate from 33% to 25% from 1 January 2008, primarily due to the termination of the tax-exempted status of a subsidiary of the Company since 1 October 2007, as well as the higher tax rates applicable to certain of our subsidiaries because of their pending classifications as high- and new-technology enterprises for receiving preferential tax rates during the first quarter of 2008.

Profit for the period

As a result of the foregoing, our profit for the period significantly increased by 253.6%, or RMB292.1 million, from RMB115.2 million in the three months ended 31 March 2007 to RMB407.3 million in the three months ended 31 March 2008.

Profit attributable to equity holders of the Company

Profit attributable to equity holders increased significantly by 262.2%, from RMB101.5 million in the three months ended 31 March 2007 to RMB367.6 million in the three months ended 31 March 2008.

Minority interests

Minority interests significantly increased by 189.8%, from RMB13.7 million in the three months ended 31 March 2007 to RMB39.7 million in the three months ended 31 March 2008, primarily due to the increase in profits of CSR Times Electric in 2008.

Year Ended 31 December 2007 Compared with Year Ended 31 December 2006

Revenue

Our total revenue increased by 16.3%, from RMB23,047.0 million in the year ended 31 December 2006 to RMB26,803.5 million in the year ended 31 December 2007, primarily due to the increase in revenue generated by the production, sales and maintenance, upgrade and refurbishment of rolling stock, which include freight wagons, MUs, rapid transit vehicles and key related components, as well as other businesses that utilize proprietary rolling stock technologies. The increase of our revenue was partly offset by the decrease in revenue generated from production, sales and maintenance, upgrade and refurbishment of locomotives and passenger carriages.

Revenue generated from our freight wagon product line increased by 13.9%, from RMB8,073.3 million in the year ended 31 December 2006 to RMB9,193.3 million in the year ended 31 December 2007. This increase was primarily attributable to the growth in sales volumes driven by the continued increase in market demand for freight wagons in both domestic and overseas markets, as well as an increase in average unit prices.

Revenue generated from our MU product line increased significantly by 140.7%, from RMB1,113.4 million in the year ended 31 December 2006 to RMB2,679.7 million in the year ended 31 December 2007. This increase was primarily attributable to a significant increase in average unit prices of our EMU products resulting from technological improvements as well as significant sales volume growth resulting from increased market demand.

Revenue generated from our rapid transit vehicle product line increased by 38.5%, from RMB1,227.2 million in the year ended 31 December 2006 to RMB1,699.1 million in the year ended 31 December 2007. This increase was primarily due to the rapid development of the rapid transit vehicle market, which resulted in increased demand for our products.

Our other businesses include those that utilize proprietary rolling stock technologies and businesses other than our rolling stock business. Revenue generated from our other businesses increased from RMB2,043.4 million in the year ended 31 December 2006 to RMB2,737.3 million in the year ended 31 December 2007, representing an increase of 34.0%. The increase in our other businesses was primarily due to the increase in our sales of wind power generators and components not used for rail vehicles.

Revenue generated from our locomotive product line decreased by 1.2%, from RMB7,173.5 million in the year ended 31 December 2006 to RMB7,086.1 million in the year ended 31 December 2007. This decrease was mainly due to the reduced market demand for traditional locomotives, as well as the shift of our product focus to evolved models of locomotives. The increase in our sales in evolved models of locomotives in 2007 was not sufficient to make up the decrease of our sales in traditional locomotives.

Revenue generated from our passenger carriage product line decreased by 0.2%, from RMB3,416.2 million in the year ended 31 December 2006 to RMB3,408.0 million in the year ended 31 December 2007. This decrease was primarily attributed to decreased sales volume of certain passenger carriages as a result of their replacement by MUs.

Cost of sales

Our cost of sales increased by 15.1%, from RMB19,803.2 million in the year ended 31 December 2006 to RMB22,785.0 million in the year ended 31 December 2007. The increase was generally consistent with the increase in our revenue during the same period. However, due to our economies of scale, the growth rate of our cost of sales was slightly lower than the growth rate of our revenue in the year ended 31 December 2007.

Gross profit

As a result of the foregoing, our gross profit increased by 23.9%, from RMB3,243.8 million in the year ended 31 December 2006 to RMB4,018.5 million in the year ended 31 December 2007. Our gross profit margin increased from 14.1% in 2006 to 15.0% in 2007. The increase was primarily due the increased sales of our products with higher profit margin as well as our efficient cost control.

Other income and gains

Our other income and gains significantly increased by 147.6%, from RMB173.7 million in the year ended 31 December 2006 to RMB430.1 million in the year ended 31 December 2007, primarily due to the increase in government grants of RMB101.8 million in 2007, increase in VAT refunds of RMB96.4 million and increase in interest income of RMB34.7 million. The significant increase in government grants in 2007 was primarily due to the recent government policy to expand the railway transport network and localization of supplies to the railway system. The increase in interest income was primarily due to increased bank deposits, which resulted from the additional funds received from the IPO of CSR Times Electric. The significant increase in VAT refunds in 2007 was primarily due to a net increase of RMB86.6 million received by certain entities of our Company operating in government-encouraged industries and domiciled in third-tier PRC cities. Such preferential tax treatment is in accordance with the relevant regulations issued by the MOF and the SAT.

Selling and distribution costs

Our selling and distribution costs increased by 41.5%, from RMB453.0 million in the year ended 31 December 2006 to RMB641.1 million in the year ended 31 December 2007, primarily due to our increased marketing efforts in relation to new products and new markets.

Administrative expenses

Our administrative expenses increased by 34.8%, from RMB1,953.3 million in the year ended 31 December 2006 to RMB2,633.7 million in the year ended 31 December 2007, primarily due to the increase of RMB150.0 million in research and development expenses (net of amount capitalized) as well as the increase of RMB239.1 million in welfare expenses.

Other expenses, net

Our other operating expenses net of other operating income increased by 241.4%, from RMB30.4 million in the year ended 31 December 2006 to RMB103.8 million in the year ended 31 December 2007. This was primarily attributable to our foreign exchange losses arising from the additional funds received from the IPO of CSR Times Electric.

Finance costs

Our finance costs increased by 6.6%, from RMB294.9 million in 2006 to RMB314.4 million in 2007, primarily due to an increase in bank loans and other borrowings to support our business expansion, as well as an increase in interest rates.

Share of profits and losses of associates and jointly-controlled entities

Share of profits and losses of associates and jointly-controlled entities significantly increased by 634.0%, from a profit of RMB26.2 million in the year ended 31 December 2006 to a profit of RMB192.3 million in the year ended 31 December 2007. This increase was primarily due to a total share of profits of RMB161.5 million from our jointly-controlled entities Bombardier Sifang (Qingdao) Transportation Ltd. and Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. Bombardier Sifang (Qingdao) Transportation Ltd. increased its sales in 2007 as a result of a higher completion percentage of contracts for its EMUs. Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. received increased sales orders for its air conditioner products which are used in the production of MUs.

Tax

Our income tax expenses increased by 4.0%, from RMB70.4 million in the year ended 31 December 2006 to RMB73.2 million in the year ended 31 December 2007, primarily due to an increase in our taxable income. Our effective tax rates decreased from 9.9% in the year ended 31 December 2006 to 7.7% in the year ended 31 December 2007, primarily due to the increase in the tax-free government grants and shares of after-tax profits from our jointly-controlled entities.

Profit for the year

As a result of the foregoing, our profit for the year increased by 36.3%, from RMB641.7 million in the year ended 31 December 2006 to RMB874.7 million in the year ended 31 December 2007.

Profit attributable to equity holders of the Company

Our profit attributable to equity holders increased by 12.5%, from RMB544.8 million in the year ended 31 December 2006 to RMB613.0 million in the year ended 31 December 2007.

Minority interests

Minority interests increased by 170.1%, from RMB96.9 million in the year ended 31 December 2006 to RMB261.7 million in the year ended 31 December 2007 due to the new public listing in Hong Kong of CSR Times Electric in December 2006, and thereafter, its minority public shareholders shared its profit in accordance with their respective shareholding ratio.

Year Ended 31 December 2006 Compared with Year Ended 31 December 2005

Revenue

Our total revenue increased by 16.5%, from RMB19,784.5 million in the year ended 31 December 2005 to RMB23,047.0 million in the year ended 31 December 2006, primarily due to the overall increase in revenue generated by the production, sales and maintenance, upgrade and refurbishment of rolling stock, including locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as other businesses that utilize proprietary rolling stock technologies.

Revenue generated from our locomotive product line increased by 7.4%, from RMB6,681.1 million in the year ended 31 December 2005 to RMB7,173.5 million in the year ended 31 December 2006. The increase was primarily due to the increase in sales of electric locomotives, which have higher unit prices. In addition, our efforts towards exploring the overseas market also contributed to the increase in revenue generated from our locomotive product line.

Revenue generated from our passenger carriage product line increased by 16.9%, from RMB2,922.2 million in the year ended 31 December 2005 to RMB3,416.2 million in the year ended 31 December 2006. The increase was primarily attributable to the sales of passenger carriages for the Qinghai-Tibet Railway Line, which were priced significantly higher than conventional passenger carriages because of the more advanced technologies utilized in the production of such cars. The increase was also attributable to the increase in the scale of our passenger carriage maintenance business.

Revenue generated from our freight wagon product line increased by 12.4%, from RMB7,184.7 million in the year ended 31 December 2005 to RMB8,073.3 million in the year ended 31 December 2006. The increase was primarily due to our increased sales volumes in both domestic and overseas markets, as well as the increase in average unit prices because of the improved technologies utilized in our freight wagon products.

Revenue generated from our MU product line increased significantly by RMB1,039.2 million, from RMB74.2 million in the year ended 31 December 2005 to RMB1,113.4 million in the year ended 31 December 2006 primarily due to the increase in sales volume of EMUs, driven by increasing market demand as a result of the development of China's high-speed railways.

Revenue generated from our rapid transit vehicle product line increased slightly by 1.0%, from RMB1,215.4 million in the year ended 31 December 2005 to RMB1,227.2 million in the year ended 31 December 2006.

Our other businesses include businesses that utilize proprietary rolling stock technologies and businesses other than our rolling stock businesses. Revenue generated from other businesses increased by 19.7%, from RMB1,706.9 million in the year ended 31 December 2005 to RMB2,043.4 million in the year ended 31 December 2006.

Cost of sales

Cost of sales increased by 15.8%, from RMB17,094.8 million in the year ended 31 December 2005 to RMB19,803.2 million in the year ended 31 December 2006. The increase was generally consistent with the increase in our revenue during the same period. However, because of the increase in the scale of our operations, the growth rate of our cost of sales was slightly lower than the growth rate of our revenue in the year ended 31 December 2006.

Gross profit

As a result of the foregoing, our gross profit increased by 20.6%, from RMB2,689.7 million in the year ended 31 December 2005 to RMB3,243.8 million in the year ended 31 December 2006. Our gross profit margin increased from 13.6% in 2005 to 14.1% in 2006. The increase was primarily due to our effective cost control as a result of which the increase in our revenue exceeded the increase in our costs. In addition, technology upgrades and changes of our product mix, in particular electric locomotives and freight wagons, also contributed to the increase in our overall gross profit and gross margin.

Other income and gains

Our other income and gains slightly decreased by 0.3%, from RMB174.3 million in the year ended 31 December 2005 to RMB173.7 million in the year ended 31 December 2006.

Selling and distribution costs

Our selling and distribution costs increased by 30.2%, from RMB348.0 million in the year ended 31 December 2005 to RMB453.0 million in the year ended 31 December 2006, primarily due to our increased marketing efforts for new products and new markets. However, the percentage of selling and distribution costs as a percentage of the total cost of sales for the years ended 31 December 2005 and 2006 did not change substantially.

Administrative expenses

Our administrative expenses increased by 13.0%, from RMB1,728.4 million in the year ended 31 December 2005 to RMB1,953.3 million in the year ended 31 December 2006, primarily due to the increase of RMB80.8 million in research and development expenses.

Other expenses, net

Our other operating expenses net of other operating income increased by 7.8%, from RMB28.2 million in the year ended 31 December 2005 to RMB30.4 million in the year ended 31 December 2006, primarily due to the loss we realized on our investment in Zhuzhou Times New Material Technology Co., Ltd. ("ZTNM"), a company listed on the Shanghai Stock Exchange, which launched a share reform scheme in March 2006. According to the Share Reform Scheme, our equity interests in

ZTNM were diluted from 27.64% in the year ended 31 December 2005 to 21.78% in the year ended 31 December 2006. The dilution loss was RMB26.3 million for the year ended 31 December 2006.

Finance costs

Our finance costs increased by 55.0%, from RMB190.2 million in the year ended 31 December 2005 to RMB294.9 million in the year ended 31 December 2006, primarily due to an increase in bank loans and other borrowings as a result of our business expansion and an increase in interest rates.

Share of profits and losses of associates and jointly-controlled entities

Share of profits and losses of associates and jointly-controlled entities increased by 6.1%, from a profit of RMB24.7 million in the year ended 31 December 2005 to a profit of RMB26.2 million in the year ended 31 December 2006.

Tax

Our income tax expense decreased by 29.0%, from RMB99.2 million in the year ended 31 December 2005 to RMB70.4 million in the year ended 31 December 2006, primarily due to the increase in research and development expenses in 2006, as well as the fact that since 1 January 2006, the conditions were less stringent for enterprises to deduct from taxable income not only 100% of their research and development expenses, but also an additional 50% deduction of actual expenditures on research and development. In addition, pursuant to *Circular on Distribution of Interim Measures Concerning Reduction and Exemption of Enterprise Income Tax for Investment in Domestically Made Equipment for Technological Renovation* (Cai Shui [1999] 290) promulgated by the MOF and the State Administration of Taxation, we were entitled to a higher enterprise tax deduction due to our increased investment in domestically manufactured equipment. As a result, our effective tax rates decreased from 16.7% in the year ended 31 December 2005 to 9.9% in the year ended 31 December 2006.

Profit for the year

As a result of the foregoing, our profit for the year increased by 29.7%, from RMB494.7 million in the year ended 31 December 2005 to RMB641.7 million in the year ended 31 December 2006.

Profit attributable to equity holders of the Company

Our profit attributable to equity holders increased by 33.8%, from RMB407.1 million in the year ended 31 December 2005 to RMB544.8 million in the year ended 31 December 2006.

Minority interests

Minority interests increased by 10.6%, from RMB87.6 million in the year ended 31 December 2005 to RMB96.9 million in the year ended 31 December 2006.

Liquidity and Capital Resources

To date, we have funded our operations principally with the cash generated from our operations and bank borrowings. We expect to continue to fund our operations primarily with cash generated from our operations and bank borrowings in the future, other than the proceeds of the A Share Offering and the H Share Offering. Any significant decrease in demand for, or pricing of, our products or a significant decrease in the availability of bank loans may adversely impact our liquidity. However, taking into account the business activities of our Company in the coming year, the Directors are of the view that we will not have any issues with obtaining sufficient financial resources from banks to meet our financial requirements within 12 months from the date of this Prospectus. In addition, given that most of the bank facilities of our Company were obtained from reputable PRC banks, the Directors are also of the view that our unutilized banking facilities will not be significantly affected by sub-prime lending issues currently affecting other overseas banks.

Working capital

We have historically met our working capital needs through cash generated from our operations, advances from shareholders and long- and short-term debt.

Taking into account the net proceeds available to us from the Global Offering, our available credit facilities and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this Prospectus.

Analysis of inventories, trade and bills receivable and trade and bills payable and turnover

The following table sets forth the turnover days of our inventories, trade and bills receivables and trade and bills payable for the periods indicated:

	Year ended 31 December			Three months ended 31 March
	2005	**2006**	**2007**	**2008**
	(days)	**(days)**	**(days)**	**(days)**
Turnover days of inventories(1)	82.2	89.3	89.2	97.8
Turnover days of trade and bills receivable(2)	77.1	67.1	56.9	73.0
Turnover days of trade and bills payable(3)	129.9	131.2	124.3	131.8

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(1) Average turnover days of inventory for a year equals average inventory divided by cost of sales and multiplied by 365. Average turnover days of inventory for a three-month period equals average inventory divided by cost of sales and multiplied by 90. Average inventory equals inventory at the beginning of the period plus inventories at the end of the period divided by two.

(2) Average turnover days of trade and bills receivable for a year equals average trade and bills receivable divided by turnover and multiplied by 365. Average turnover days of trade and bills receivable for a three-month period equals average trade and bills receivable divided by turnover and multiplied by 90. Average trade and bills receivable equals trade and bills receivable at the beginning of the period plus trade and bills receivable at the end of the period divided by two.

(3) Average turnover days of trade and bills payable for a year equals average accounts payable divided by cost of sales and multiplied by 365. Average turnover days of trade and bills payable for a three-month period equals average accounts payable divided by cost of sales and multiplied by 90. Average trade and bills payable equals trade and bills payable at the beginning of the period plus trade and bills payable at the end of the period divided by two.

Inventory

The following table sets forth the components of our inventory as of the balance sheet dates indicated:

	As of 31 December			As of 31 March
	2005	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Raw materials	1,408.7	1,810.7	2,137.0	2,811.6
Work-in-progress	1,949.4	2,131.5	2,117.1	2,020.2
Finished goods	1,038.6	1,350.7	1,585.5	1,043.4
Total	4,396.7	5,292.9	5,839.6	5,875.2

Our inventory balances as of 31 December 2005, 2006 and 2007 and 31 March 2008 were RMB4,396.7 million, RMB5,292.9 million, RMB5,839.6 million and RMB5,875.2 million, respectively. The increases are primarily due to our large purchase quantities of raw materials because of the increase of our operations and the expected increase in raw material prices.

The turnover days of inventories for the three years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008 were 82.2 days, 89.3 days, 89.2 days and 97.8 days, respectively. Turnover days of our inventory remained at the same level during the Track Record Period, which is consistent with our inventory policy.

Trade and bills receivables

We generally receive payments on time as our customers are primarily government authorities and large enterprises with good credit histories. We also closely monitor the recoverability of our overdue trade and bills receivables and have stringent standards for credit analysis of our customers and payment terms during the contract evaluation phase. Due to these efforts, our turnover days of trade and bills receivables decreased from 77.1 days in the year ended 31 December 2005 to 67.1 days in the year ended 31 December 2006, and further to 56.9 days in the year ended 31 December 2007. Our turnover days of trade and bills receivables for the three months ended 31 March 2008 was 73.0 days. The turnover days of trade and bills receivable for the first quarter of a year are generally longer than those for the whole year because most of our customers settle their invoices toward the year end rather than the end of the first quarter. In addition, consistent with the industry practice, we usually secure orders at the beginning of a year or the second half of a year. The production cycles generally start after the order is placed and take three to six months to complete. Our customers generally make most of their payments after the delivery of our products. Furthermore, a substantial part of our trade and bills receivables were recovered two months after the end of the first quarter of 2008.

The following is an aged analysis of the trade receivables as of the balance sheet date, based on the invoice date and net of provision for impairment of receivables:

	As of 31 December			As of 31 March
	2005	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Less than six months	3,755.8	2,880.5	3,294.1	5,030.9
Six months to one year	396.8	338.1	413.4	462.1
Over one year	279.2	278.2	312.9	365.6
Total	4,431.8	3,496.8	4,020.4	5,858.6

The following are the maturity profiles of the bills receivable as of each of the balance sheet dates during the relevant periods:

	As of 31 December			As of 31 March
	2005	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Less than six months	192.4	351.9	475.7	312.1
Six months to one year	3.3	2.6	11.6	2.0
Total	195.7	354.5	487.3	314.1

As our customers are primarily government authorities and large enterprises with good credit histories and because of our increased efforts in recovering outstanding receivables, our Directors are of the view that our trade and other receivables balances aged over one year are generally recoverable although that relevant provisions for impairment losses have been made.

Trade and bills payables

We strive to make payments to suppliers and subcontractors on time to improve our creditworthiness.

The turnover days of our trade and bills payable were 129.9 days, 131.2 days and 124.3 days for the years ended 31 December 2005, 2006 and 2007, respectively, and 131.8 days for the three months ended 31 March 2008. The turnover days of our trade and bills payable during the Track Record Period were generally consistent with our payment policy for procurements and purchases.

The following is an aged analysis of the trade payables as of the balance sheet date, based on the invoice date:

	As of 31 December			As of 31 March
	2005	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Less than six months	4,346.9	4,861.9	5,459.8	6,015.7
Six months to one year	452.1	671.1	500.5	355.3
Over one year	319.5	347.5	269.6	198.7
Total	5,118.5	5,880.5	6,229.9	6,569.7

The following is the maturity profile of the bills payable as of each of the balance sheet dates during the relevant periods:

	As of 31 December			As of 31 March
	2005	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Less than six months	1,414.6	1,693.3	1,605.3	1,370.7
Six months to one year	23.9	101.9	6.9	1.3
Total	1,438.5	1,795.2	1,612.2	1,372.0

Prepayment, deposits and other receivables

As of 31 March 2008, our balance due from an associated company and a joint-controlled entity included in prepayment, deposits and other receivables was RMB113.0 million and RMB25.0 million, respectively. Such balance due from the associated company included prepayment of RMB45.0 million for the purchase of raw materials, which are of trade nature. Our Directors confirm that the remaining balance of RMB68.0 million due from the associated company and the balance due from the joint-controlled entity as of 31 March 2008 will be settled prior to the listing of H Shares of the Company.

Other payables and accruals

As of 31 March 2008, our balance due to an associate included in other payables and accruals was RMB15.1 million, and our Directors confirmed that such balance will be settled prior to the listing of the Company's H Shares.

Cash flow

We primarily use cash to invest in additional manufacturing facilities and equipment, research and develop new technologies to be used in the manufacture of rolling stock, service our indebtedness, fund working capital and pay normal recurring expenses. The following table sets out changes in cash flows for each of the three years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008:

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million) (unaudited)	(RMB million)
Cash and cash equivalents at beginning of year/period	2,012.6	2,766.4	5,307.3	5,307.3	6,899.5
Net cash inflow/(outflow) from operating activities	559.1	1,711.5	1,438.8	(2,191.9)	(2,918.6)
Net cash (outflow) from investing activities	(1,313.3)	(1,168.0)	(2,349.2)	(213.6)	(220.4)
Net cash inflow/(outflow) from financing activities	1,508.0	1,997.4	2,502.6	(174.2)	(495.3)
Net increase/(decrease) in cash and cash equivalents	753.8	2,540.9	1,592.2	(2,579.7)	(3,634.3)
Cash and cash equivalents at end of year/period	2,766.4	5,307.3	6,899.5	2,727.6	3,265.2

Net cash inflow/(outflow) from operating activities

Cash flow from operating activities reflects profits for the year adjusted for non-cash items, such as depreciation and amortization, and the effects of changes in working capital, such as increases or decreases in inventories, trade and other receivables and trade and other payables. Our cash flow from operating activities for the three months ended 31 March 2007 and 2008 was negative primarily due to an increase in our trade and bills receivable, which resulted from our customers' settlement pattern and our production cycles.

For the three months ended 31 March 2008, we had net cash outflow from operating activities of RMB2,918.6 million, primarily as a result of profit before tax in the amount of RMB549.9 million generated in the period, adjusted for: (i) an increase in trade receivables, bills receivable and prepayments, deposits and other receivables of RMB2,809.9 million; and (ii) a decrease in trade payables, bills payable and other payables and accruals of RMB682.2 million.

For the year ended 31 December 2007, we had net cash inflow from operating activities of RMB1,438.8 million, primarily as a result of profit before tax in the amount of RMB947.9 million generated in the period adjusted for increase in trade payables, bills payable and other payables and accruals of RMB2,860.6 million, which was partially offset by an increase in trade receivables, bills receivable and prepayments, deposits and other receivables of RMB2,466.0 million due to business expansion.

For the year ended 31 December 2006, we had net cash inflow from operating activities of RMB1,711.5 million, primarily as a result of profit before tax in the amount of RMB712.1 million generated adjusted for: (i) an increase in trade payables, bills payable and other payables and accruals of RMB918.5 million; (ii) depreciation of property, plant and equipment of RMB559.9 million; and (iii) finance cost of RMB294.9 million, which was partially offset by an increase in inventories of RMB940.1 million.

For the year ended 31 December 2005, we had net cash inflow from operating activities of RMB559.1 million, primarily as a result of profit before tax in the amount of RMB593.9 million generated in this period adjusted for: (i) an increase in trade payables, bills payable and other payables and accruals of RMB1,459.9 million due to increases in purchases of raw materials; and (ii) net depreciation and impairment of property, plant and equipment of RMB525.4 million; and partially offset by: (i) an increase in trade receivables, bills receivable and prepayments, deposits and other receivables of RMB742.9 million resulting from the expansion in our scale of operation; (ii) an increase in inventories of RMB1,165.1 million; and (iii) a decrease in provision for supplemental pension subsidies and early retirement benefit obligations of RMB120.8 million.

Net cash (outflow) from investing activities

For the three months ended 31 March 2008, our net cash outflow from investing activities was RMB220.4 million. Our net cash outflow from investing activities primarily consisted of: (i) purchases of property, plant and equipment, excluding interest capitalized, in the amount of RMB488.0 million; (ii) purchases of financial assets at fair-value through profit or loss of RMB100.0 million; and (iii) purchases of financial instruments classified as other receivables of RMB400.0 million, partly offset by a decrease in non-pledged time deposits with original maturity of three months or more of RMB771.5 million.

For the year ended 31 December 2007, our net cash outflow from investing activities was RMB2,349.2 million. Our cash outflow from investing activities primarily consisted of: (i) the purchase of items of property, plant and equipment, excluding interest capitalized, in the amount of RMB1,561.4 million and acquisition of lease prepayments of RMB173.7 million to expand our manufacturing capacity and develop new products; and (ii) increase in non-pledged time deposits with original maturity of three months or more mainly from cash obtained from the global offering of our subsidiary of RMB879.5 million. Our cash inflow from investing activities primarily consisted of proceeds from the disposal of items of property, plant and equipment in the amount of RMB301.6 million.

For the year ended 31 December 2006, our net cash outflow from investing activities was RMB1,168.0 million. Our cash outflow from investing activities primarily consisted of the purchase of items of property, plant and equipment, excluding interest capitalized, in the amount of RMB1,329.4 million and the purchase of other intangible assets of RMB91.9 million to expand our manufacturing capacity and develop new products. Our cash inflow for investing activities primarily consisted of proceeds from the disposal of items of property, plant and equipment in the amount of RMB322.9 million.

For the year ended 31 December 2005, our net cash outflow from investing activities was RMB1,313.3 million. Our cash outflow from investing activities primarily consisted of the purchase of items of property, plant and equipment, excluding interest capitalized, in the amount of RMB1,492.8 million and purchase of other intangible assets of RMB81.0 million to expand our manufacturing capacity and develop new products. Our cash inflow from investing activities primarily consisted of proceeds from the disposal of items of property, plant and equipment in the amount of RMB421.1 million.

Net cash inflow/(outflow) from financing activities

Our net cash outflow from financing activities was RMB495.3 million for the three months ended 31 March 2008, primarily consisted of: (i) repayment of bank and other borrowings of RMB2,992.1 million; and (ii) paid interest of RMB124.5 million, partly offset by proceeds from bank and other borrowings of RMB2,598.3 million.

For the year ended 31 December 2007, our net cash inflow from financing activities was RMB2,502.6 million. Our cash inflow from financing activities primarily consisted of proceeds from bank and other borrowings of RMB10,921.6 million. Our cash outflow from financing activities mainly consisted of: (i) repayment of bank and other borrowings of RMB7,087.2 million; (ii) distribution to equity holders of the Company of RMB1,030.6 million; and (iii) interest paid of RMB277.6 million.

For the year ended 31 December 2006, our net cash inflow from financing activities was RMB1,997.4 million. Our cash inflow from financing activities primarily consisted of proceeds from bank and other borrowings of RMB11,069.5 million. In addition, given that the IPO of our indirect subsidiary, CSR Times Electric, was completed in Hong Kong in December 2006 with proceeds of RMB2,087.2 million, the cash flows of our Company, based on our investment, were increased accordingly by RMB2,087.2 million. Our cash outflow from financing activities primarily consisted of: (i) cash used in the repayment of bank and other borrowings of RMB10,678.0 million; and (ii) distribution to equity holders of the Company of RMB341.2 million.

For the year ended 31 December 2005, our net cash inflow from financing activities was RMB1,508.0 million. Our cash inflow from financing activities primarily consisted of proceeds from bank and other borrowing of RMB7,496.3 million. Our cash outflow from financing activities primarily consisted of: (i) cash used in the repayment of bank and other borrowings of RMB5,529.5 million; (ii) distribution to equity holders of the Company of RMB273.6 million; and (iii) interest paid of RMB206.9 million.

Capital expenditures

We incurred capital expenditures for the construction, expansion and technology upgrade of our manufacturing and refurbishment facilities, as well as the machinery used to manufacture and refurbish rolling stock products. Our capital expenditures were RMB1,545.1 million, RMB1,602.8 million and RMB1,801.7 million in the years ended 31 December 2005, 2006 and 2007, respectively, excluding lease prepayments of RMB1,769.8 million that were injected into our Company pursuant to the Restructuring. Capital expenditures during these periods were primarily related to the purchase of property, plant and equipment and intangible assets. We currently estimate that our capital expenditures for the year ending 31 December 2008 will amount to approximately RMB7,000 million.

We anticipate that the funds needed to finance the capital expenditures set forth above will be financed by cash generated from our operations and bank borrowings, as well as proceeds from the Global Offering and A Share Offering. Should the necessity for additional funds arise, we cannot assure you that we will be able to raise additional capital on terms acceptable to us or at all.

Our current plan with respect to future capital expenditures is subject to change based on the implementation of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures.

Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings.

Capital commitments

Our commitments as of the date indicated were as follows:

	As of 31 December			As of 31 March
	2005	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Contracted, but not provided for:				
Property, plant and equipment	178.1	197.8	865.2	1,161.8
Lease prepayments	—	23.0	—	129.2
Other intangible assets	1.4	1.2	155.5	163.3
	179.5	222.0	1,020.7	1,454.3
Authorized, but not contracted for:				
Property, plant and equipment	62.3	17.0	1,509.8	3,734.2
Lease prepayments	—	—	—	1.8
Other intangible assets	—	0.3	—	17.6
	62.3	17.3	1,509.8	3,753.6

Indebtedness

Borrowings

Our consolidated borrowings as of 31 December 2005, 2006 and 2007, 31 March 2008 and 30 June 2008 were as follows:

	As of 31 December			As of 31 March	As of 30 June
	2005	2006	2007	2008	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million) (unaudited)
Secured bank loans	545.8	429.5	707.3	97.0	106.6
Unsecured bank loans	4,528.9	3,904.0	6,863.5	7,304.9	7,750.8
Unsecured other borrowings	—	1,182.0	794.6	—	—
Total	5,074.7	5,515.5	8,365.4	7,401.9	7,857.4

Our borrowings are mostly denominated in Renminbi. As of 30 June 2008, our secured bank loans carried interest rates ranging from 5.51% to 7.56% per annum, and our unsecured bank loans carried interest rates ranging from 0.2% to 8.96% per annum.

The above secured bank loans and other banking facilities were secured by certain assets of our Company. As of 30 June 2008, we had RMB38,558.5 million of banking facilities made available to us by commercial banks, among which RMB25,674.2 million were not utilized.

We generally use the payments received from our customers from time to time to partly settle our borrowings. Fluctuation of the borrowing levels as of 31 December 2005, 2006 and 2007 was therefore caused by the amount of payments we received from our major customers, which we intended to use for the loan repayment by the end of each year. Different from the previous years, one of our major customers deferred the payments from the end of 2007 to early 2008. As such, the borrowing level as of 31 December 2007 was substantially higher than those in the previous years.

Because we have repaid the loans in early 2008 after receipt of the payments deferred from 2007, our borrowing level as of 31 March 2008 decreased.

The maturity profile of consolidated interest-bearing borrowings of our Company as of 31 December 2005, 2006 and 2007, 31 March 2008 and 30 June 2008 were as follows:

	As of 31 December			As of 31 March	As of 30 June
	2005	2006	2007	2008	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million) (unaudited)
Bank and other borrowings					
Within one year	3,721.2	3,335.9	6,279.0	5,428.9	6,139.5
In the second year	118.8	2,004.2	105.0	101.8	2.2
In the third to fifth year	1,176.6	117.2	71.8	103.8	100.0
After the fifth year	58.1	58.1	1,909.6	1,767.4	1,615.7
	5,074.7	5,515.4	8,365.4	7,401.9	7,857.4

As of 30 June 2008, our bank and other borrowings of approximately RMB106.6 million were secured by certain of our property, plant and equipment, lease prepayments and other assets.

As of 30 June 2008, none of our total borrowings were guaranteed by CSRG, its subsidiaries or any other parties. Our gearing ratio was 83%, 78%, 78% and 79% as of 31 December 2005, 2006 and 2007 and 31 March 2008, respectively. Gearing ratio is the net debt divided by 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 equity holders of the Company.

Our borrowing requirement is not subject to seasonality.

Outstanding guarantees

The outstanding guarantees as of 31 December 2005, 2006 and 2007, 31 March 2008 and 30 June 2008 were as follows:

	As of 31 December			As of 31 March	As of 30 June
	2005	2006	2007	2008	2008
	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million) (unaudited)
Guarantees given to banks at nil consideration in connection with facilities granted to:					
CSRG Group	—	50.0	—	—	—
Associates	54.0	71.0	—	—	—
Jointly-controlled entities	36.0	26.0	63.0	67.7	60.6
Independent third parties	356.0	319.7	—	—	—
	446.0	466.7	63.0	67.7	60.6

The outstanding guarantees with respect to jointly-controlled entities in the table above are related to RMB67.7 million in short-term loans and letters of credit as of 31 March 2008 from certain banks, borrowed by one of our jointly-controlled entities, Shijiazhuang Guoxiang Transportation Equipment Co., Ltd., for the purpose of financing its working capital requirements. The loans have been renewed annually upon expiration. We provide the guarantees for such loans and letters of credit.

Since the amount of the loans account for less than 1% of our net debt, RMB17,691.2 million as of 31 March 2008, we do not anticipate material risks from such guarantees. As of 30 June 2008, such loans and letters of credit decreased to RMB60.6 million.

As of the Latest Practicable Date, we have not provided any guarantees in favor of CSRG or any of its associates, nor has CSRG or any of its associates provided any guarantees in favor of us.

Save as disclosed in “Financial Information—Outstanding guarantees” above, we did not have any other material contingent liabilities as of 30 June 2008.

Our Directors confirm that there were no material changes to our indebtedness between 30 June 2008 and the Latest Practicable Date.

Off-balance Sheet Arrangements

As of 31 March 2008, being the date of our most recent financial statement, we did not have any other material off-balance sheet arrangements with unconsolidated entities except for the outstanding guarantees with jointly-controlled entities disclosed above.

Quantitative and Qualitative Analysis of Market Risks

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Interest rate risk

Our income and operating cash flows are substantially independent of changes in market interest rates as we have no significant interest-bearing assets.

Our exposure to changes in interest rates is primarily attributable to our borrowings. Borrowings at variable rates expose us to cash flow interest-rate risk. Borrowings at fixed rates expose us to fair value interest-rate risk. The interest rates and terms of repayment of our borrowings are disclosed in Note 32 in “Appendix I—Accountants’ Report”.

Foreign exchange risk

Our functional currency is the Renminbi with most of our transactions settled in Renminbi. We normally use, however, foreign currencies to settle our invoices from overseas operations, to settle our purchases of machinery and equipment from overseas suppliers and for certain expenses. In addition, some of our bank borrowings are denominated in foreign currencies, particularly the U.S. dollar and the Euro. The Renminbi is not freely convertible into other foreign currencies and conversion of the Renminbi into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. In July 2005, the PRC Government introduced a managed floating exchange rate system to allow the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC Government has since made and may in the future make further adjustments to the exchange rate system. When the Renminbi appreciates, the value of foreign currency denominated assets will decline against the Renminbi.

Fluctuations in foreign exchange currency rates could adversely affect us by decreasing any revenues from our sales which are denominated in foreign currency and increasing our borrowings which are denominated in foreign currencies. See "Risk Factors—Risks relating to the People's Republic of China—Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of operations of our Company and our ability to pay dividends".

For details of our cash and bank balances and borrowing as of 31 December 2005, 2006 and 2007 and 31 March 2008 denominated in foreign currencies, mainly U.S. dollars and Euro, see Notes 28 and 32, respectively, in "Appendix I—Accountants' Report".

Credit risk

Substantially all of our cash and cash equivalents are held in major financial institutions located in China, which our management believes are of high credit quality. We have policies that limit the amount of credit exposure to any financial institution. Because our major customers are state-owned enterprises and PRC Government agencies at the national, provincial and local levels, our management believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. In addition, because our exposure is spread over a diversified portfolio of customers, there is no significant concentration of credit risk.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules had the H Shares been listed on the Hong Kong Stock Exchange on that date. Our Directors are aware of the requirement under Rule 13.09(2) of the Hong Kong Listing Rules and will ensure the publication of share price-sensitive information of our Company in the Hong Kong and PRC markets.

ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared based on the audited consolidated net tangible assets of our Company attributable to the equity holders of the Company as of 31 March 2008 as extracted from the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, and is adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared for illustrative purposes only and, because of their nature, they may not give a true picture of the financial position of our Company.

The following unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared to show the effect on the consolidated net tangible assets of our Company as of 31 March 2008 as if the Global Offering had occurred on 31 March 2008.

	Consolidated net tangible assets attributable to equity holders of the Company as of 31 March 2008	Add: estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible asset per share	
	(RMB'000) (Note 1)	(RMB'000) (Note 2)	(RMB'000)	RMB (Note 3)	HK$ (Note 4)
Based on an Offer Price of HK$2.49 per Share	4,381,249	3,265,287	7,646,536	0.89	1.02
Based on an Offer Price of HK$2.76 per Share	4,381,249	3,632,417	8,013,666	0.93	1.07

Notes:

(1) The consolidated net tangible assets attributable to equity holders of the Company as of 31 March 2008, was determined as follows:

	RMB'000
Audited consolidated net assets as set out in Appendix I	6,788,628
Less: Minority interests	(2,108,892)
Consolidated net assets attributable to equity holders of the Company	4,679,736
Less: Goodwill	(3,150)
Other intangible assets	(295,337)
Consolidated net tangible assets attributable to equity holders of the Company	4,381,249

(2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK$2.49 per H share or HK$2.76 per H Share after deduction of the underwriting fees and other related expenses payable by the Company and take no account of any shares which may be issued upon the A Share Offering and any H Share which may be issued upon exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted at the PBOC Rate from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8744 to HK$1.00, the PBOC rate prevailing on 29 July 2008.

(3) The unaudited pro forma adjusted consolidated net tangible assets per share are determined after the adjustments as described in note (2) above and on the basis that 8,600,000,000 shares (being the number of shares expected to be in issue immediately after completion of the Global Offering, without taking into account any shares which may be issued upon the A Share Offering and any shares which may be issued upon the exercise of the Over-allotment Option) are issued and outstanding during the entire year. If the Over-allotment Option is exercised in full, the adjusted net tangible asset per Share will increase.

Had effect been given to the A Share Offering in this calculation, the unaudited pro forma adjusted consolidated net tangible assets per Share would have been RMB1.19 or HK$1.36 based on the offer price of HK$2.49 per H Share and RMB2.10 per A Share, respectively, and RMB1.24 or HK$1.42 based on the offer price of HK$2.76 per H Share and RMB2.18 per A Share, respectively. This calculation is based on the assumption that 3,000,000,000 new A Shares were issued in the A Share Offering and the resulting net proceeds (after deduction of estimated related fees and expenses payable by our Company) of RMB6.12 billion (based on offer price of RMB2.10 per A Share) and RMB6.35 billion (based on offer price of RMB2.18 per A Share) from the A Share Offering.

(4) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8744 to HK$1.00, the PBOC rate prevailing on 29 July 2008. No representation is made that the Hong Kong dollars amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(5) Details of the valuations of our Company's properties as of 30 June 2008 are set out in "Appendix IV— Property Valuation" to this Prospectus. The above adjustment does not take into account the surplus arising from the revaluation of the property interests of our Company amounting to RMB2,156 million. The revaluation surplus or deficit of properties included in buildings held for own use, assets under construction and land use rights will not be incorporated in our Company's financial statements for the year ending 31 December 2008. If the revaluation surplus was recorded in our Company's financial statements, the annual depreciation expense for the year ending 31 December 2008 would increase by approximately RMB55 million.

PROFIT FORECAST

We believe that on the bases and assumptions as set forth in Appendix III of this Prospectus, our forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2008 is expected to be not less than RMB1,360.0 million.

On the weighted average basis based on the above profit forecast and assuming that: (i) we had been established and 7,000,000,000 Shares were issued and outstanding as of 1 January 2008; (ii) the A share's issuance is not taken into account; (iii) the Shares to be issued pursuant to the Global Offering will be issued on 21 August 2008; and that (iv) the Over-allotment Option will not be exercised, the forecast earnings per Share on the weighted basis are equivalent to HK$0.21, representing weighted average price to earnings multiples of 12.1 and 13.5 times based on the Offer Price of HK$2.49 and HK$2.76 per Share, respectively. On a pro forma fully diluted basis, and on the assumption that the Global Offering had been completed, and a total of 8,600,000,000 Shares were issued and outstanding (and not taking into account any Share that may be issued pursuant to the exercise of the Over-allotment Option), the forecast earnings per Share on a pro forma fully-diluted price would be HK$0.18, representing the fully diluted price to earnings multiples of approximately 13.8 times and 15.3 times based on the Offer Price of HK$2.49 and HK$2.76 per Share, respectively.

On the weighted average basis based on the above profit forecast and assuming that: (i) we had been established and 7,000,000,000 Shares were issued and outstanding as of 1 January 2008; (ii) 3,000,000,000 A Shares expected to be issued pursuant to the A Share Offering will be issued on 18 August 2008; (iii) the Shares to be issued pursuant to the Global Offering will be issued on 21 August 2008; and that (iv) the Over-allotment Option will not be exercised, the forecast earnings per Share on the weighted basis are equivalent to HK$0.18, representing weighted average price to earnings multiples of 13.9 and 15.4 times based on the Offer Price of HK$2.49 and HK$2.76 per Share, respectively. On a pro forma fully diluted basis, and on the assumption that the A Share Offering and the Global Offering had been completed, and a total of 11,600,000,000 Shares were issued and outstanding (and not taking into account any Share that may be issued pursuant to the exercise of the Over-allotment Option), the forecast earnings per Share on a pro forma fully diluted price would be HK$0.13, representing the fully diluted price to earnings multiples of approximately 18.6 times and 20.6 times based on the Offer Price of HK2.49 and HK$2.76 per Share, respectively.

DIVIDEND POLICY

After the completion of the Global Offering, the Company will distribute dividends in accordance with PRC Company Law and its Articles of Association.

The Company may distribute dividends by way of cash or other means. For holders of H Shares, cash dividend payments, if any, will be declared by our Board in Renminbi and paid in Hong Kong dollars. The proposal relating to the dividend distribution will be subject to shareholders' approval, and will also depend on various factors, including its financial conditions, results of operations, cash flows, the dividends distributed from its subsidiaries, future prospects and other factors deemed to be important by our Board.

Upon the successful completion of the A Share Offering and the Global Offering, the dividends may only be paid out of the audited distributable profits. Upon the completion of the Global Offering, we will prepare our financial statements in accordance with PRC GAAP, IFRS and other relevant regulations. The Company will determine the amount of distributable profits based on after-tax profits as set forth in two financial statements under PRC GAAP and IFRS, whichever is lower, after allowances have been made for the recovery of accumulated losses, if any, and allocations to statutory funds and other discretionary funds, if any, that we are required to make. Any distributable profits that are not distributed in any given year will be retained, and will be made available for distribution in subsequent years.

On 4 March 2008, the Company's shareholders, CSRG and BRIT, resolved that all of the Company's shareholders will be entitled to all of the Company's distributable profits generated from 1 January 2008. However, due to the possible time difference between our A Share Offering and the Global Offering, the Company's shareholders further resolved that:

(i) if the date of the listing of our H Shares is within the three-month period after the date of the listing of our A Shares, the shareholders of the Company, including A Share holders, CSRG, BRIT and H Share holders, will be entitled to the Company's distributable profits generated from 1 January 2008 to the date of the completion of the Global Offering;

(ii) if our H Shares are not listed within the three-month period after the date of the listing of our A Shares, the Company will distribute its distributable profits generated from 1 January 2008 to the then A Share holders, CSRG and BRIT, according to the Company's dividend policy and the distribution proposal as approved by its shareholders' meeting to be convened for such purpose.

Considering our present financial position, and subject to PRC Company Law, the Articles of Association and the foregoing distribution policies, and in the absence of any circumstances which may reduce the amount of distributable profits, the Company currently intends to distribute to its shareholders not less than 25% of its distributable profits for the years ending 31 December 2008 and 31 December 2009. However, the Company cannot assure you that it will distribute the above dividends. In addition, the Company's future dividend distribution may be subject to other relevant regulations and any financing agreements that our Company may enter into.

After the proposal for the Company's dividend distribution has been approved at a shareholders' meeting, the Board is required to complete the dividend (or shares) distribution within two months in accordance with PRC Company Law and the Articles of Association.

PRE-ESTABLISHMENT DISTRIBUTION AND SPECIAL DIVIDEND

In accordance with the "Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment" (Cai Qi [2002] 313) issued by the MOF and the Restructuring Agreement, and pursuant to the resolution passed at the Company's shareholders' meeting on 4 March 2008, it was resolved that the Company is to make a distribution of the net profits attributable to CSRG (as set forth in the combined statements) for the period from 30 June 2007 (our asset valuation date) to 28 December 2007 (the date on which the Company was incorporated) to CSRG (the "Pre-establishment Distribution"). In addition, pursuant to the same resolution, it was resolved that the Company makes a special distribution to CSRG, as its shareholder, in an amount equal to the net profits of the Company (as set forth in the combined statements) for the period from 29 December 2007 (the day after the incorporation date of the Company) to 31 December 2007 (the "Special Dividend"). We did not make any other dividend distribution from 1 January 2008 to the date of this Prospectus.

The net profits of the Company for the Pre-establishment Distribution and the Special Dividend in aggregate were determined based on the audited accounts prepared in accordance with PRC GAAP for the twelve months ended 31 December 2007, after giving effect to the relevant adjustments. The total amount of the Pre-establishment Distribution and the Special Dividend is RMB327.8 million and was paid to CSRG in April 2008.

The holders of H Shares are not entitled to share the Pre-establishment Distribution or Special Dividend. In addition, any distributable profits available for distribution to the Company's shareholders after the Global Offering will exclude the Special Dividend paid to CSRG.

The Company is required to make dividend distribution on its distributable profits for the period from 30 June 2007 to 28 December 2007, the date of its incorporation, under the mandatory provisions of the regulations issued by the MOF. The Company decided to distribute the Special Dividend based on its commercial discretion. You should not rely on the Special Dividend as an indication of the Company's future dividend distribution policy or practice.

DISTRIBUTABLE RESERVES

As of 31 March 2008, no reserve is available from the Company for distribution to our shareholders.

PROPERTY VALUE RECONCILIATION

The details of our Company's property interests are set out in Appendix IV of this Prospectus. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property interests of our Company as of 30 June 2008. A summary of the values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in Appendix IV of this Prospectus.

The table below sets forth the reconciliation of aggregate amounts of property interests from our audited consolidated financial statements as of 31 March 2008 to their value as of 30 June 2008 as stated in "Appendix IV" to this Prospectus:

	(RMB million)
Net book value of property interests of our Company as of 31 March 2008 (note):	
Buildings	2,581
Lease prepayments	2,791
Properties without proper title certificate	(164)
	5,208
Property interests included in construction in progress	61
	5,269
Additions during 1 April 2008 to 30 June 2008 (unaudited) (note)	53
Depreciation during 1 April 2008 to 30 June 2008 (unaudited) (note)	(96)
Disposals during 1 April 2008 to 30 June 2008 (unaudited) (note)	(18)
Net book value as of 30 June 2008 (unaudited)	5,208
Valuation surplus as of 30 June 2008	2,156
Valuation as of 30 June 2008 per "Appendix IV—Property Valuation"	7,364

Note: For the purpose of this reconciliation, properties without proper title certificate and located on land leased by the Group are excluded. For details of such properties, please refer to "Appendix IV—Property Valuation" to this Prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, other than that which is disclosed in this Prospectus, there has been no material adverse change in our financial or trading positions since 31 March 2008 (the date on which our Company's latest consolidated financial results were prepared, as set forth in the Accountants' Report which is included as Appendix I to this Prospectus).

See "Business—Our Business Strategies" for a detailed description of our Company's future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$3,944.2 million, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming an initial public Offer Price of HK$2.625 per H Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. We intend to use these net proceeds for the following purposes:

- A maximum of 27%, or approximately HK$1,064.9 million (equivalent to approximately RMB931.2 million), is expected to be used to acquire advanced foreign research and development, manufacturing and laboratory equipment to develop world-class rolling stock manufacturing facilities;
- A maximum of 59%, or approximately HK$2,327.1 million (equivalent to approximately RMB2,034.8 million), is expected to be used to import critical components, including electric components for six-axle high-powered AC electric locomotives, which would facilitate the domestic production of complete rolling stock units; and
- A maximum of 14%, or approximately HK$552.2 million (equivalent to approximately RMB482.8 million), is expected to be used to import key foreign technologies for rail vehicles to upgrade the quality and efficiency of our products, design and manufacturing.

To the extent that the net proceeds of the Global Offering derived from unused capital are not immediately applied to the above purposes, we intend to deposit the proceeds in interest-bearing bank accounts, such as short-term savings accounts or basic short-term money market instruments, with licensed commercial banks and/or authorized financial institutions. Proceeds from the Global Offering will not be remitted into or used to fund any projects or facilities in the PRC.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, the Company will receive net proceeds of approximately HK$4,154.2 million. The additional net proceeds of approximately HK$210.0 million will be allocated to the above purposes on a pro rata basis. In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, the Company will receive net proceeds of approximately HK$4,798.0 million and the additional net proceeds of approximately HK$643.8 million arising from the exercise of the Over-allotment Option will also be allocated to the above purposes on a pro rata basis.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, the Company will receive net proceeds of approximately HK$3,734.3 million. The reduced net proceeds of approximately HK$209.9 million will be deducted to the above purposes on a pro rata basis. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, the Company will receive net proceeds of approximately HK$4,315.1 million and the additional net proceeds of approximately HK$580.8 million arising from the exercise of the Over-allotment Option will also be allocated to the above purposes on a pro rata basis.

We will not use any of the proceeds of the Global Offering to fund activities that a U.S. corporation would be prohibited from undertaking under sanctions administered by OFAC or ISA.

HONG KONG UNDERWRITERS

Joint Sponsors and Joint Lead Managers

China International Capital Corporation (Hong Kong) Limited

Macquarie Capital Securities Limited

Co-Lead Managers

BNP Paribas Capital (Asia Pacific) Limited

ICEA Securities Limited

Co- Managers

DBS Asia Capital Limited

GF Securities (Hong Kong) Brokerage Limited

Guotai Junan Securities (Hong Kong) Limited

Taifook Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, we are offering the Hong Kong Public Offer Shares for subscription on, and subject to, the terms and conditions of this Prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to the International Placing Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there develops, occurs, exists or comes into force:

   (i) any new law or regulation or any change or announcement or publication of a prospective change in existing law or regulation, or any change or announcement or publication of a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, China, the United States, United Kingdom, Germany, The Netherlands or Singapore (each a "**Relevant Jurisdiction**"); or

(ii) any change or development or event or series of events likely to result in or represent a change, or a prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions (including, without limitation, conditions in stock, bond and credit markets, money and foreign exchange markets and inter-bank markets) in or affecting any Relevant Jurisdiction; or

(iii) any change or development in the financial markets in any Relevant Jurisdiction or generally in the international financial markets; or

(iv) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed) or acts of God) in or affecting any Relevant Jurisdiction; or

(v) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

(vi) (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the Shanghai Stock Exchange or the Tokyo Stock Exchange; or (B) a general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or

(vii) any change or development involving a prospective change in Taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the H Shares,

which in any such case and in the sole opinion (after consultation with the Company if practicable) of the Joint Global Coordinators (for and on behalf of the Hong Kong Underwriters):

(A) is or is likely or will have a material adverse effect on the business, financial, trading position or prospects of the CSR Group as a whole; or

(B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or have a material adverse effect on the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or

(C) is or will or is likely to make it inadvisable or inexpedient or impracticable for the Hong Kong Public Offering and/or the Global Offering to proceed or to implement the Hong Kong Public Offering and/or the Global Offering; or

(D) makes it inadvisable or impracticable for any part of the Hong Kong Underwriting Agreement or the International Placing Agreement or the Global Offering (including underwriting) to be performed or implemented on the terms and in the manner contemplated by this Prospectus; or

(b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:

  (i) that any statement contained in this Prospectus, the Application Forms, the Formal Notice and any announcements in the agreed form issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, has or may become untrue, incorrect or misleading in any material respect; or

  (ii) any matter has arisen or has been discovered which would or might, had it arisen immediately before the date of this Prospectus, not having been disclosed in the Prospectus, constitutes a material omission therefrom; or

  (iii) that any of the representations and warranties qualified by any materiality requirements given by the Company in the Hong Kong Underwriting Agreement is (or if repeated at that time be) untrue, inaccurate, misleading or breached in any respect, or where the representations and warranties are not qualified by any materiality requirements, in any material respect; or

  (iv) any event, act or omission which gives or may give rise to any material liability of the Company pursuant to the indemnities given by it under the Hong Kong Underwriting Agreement; or

  (v) any material breach of any of the obligations of the Company under the Hong Kong Underwriting Agreement; or

  (vi) any material adverse change or prospective material adverse change in the business, properties, results of operations, in the financial or trading position or prospects of the Company or its subsidiaries, as a whole; or

  (vii) any material litigation or claim being threatened or instigated against the Company or any of its subsidiaries; or

then the Joint Global Coordinators (for themselves, and on behalf of the Hong Kong Underwriters) may, in their sole discretion (and after consultation with the Company if practicable), upon giving notice to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Stock Exchange under the Hong Kong Listing Rules

By us:

We have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of shares or our securities will be completed within six months from the Listing Date) without the prior consent of the Hong Kong Stock Exchange, except:

(a) in the circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules; or

(b) pursuant to the Global Offering and the Over-allotment Option.

By CSRG:

CSRG has undertaken to the Hong Kong Stock Exchange that, except pursuant to the A Share Offering, the Global Offering or the Over-allotment Option, it shall not and shall procure that the relevant register holder shall not:

(a) at any time during the period commencing from the date of this Prospectus and ending on the date which is six months from the Listing Date (the "First Six-month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of the Company in respect of which it is shown by this Prospectus to be the beneficial owner; or

(b) at any time during the six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be our controlling shareholder.

CSRG has also undertaken to the Hong Kong Stock Exchange and us that it will, within the period commencing on the date of this Prospectus and ending on the date which is 12 months after the Listing Date, immediately inform us of:

(a) any pledges or charges of any of the Shares or securities of the Company beneficially owned by it in favor of any authorized institution (defined under Banking Ordinance) as permitted under the Hong Kong Listing Rules, and the number of such Shares or securities of the Company so pledged or charged; and

(b) any indication received by it, either verbal or written, from any pledgee or chargee of any of the Shares or other securities of the Company pledged or charged that any of such Shares or securities will be disposed of.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by CSRG and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Hong Kong Listing Rules as soon as possible.

Undertakings to the Underwriters

By us:

We have undertaken with each of the Joint Global Coordinators and the Hong Kong Underwriters that, except pursuant to the A Share Offering and the Global Offering (including pursuant to the Over-allotment Option), we will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of First Six-month Period:

(a) offer, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of our share capital or other securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise or offer or agree to publicly announce any intention to do any of the foregoing; or

(c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above,

provided that the foregoing restrictions shall not apply to the issue of A Shares under the A Share Offering or the issue of H Shares by the Company pursuant to the Global Offering (including pursuant to the Over-allotment Option). In the event that the Company undertakes any of the foregoing during the period of six months immediately following the expiry of the First Six-month Period, it will take all reasonable steps to ensure that any such act will not create a disorderly or artificial market for any Shares or other securities of the Company.

By CSRG:

CSRG has undertaken to the Joint Global Coordinators and Hong Kong Underwriters that it shall not and shall procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it shall, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

(a) in the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the expiry of the First Six-month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of the Company in respect of which it is shown by this Prospectus to be the beneficial owner; or

(b) during the six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be our controlling shareholder. In the event that CSRG undertakes any of the foregoing, it will take all reasonable steps to ensure that any such act will not create a disorderly or artificial market for any Shares or other securities of the Company,

provided that the foregoing restrictions shall not apply to the reduction of State-owned shares by CSRG pursuant to the relevant PRC law and regulations in the Global Offering (including pursuant to the Over-allotment Option).

CSRG has also undertaken to the Joint Global Coordinators and Hong Kong Underwriters that, within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months after the Listing Date, it will:

(a) when it pledges or charges any of the Shares or securities of the Company in respect of which it is the beneficial owner in favor of any authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform the Joint Global Coordinators of any such pledges or charges and the number of such Shares or securities of the Company so pledged or charged; and

(b) when it receives any indication, either verbal or written, from any pledgee or chargee of any of the Shares or other securities of the Company that such Shares or securities will be disposed of, immediately inform the Joint Global Coordinators of any such indication.

Commission and Expenses

We will pay to the Joint Global Coordinators (for itself and on behalf of the Hong Kong Underwriters) an underwriting commission at the rate of 2.8% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering, out of which the Hong Kong Underwriters will pay all (if any) sub-underwriting commissions. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters.

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Underwriters' Interest in Our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Placing Agreement, none of the Underwriters has any shareholding interests in the Company or any of our subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of our subsidiaries.

International Offering

International Placing Agreement

In connection with the International Offering, it is expected that we will, on or about 14 August 2008, shortly after determination of the Offer Price, enter into the International Placing Agreement with the International Underwriters. Under the International Placing Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally agree to purchase the International Offering Shares or procure purchasers for the International Offering Shares. Potential investors shall be reminded that in the event that the International Placing Agreement is not entered into, the Global Offering will not proceed.

Under the International Placing Agreement, the Company intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the

International Underwriters at the sole and absolute discretion of the Joint Global Coordinators within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 240,000,000 additional H Shares representing, in aggregate, 15.0% of the maximum number of Offer Shares initially available under the Global Offering. These H Shares will be sold at the Offer Price and will be, among others, for the purpose of covering over-allocations in the International Offering, if any.

Total Commission and Expenses

Assuming an Offer Price of HK$2.625 per Offer Share (being the midpoint of the stated offer price range of HK$2.49 to HK$2.76 per Offer Share), the aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy of 0.004%, Hong Kong Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK$255.8 million in total. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as “Syndicate Members”, may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

(a) under the agreement among the Syndicate Members, all of them (except for CICC (HK) or its designated affiliate as the stabilizing manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to our H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the H Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All of this activity may occur both during and after the end of the stabilizing period described under "Information about this Prospectus and the Global Offering—Over-Allotment and Stabilization". This activity may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares, and the volatility of the H Shares share price, and the extent to which this occurs from day to day cannot be estimated.

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. CICC and Macquarie are the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 160,000,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described below under "Structure of the Global Offering—The Hong Kong Public Offering"; and
- the International Offering of 1,440,000,000 H Shares (subject to adjustment and over-allocation as mentioned below) in the United States with QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption under the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in "—Pricing and Allocation".

PRICING AND ALLOCATION

Pricing

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 14 August 2008 and, in any event, by 19 August 2008.

The Offer Price will be not more than HK$2.76 per Offer Share and is expected to be not less than HK$2.49 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this Prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters and with our consent) consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may be reduced below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on 13 August 2008, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of offer shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range.

If for any reason, the Offer Price is not agreed by 19 August 2008 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Allocation

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell the Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our H Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The Offer Price for Offer Shares under the Global Offering will be announced as soon as practicable after determination, which announcement is currently expected to be made on Friday, 15 August 2008. The level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Public Offer

Shares are expected to be announced on Wednesday, 20 August 2008, through a variety of channels as described in the manner set out in "How To Apply For Hong Kong Public Offer Shares—Publication of Results".

Net Proceeds

The net proceeds from the issue of new H Shares are estimated to be approximately HK$3,944.2 million. The estimated net proceeds from the issue of new H Shares are calculated assuming an Offer Price of HK$2.625 per H Share (being the midpoint of the stated offer price range of HK$2.49 to HK$2.76 per H Share) and after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK$2.625 per H Share, being the mid-point Offer Price, the Company would receive additional net proceeds (after deducting commissions and expenses attributable to the exercise of the Over-allotment Option) of approximately HK$612.3 million.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Global Offering will be conditional on:

(a) the granting by the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any H Shares which may be sold pursuant to the exercise of the Over-allotment Option) and any H Shares converted from Domestic Shares which are to be held by NSSF in connection with the Global Offering;

(b) the Offer Price having been duly agreed between us and the Joint Global Coordinators (on behalf of the Underwriters) and the execution and delivery of the price determination agreement on or around the Price Determination Date;

(c) the execution and delivery of the International Placing Agreement on or around the Price Determination Date; and

(d) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Placing Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements (unless and to the extent such conditions are duly waived in accordance with the terms thereof),

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this Prospectus.

If for any reason, the Offer Price is not agreed by 19 August 2008 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China

Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Public Offer Shares". In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

THE HONG KONG PUBLIC OFFERING

We are initially offering 160,000,000 new H Shares at the Offer Price, representing 10% of the total number of H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of H Shares offered under the Hong Kong Public Offering will represent approximately 1.38% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Offering will not be allotted Offer Shares in the International Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered H Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for H Shares under the Hong Kong Public Offering.

The Offer Price will be not more than HK$2.76 and is expected to be not less than HK$2.49. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum offer price of HK$2.76 per Share plus 1.0% brokerage fee, 0.004% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK$2.76, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Public Offer Shares".

For allocation purposes only, the 160,000,000 H Shares initially being offered for subscription under the Hong Kong Public Offering will be divided equally into two pools: Pool A comprising 80,000,000 Hong Kong Public Offering Shares and Pool B comprising 80,000,000 Hong Kong Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy, and the Hong Kong Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 160,000,000 H Shares initially comprised in the Hong Kong Public Offering (that is, 80,000,000 Hong Kong Public Offer Shares) are liable to be rejected.

The allocation of H Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of H Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of H Shares initially available under the Hong Kong Public Offering, the total number of H Shares available under the Hong Kong Public Offering will be increased to 480,000,000, 640,000,000 and 800,000,000 H Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of H Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of H Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deems appropriate, and such additional H Shares will be allocated to Pool A and Pool B. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

References in this Prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The number of H Shares to be initially offered for subscription or sale under the International Offering will consist of 1,440,000,000 H Shares to be offered by us, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Pursuant to the International Offering, the International Underwriters will conditionally place our H Shares with QIBs in the United States in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our H Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters within 30 days from the last day for lodging of applications under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require us to issue up to an aggregate of 240,000,000 additional H Shares, representing 15% of the initial Offer Shares, at the Offer Price. See "Information About this Prospectus and the Global Offering—Over-Allotment and Stabilization".

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 21 August 2008, it is expected that dealings in H Shares on the Hong Kong Stock Exchange will commence at 9:30 a.m. on Thursday, 21 August 2008.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to, among others, agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about 14 August 2008, shortly after determination of the Offer Price, enter into the International Placing Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Placing Agreement are summarized in the section headed "Underwriting".

There are three ways to make an application for the Hong Kong Public Offer Shares. You may either (i) use an Application Form; (ii) apply online through the designated website of the White Form eIPO Service Provider, referred to here in as the **"White Form eIPO"** service **(www.eipo.com.hk)**; or (iii) give electronic application instructions to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** and **yellow** Application Forms or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

I. APPLYING BY USING AN APPLICATION FORM

Which Application Form to Use

Use a **white** Application Form if you want the Hong Kong Public Offer Shares issued in your own name.

Use a **yellow** Application Form if you want the Hong Kong Public Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Hong Kong Public Offer Shares are not available to existing beneficial owners of H Shares in our Company, the Directors or chief executive of our Company or any of our subsidiaries, or associates of any of them (as "associate" is defined in the Hong Kong Listing Rules) or United States persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to Collect the Application Forms

You can collect a **white** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Friday, 8 August 2008 until 12:00 noon on Wednesday, 13 August 2008 from:

Any participant of The Stock Exchange of Hong Kong Limited

or

China International Capital Corporation (Hong Kong) Limited
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

or

Macquarie Capital Securities Limited
19/F, Citic Tower
1 Tim Mei Avenue
Central, Hong Kong

or

BNP Paribas Capital (Asia Pacific) Limited
59/F-63/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

or

ICEA Securities Limited
26th Floor, ICBC Tower
3 Garden Road, Central
Hong Kong

or

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

or

GF Securities (Hong Kong) Brokerage Limited
2301-5 & 2313
COSCO Tower
183 Queen's Road Central
Hong Kong

or

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

Taifook Securities Company Limited
25/F New World Tower
16-18 Queen's Road Central
Hong Kong

or any of the following branches of **Bank of China (Hong Kong) Limited**:

Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
	Quarry Bay Branch	Parkvale, 1060 King's Road, Quarry Bay
	King's Road Branch	131-133 King's Road, North Point
Kowloon	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Mong Kok Branch	589 Nathan Road, Mong Kok
New Territories	East Point City Branch	Shop 101, East Point City, Tseung Kwan O
	Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan
	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long

or any of the following branches of **Industrial and Commercial Bank of China (Asia) Limited**:

Hong Kong Island	Queen's Road Central Branch	122-126 Queen's Road Central, Central
	Sheung Wan Branch	Shop F, G/F., Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
	Wanchai Road Branch	G/F, 103-103A Wan Chai Road
Kowloon	Yaumatei Branch	542 Nathan Road, Yaumatei
	Tsimshatsui East Branch	Shop B, G/F., Railway Plaza, 39 Chatham Road South, Tsimshatsui
New Territories	Tsuen Wan Castle Peak Road Branch	G/F., 423-427 Castle Peak Road, Tsuen Wan

or any of the following branches of **Standard Chartered Bank (Hong Kong) Limited**:

Hong Kong Island	Central Branch	Shop No. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 10 Granville Road, Tsimshatsui
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
	Kwun Tong Branch	1A Yue Man Square, Kwun Tong
New Territories	Metroplaza Branch	Shop No. 186 - 188, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung, N.T.

or any of the following branches of **The Hongkong and Shanghai Banking Corporation Limited**:

Hong Kong Island	Hong Kong Office	1 Queen's Road Central, HK
	Cityplaza Branch	Unit 065, Cityplaza I, Taikoo Shing, HK
	North Point Branch	G/F, Winner House, 306-316 King's Road, North Point, HK
	Des Voeux Road Central Branch	China Insurance Group Bldg, 141 Des Voeux Road Central, HK
	Hay Wah Building Branch	G/F, Hay Wah Bldg, 71-85B Hennessy Rd, Wan Chai, HK
Kowloon	Telford Gardens Branch	Shop Unit P16, Blk G, Telford Plaza I, Kowloon Bay, KLN
	Pioneer Centre Branch	Shop 115, 1/F, Pioneer Centre, 750 Nathan Rd, KLN
	Hung Hom Branch	G/F, Hung Hom Commercial Centre, 37-39 Ma Tau Wai Road, Hung Hom, KLN
	Tsim Sha Tsui Branch	82-84 Nathan Road, Tsim Sha Tsui, KLN
New Territories	Yuen Long Branch	G/F, HSBC Building Yuen Long, 150-160 Castle Peak Rd, Yuen Long, NT

You can collect a **yellow** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Friday, 8 August 2008 until 12:00 noon on Wednesday, 13 August 2008 from:

(1) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, or

(2) Your stockbrokers, who may have such Application Forms and this Prospectus available.

How to Complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by signing on the Application Form:

- **instruct** and **authorize** our Company and/or the Joint Global Coordinators (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by our articles of association and otherwise to give effect to the arrangements described in this Prospectus and the relevant application form;
- **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Public Offer Shares allocated to you, and as required by our articles of association;
- **represent**, **warrant** and **undertake** that you understand the H Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S under the U.S. Securities Act) when completing the Application Form or a person described in paragraph (h)(3) of Rule 902 of Regulation S under the U.S. Securities Act;
- **confirm** that you have received and/or read a copy of this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application, and will not rely on any other information or representation save as set out in any supplement to this Prospectus;
- **confirm** that you understand that our registered share capital comprises A Shares and H Shares and that holders of H Shares shall have the same rights as holders of A Shares save as to certain rights which holders of H Shares are entitled;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **white** or **yellow** Application Form or to the designated White Form eIPO Service Provider through **White Form eIPO** service **(www.eipo.com.hk)** or by giving **electronic application instructions** to HKSCC;

- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if you are an agent for another person) **warrant** that the application is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or to the designated White Form eIPO Service Provider through **White Form eIPO** service **(www.eipo.com.hk)** or by giving **electronic application instructions** to HKSCC, and that you are duly authorized to sign the application form or to give **electronic application instruction** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service **(www.eipo.com.hk)** as that other person's agent;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Offering, nor otherwise participate in the International Offering;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- **authorize** our Company to place your name(s) or HKSCC Nominees, as the case may be, on our register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or our agents to send any H Share certificate(s) (where applicable) and/or any refund cheque(s) (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except if you have applied for 1,000,000 Hong Kong Public Offer Shares or more and have indicated in your Application Form your wish to collect your refund cheque and H Share certificates (where applicable) in person);
- **understand** that these declarations and representations will be relied upon by our Company and the Joint Global Coordinators in deciding whether or not to allocate any Hong Kong Public Offer Shares in response to your application and that you may be prosecuted for making a false declaration;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this Prospectus;
- **agree** with our Company and each shareholder of our Company, and our Company agrees with each of our shareholders, to observe and comply with the PRC Company Law, the

Special Regulations of the State Council on Overseas Offering and Listing of Shares by Joint Stock Limited Companies, or the Special Regulations, and our Articles of Association;

- **agree** with our Company, and each shareholder, director, supervisor, manager and officer of our Company, and our Company acting for itself and for each director, supervisor, manager and officer agrees with each shareholder of our Company to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our articles of association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- **agree** with our Company and each shareholder of our Company that the H Shares in our Company are freely transferable by the holder thereof;
- **authorize** our Company to enter into a contract on your behalf with each of our directors, supervisors and officers whereby each such director, supervisor and officer undertakes to observe and comply with his obligations to shareholders as stipulated in our Articles of Association;
- **agree** that our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the underwriters and any of their respective directors, officers, employees, agents or advisors and any other parties involved in the Global Offering are liable only for and that you have only relied upon, the information and representations contained in this Prospectus and any supplement to this Prospectus;
- **acknowledge and agree** that you have not relied upon the information relating to our A Share Offering, and that our Company, the Joint Sponsors, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers, underwriters and their respective directors, officers, employees, agents and advisors do not make any express or implied representation or warranty as to the accuracy or completeness of such information and expressly disclaim any and all liability in relation to such information, or any omission from or inaccuracies or errors in such information; and
- **agree** to disclose to our Company, our H Share Registrar, the receiving bankers, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and their respective advisors and agents any personal data or other information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **yellow** Application Forms to be valid:

(a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant)**:

   (i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(b) **If the application is made by an individual CCASS Investor Participant:**

   (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and

(ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(c) **If the application is made by a joint individual CCASS Investor Participant:**

(i) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong Identity Card Numbers; and

(ii) the participant I.D. must be inserted in the appropriate box in the Application Form.

(d) **If the application is made by a corporate CCASS Investor Participant:**

(i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and

(ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we and the Joint Global Coordinators as our agent may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Global Coordinators in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Members of the Public—Time for Applying for Hong Kong Public Offer Shares

Completed **white** or **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Wednesday, 13 August 2008, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with full payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited, Industrial and Commercial Bank of China (Asia) Limited, Standard Chartered Bank (Hong Kong) Limited or The Hongkong and Shanghai Banking Corporation Limited listed under the section headed "—Where to Collect the Application Forms" above at the following times:

Friday, 8 August 2008 — 9:00 a.m. to 4:30 p.m.
Saturday, 9 August 2008 — 9:00 a.m. to 1:00 p.m.
Monday, 11 August 2008 — 9:00 a.m. to 4:30 p.m.
Tuesday, 12 August 2008 — 9:00 a.m. to 4:30 p.m.
Wednesday, 13 August 2008 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 13 August 2008.

No proceedings will be taken on applications for the Hong Kong Public Offer Shares and no allotment of any such Hong Kong Public Offer Shares will be made until the closing of the application lists. No allotment of any of the Hong Kong Public Offer Shares will be made later than 7 September 2008.

Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon on Wednesday, 13 August 2008. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Public Offering do not open and close on Wednesday, 13 August 2008 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected Timetable" in this Prospectus, such dates mentioned in the section headed "Expected Timetable" in this Prospectus may be affected. An announcement will be made in such event.

Publication of Results

Announcement of level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing and the basis of allotment of the Hong Kong Public Offer Shares will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before Wednesday, 20 August 2008.

We expect to announce the results of applications and the Hong Kong Identity Card/passport/ Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering at the times and dates and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on Wednesday, 20 August 2008 to 12:00 midnight on Tuesday, 26 August 2008. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 20 August 2008 to Saturday, 23 August 2008;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, 20 August 2008 to Friday, 22 August 2008 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for Hong Kong Public Offer Shares—Where to Collect the Application Forms"; and
- Results of allocations for the Hong Kong Public Offering will be available from the Stock Exchange's website at **www.hkex.com.hk** and the Company's website at **www.csrgc.com.cn** on Wednesday, 20 August 2008.

Dispatch/Collection of Share Certificates and Refund Cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage, SFC transaction levy, and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering— Conditions of the Global Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Hong Kong Public Offer Shares. No receipt will be issued for sums paid on application. Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) (i) share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **yellow** Application Forms whose share certificates will be deposited into CCASS as described below); and/or

(b) refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage at the rate of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong Identity Card number/passport number or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **white** Application Forms are expected to be posted on or before Wednesday, 20 August 2008. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

If you apply using a white Application Form:

If you have applied for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **white** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 20 August 2008. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and share certificate(s) within the time period specified for collection, they will be dispatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or above and have not indicated on your Application Forms that you will collect your share certificate(s) and/or refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering—Conditions of the Global Offering" in this Prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in respect of the application monies or the appropriate parts thereof, together with the related brokerage, Hong Kong Stock Exchange trading fee, and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Wednesday, 20 August 2008 by ordinary post and at your own risk.

If you apply using a yellow Application Form:

If you apply for Hong Kong Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Wednesday, 20 August 2008, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "How to Apply For Hong Kong Public Offer Shares—Publication of Results" on Wednesday, 20 August 2008. You should check the announcement to be released by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 20 August 2008 or such other date as shall be determined by HKSCC or HKSCC Nominees. You can also check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or above and have not indicated on your Application Forms that you will collect your refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering—Conditions of the Global Offering" in this Prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Hong Kong Stock Exchange trading fee, SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Wednesday, 20 August 2008 by ordinary post and at your own risk.

II. HOW TO APPLY THROUGH WHITE FORM eIPO

General

You may apply through **White Form eIPO** by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO**, the Shares will be issued in your own name.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to our Company.

If you give electronic application instructions through the designated website at **www.eipo.com.hk**, you will have authorized the designated White Form eIPO Service Provider to apply on the terms and conditions set out in this Prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

In addition to the terms and conditions set out in this Prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated White Form eIPO Service Provider to transfer the details of your application to our Company and our H Share Registrar.

You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each electronic application instruction in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

Warning: The application for Hong Kong Public Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. Our Company, our Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Public Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a white Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a white Application Form. See the paragraph entitled "How Many Applications You May Make by means of White Form eIPO" under this section.

Additional information

For the purposes of allocating Hong Kong Public Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the White Form elPO Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form elPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons is set out below in the paragraph entitled "Refund of Application Monies".

Time for the public to apply through White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Friday, 8 August 2008 until 11:30 a.m. on Wednesday, 13 August 2008 or such later time as described under the paragraph headed "Effects of

Bad Weather on the Last Application Day" under this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 13 August 2008, the last application day, or, if the application lists are not open on that day, then by the time and date stated in "Effects of Bad Weather on the Opening of the Applications Lists" above.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, 13 August 2008, or such later time as described under the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists", the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk.**

HOW MANY APPLICATIONS YOU MAY MAKE BY MEANS OF WHITE FORM eIPO

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at **www.eipo.com.hk** and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you are applying through White Form eIPO

If you apply for 1,000,000 Hong Kong Public Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 20 August 2008, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/refund cheques.

If you do not collect your Share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** on Wednesday, 20 August 2008 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set out above in the paragraph entitled "Additional Information" under "**How to Apply Through White Form eIPO**".

III. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our H Share Registrar.

Application for Public Offer Shares by HKSCC Nominees on Your Behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

(a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this Prospectus;

(b) HKSCC Nominees does the following things on behalf of each such person:

   (i) agrees that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted electronic application instructions on that person's behalf or that person's CCASS Investor Participant stock account;

   (ii) undertakes and agrees to accept the Hong Kong Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

   (iii) undertakes and confirms that that person has not applied for or taken up, or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Offering;

   (iv) (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

   (v) (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;

   (vi) understands that the above declaration will be relied upon by us, our Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

   (vii) authorizes us to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;

   (viii) confirms that that person has read the terms and conditions and application procedures set out in this Prospectus and agrees to be bound by them;

   (ix) confirms that that person has only relied on the information and representations in this Prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this Prospectus, and that person agrees that neither our Company, our Directors, the Joint Global Coordinators, the Underwriters, the Joint Sponsors, or any of the parties involved in the Global Offering will have any liability for any such other information or representation;

(x) agrees that our Company, the Directors and any person who has authorized the Prospectus, are liable only for the information and representations contained in this Prospectus and any supplement thereto;

(xi) agrees to disclose that person's personal data to our Company, our H Share Registrar, receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents and any information which they may require about that person for whose benefit the application is made;

(xii) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

(xiii) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is not irrevocable before 7 September 2008, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before 14 August 2008 except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before 7 September 2008 if a person responsible for this Prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus;

(xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering to be released by our Company;

(xv) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Public Offer Shares;

(xvi) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong;

(xvii) agrees with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each shareholder of the Company, with each CCASS Participant giving electronic application instructions) to observe and comply with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association of the Company;

(xviii) agrees with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving electronic application instructions):

(a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;

(b) that any award made in such arbitration shall be final and conclusive; and

(c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

(xix) agrees with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders; and

(xx) authorizes the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.

Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, and the related brokerage, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account;
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum Application Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the number of shares in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 8 August 2008 — 9:00 a.m. to 8:30 p.m.(1)
Saturday, 9 August 2008 — 8:00 a.m. to 1:00 p.m.(1)
Monday, 11 August 2008 — 8:00 a.m. to 8:30 p.m.(1)
Tuesday, 12 August 2008 — 8:00 a.m. to 8:30 p.m.(1)
Wednesday, 13 August 2008 — 8:00 a.m.(1) ***to 12:00 noon***

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(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 8 August 2008 until 12:00 noon on Wednesday, 13 August 2008 (24 hours daily, except the last application day).

Effects of Bad Weather on the Last Application Day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 13 August 2008, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal

in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon on Wednesday, 13 August 2008, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

If the application lists of the Hong Kong Public Offering do not open and close on Wednesday, 13 August 2008 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected Timetable" in this Prospectus, such dates mentioned in the section headed "Expected Timetable" in this Prospectus may be affected. An announcement will be made in such event.

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Wednesday, 20 August 2008 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner, if supplied) and your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) in the manner described in "How to Apply For Hong Kong Public Offer Shares—Publication of Results" on Wednesday, 20 August 2008. You should check the announcement to be released by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 20 August 2008 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 20 August 2008. Immediately following the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Hong Kong Public Offer Share paid on application, in each case including the related brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 20 August 2008. No interest will be paid thereon.

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Hong Kong Companies Ordinance.

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by us, our H Share Registrar, receiving banker, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 13 August 2008.

IV. HOW MANY APPLICATIONS MAY YOU MAKE

You may make more than one application for the Hong Kong Public Offer Shares only if you are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by submitting an electronic application to the designated White Form eIPO Service Provider through **White Form eIPO** Service **(www.eipo.com.hk)** or by giving **electronic application instructions** to HKSCC;

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by submitting an electronic application to the designated White Form eIPO Service Provider through **White Form eIPO** Service **(www.eipo.com.hk)** or by giving **electronic application instructions** to HKSCC, and that you are duly authorized to sign the Application Form or give **electronic application instruction** as that other person's agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or to the designated White Form eIPO Service Provider through **White Form eIPO** service **(www.eipo.com.hk)** or by giving **electronic application instructions** to HKSCC; or
- both apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form or to the designated White Form eIPO Service Provider through **White Form eIPO** service **(www.eipo.com.hk)** and give **electronic application instructions** to HKSCC; or
- apply on one **white** or **yellow** Application Form (whether individually or jointly) or to the designated White Form eIPO Service Provider through **White Form eIPO** service **(www.eipo.com.hk)** or by giving **electronic application instructions** to HKSCC for more than 80,000,000 Hong Kong Public Offer Shares initially being offered for sale under the Hong Kong Public Offering as more particularly described in the section headed "Structure of the Global Offering—The Hong Kong Public Offering"; or
- have applied for or taken up, or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Offering.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company; or

- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

V. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Public Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting an **electronic application instruction** to HKSCC you agree that your application or the application made by HKSCC Nominees on your behalf may not be revoked before 7 September 2008. Such agreement to take effect as a collateral contract with us and to become binding when you lodge your application form or submit your electronic application instruction to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. However, your application or the application made by HKSCC Nominees on your behalf may be revoked on or before 7 September 2008 if a person responsible for this Prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Public Offer Shares to any person on or before 14 August 2008 except by means of one of the procedures referred to in this Prospectus.

If any supplement to the Prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the Prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) Full discretion of our Company, the Joint Global Coordinators or our or their respective agents to reject or accept:

We, the Joint Global Coordinators or our or their respective agents have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(c) Allotment of Hong Kong Public Offer Shares will be void under the following circumstances:

The allotment of Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

(d) You will not receive any allotment if:

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Offering. By filling in any of the Application Forms or submitting electronic application instructions, you agree not to apply for or indicate an interest for International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Public Offer Shares in the Hong Kong Public Offering;
- your payment is not made correctly;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored on its first presentation;
- your Application Form is not filled in correctly in accordance with the instruction as stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional;
- either of the Underwriting Agreements is terminated in accordance with its respective terms;
- your application is for more than 50% of the Hong Kong Public Offer Shares initially being offered under the Hong Kong Public Offering for subscription; or
- the Company believes that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdictions in which your application is completed and signed.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both.

VI. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The maximum offer price is HK$2.76 per Hong Kong Public Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Hong Kong Public Offer Shares, you will pay

HK$2,787.85. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Public Offer Shares that may be applied for.

You must pay the maximum offer price and related brokerage, SFC transaction levy, and the Hong Kong Stock Exchange trading fee in full when you apply for the Hong Kong Public Offer Shares. You must pay the amount payable upon application for Hong Kong Public Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form or this Prospectus.

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange or the Hong Kong Stock Exchange, the SFC transaction levy, and Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy collected by the Hong Kong Stock Exchange on behalf of the SFC).

VII. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Public Offer Shares for any reason, we will refund your application monies, including related brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Hong Kong Public Offer Share (excluding brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of dispatch of refund cheques will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Joint Global Coordinators, cheques for applications made on Application Forms for certain small denominations of Hong Kong Public Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Wednesday, 20 August 2008 in accordance with the various arrangements as described above.

VIII. COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, 21 August 2008.

The H Shares will be traded in board lots of 1,000 each. The stock code of the H Shares is 1766.

IX. H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of and permission to deal in the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's international auditors and reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, as described in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix X, a copy of the accountants' report is available for inspection.

ERNST & YOUNG
安 永

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

8 August 2008

The Directors
China South Locomotive & Rolling Stock Corporation Limited
China International Capital Corporation (Hong Kong) Limited
Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the financial information regarding China South Locomotive & Rolling Stock Corporation Limited (the "Company" or "中國南車股份有限公司") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2005, 2006 and 2007, and the three-month period ended 31 March 2008 (the "Relevant Periods") and the three-month period ended 31 March 2007 (the "31 March 2007 Financial Information"), prepared on the basis set out in note 1 of section II below for inclusion in the prospectus of the Company dated 8 August 2008 (the "Prospectus") in connection with the initial listing of the H shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As part of the restructuring of China South Locomotive and Rolling Stock Industry (Group) Corporation ("CSRG") as described in note 1 of section II below (the "Reorganisation"), the Company was established in the People's Republic of China (the "PRC" or "China") on 28 December 2007 as a state-owned joint stock company with limited liability under the Company Law of the PRC. Pursuant to the Reorganisation, CSRG injected its assets, liabilities and businesses relating to the research and development, manufacturing, sale and refurbishment for and of locomotives, passenger carriages, freight wagons, multiple units and metro cars, as well as other businesses that utilise proprietary rolling stock technologies (the "Relevant Businesses") into the Company as capital contribution, and the Company issued 6,900 million shares of RMB1.00 each to CSRG credited as fully paid as consideration. In addition, upon the establishment of the Company on 28 December 2007, the Company also issued 100 million shares of RMB1.00 each to 北京鐵工經貿公司 (Beijing Railway Industry Trade Company or "BRIT") for a cash consideration of RMB124.5 million. Thereafter, CSRG became the Company's holding company. CSRG is a state-owned enterprise under the control and supervision of the State-owned Asset Supervision and Administration Commission of the State Council (the "SASAC").

The Company and its subsidiaries have adopted 31 December as their financial year end date. The management accounts of these companies were prepared in accordance with the relevant accounting principles and financial regulations applicable to these companies and were not audited by us. Particulars of the Company and its principal subsidiaries, jointly-controlled entities and associates are set out in note 4 of section II below.

The directors of the Company (the "Directors") have prepared the consolidated income statements of the Group for each of the three years ended 31 December 2005, 2006 and 2007 and the three-month period ended 31 March 2008, the consolidated statements of changes in equity of the Group for the year ended 31 December 2007 and the three-month period ended 31 March 2008, the consolidated cash flow statements of the Group for the year ended 31 December 2007 and the three-month period ended 31 March 2008, the consolidated balance sheet of the Group at 31 December 2007 and 31 March 2008 and the financial information of the Company for the years ended 31 December 2005, 2006 and 2007 and the three-month period ended 31 March 2008 together with the notes thereto (collectively the "PRC GAAP Financial Statements") in accordance with the Accounting Standards for Business Enterprise issued by the Ministry of Finance on 15 February 2006 and other related regulations (collectively the "PRC GAAP"), for which the Directors are solely responsible. The PRC GAAP Financial Statements were audited by Ernst & Young Hua Ming, Certified Public Accountants registered in the PRC.

For the purpose of this report, the Directors have prepared the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Periods and the three-month period ended 31 March 2007, the consolidated balance sheets of the Group as at 31 December 2005, 2006, 2007 and 31 March 2008, and the balance sheets of the Company as at 31 December 2007 and 31 March 2008 together with the notes thereto set out in this report (collectively the "Financial Information") based on the PRC GAAP Financial Statements audited by Ernst & Young Hua Ming and the relevant management accounts of the Group, after making such adjustments as are appropriate to comply with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), and have been prepared on the basis set out in note 1 of section II below.

The Directors are responsible for the preparation of the Financial Information which gives, for the purpose of this report, a true and fair view, and the contents of the Prospectus in which this report is included. The directors of the respective companies of the Group are responsible for the preparation of the respective financial statements which give a true and fair view. In preparing the Financial Information and financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion on such information in respect of the Relevant Periods, and to report our opinion to you.

Procedures performed in respect of the Relevant Periods

For the purpose of this report, we have carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Procedures performed in respect of the 31 March 2007 Financial Information

For the purpose of this report, we have also performed a review of the 31 March 2007 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the 31 March 2007 Financial Information.

Opinion in respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report and prepared on the basis of presentation set out in note 1 of section II below, a true and fair view of the results and cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Group as at 31 December 2005, 2006, 2007 and 31 March 2008 and of the Company as at 31 December 2007 and 31 March 2008 in accordance with IFRSs.

Review conclusion in respect of the 31 March 2007 Financial Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 31 March 2007 Financial Information does not give a true and fair view of the consolidated operating results and cash flows of the Group for the three-month period ended 31 March 2007 in accordance with IFRSs.

(I) FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31 December			Three-month period ended 31 March	
		2005	2006	2007	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
REVENUE	6	19,784,502	23,046,994	26,803,519	6,065,839	6,586,062
Cost of sales		(17,094,755)	(19,803,184)	(22,785,003)	(5,221,342)	(5,387,742)
Gross profit		2,689,747	3,243,810	4,018,516	844,497	1,198,320
Other income and gains	6	174,316	173,766	430,140	61,234	225,605
Selling and distribution costs		(348,034)	(453,034)	(641,067)	(108,359)	(147,788)
Administrative expenses		(1,728,427)	(1,953,283)	(2,633,676)	(544,491)	(587,246)
Other expenses, net	7	(28,158)	(30,431)	(103,823)	(45,708)	(52,264)
PROFIT FROM OPERATIONS		759,444	980,828	1,070,090	207,173	636,627
Finance costs	8	(190,202)	(294,875)	(314,448)	(70,273)	(119,448)
Share of profits and losses of associates and jointly-controlled entities		24,724	26,171	192,318	15,236	32,712
PROFIT BEFORE TAX	7	593,966	712,124	947,960	152,136	549,891
Tax	11	(99,210)	(70,437)	(73,235)	(36,984)	(142,614)
PROFIT FOR THE YEAR/ PERIOD		494,756	641,687	874,725	115,152	407,277
Attributable to:						
Equity holders of the Company		407,116	544,758	613,031	101,509	367,550
Minority interests		87,640	96,929	261,694	13,643	39,727
		494,756	641,687	874,725	115,152	407,277
DISTRIBUTIONS	12	264,783	620,999	1,657,670	—	—
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	13					
—Basic		5.9 cents	7.9 cents	8.9 cents	1.5 cents	5.3 cents
—Diluted		N/A	N/A	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at 31 March
	Notes	2005	2006	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	6,731,845	7,382,695	7,067,638	7,403,227
Lease prepayments	15	863,349	940,864	2,804,055	2,790,595
Goodwill	16	—	3,150	3,150	3,150
Other intangible assets	17	208,592	252,160	296,547	295,337
Interests in jointly-controlled entities	19	255,925	274,041	409,565	439,656
Interests in associates	20	311,893	299,731	163,490	167,611
Available-for-sale investments	21	81,736	109,387	82,346	50,025
Deferred tax assets	11	119,224	81,179	19,765	46,417
Other non-current assets		49,687	44,289	52,940	48,348
Total non-current assets		8,622,251	9,387,496	10,899,496	11,244,366
CURRENT ASSETS					
Inventories	22	4,396,692	5,292,861	5,839,556	5,875,200
Trade receivables	23	4,431,775	3,496,813	4,020,423	5,858,613
Bills receivable	24	195,660	354,517	487,309	314,143
Prepayments, deposits and other receivables	25	1,262,830	1,977,089	3,172,613	4,121,167
Financial assets at fair value through profit or loss	26	—	—	—	100,000
Derivative financial instruments	27	—	—	—	83,885
Pledged deposits	28	619,770	514,766	479,038	510,461
Cash and cash equivalents	28	2,887,547	5,320,825	7,792,483	3,386,755
Total current assets		13,794,274	16,956,871	21,791,422	20,250,224
CURRENT LIABILITIES					
Trade payables	29	5,118,503	5,880,511	6,229,873	6,569,722
Bills payable	30	1,438,494	1,795,158	1,612,181	1,371,991
Other payables and accruals	31	4,411,763	4,641,159	7,061,711	6,244,773
Interest-bearing bank and other borrowings	32	3,721,202	3,335,935	6,278,989	5,428,873
Provision for supplemental pension subsidies and early retirement benefit	33	266,160	280,900	252,280	252,280
Tax payable		32,411	32,420	54,478	151,928
Provision for warranties	34	81,598	95,159	127,005	135,945
Government grants	35	3,817	17,769	66,155	66,186
Total current liabilities		15,073,948	16,079,011	21,682,672	20,221,698
NET CURRENT ASSETS/(LIABILITIES)		**(1,279,674)**	**877,860**	**108,750**	**28,526**
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,342,577**	**10,265,356**	**11,008,246**	**11,272,892**
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	32	1,353,483	2,179,557	2,086,368	1,973,050
Provision for supplemental pension subsidies and early retirement benefit	33	2,623,190	2,427,560	2,251,750	2,206,940
Government grants	35	97,000	135,212	268,480	272,979
Deferred tax liabilities	11	47,104	51,672	10,525	23,899
Other non-current liabilities		102,225	87,020	10,196	7,396
Total non-current liabilities		4,223,002	4,881,021	4,627,319	4,484,264
Net assets		**3,119,575**	**5,384,335**	**6,380,927**	**6,788,628**
EQUITY					
Equity attributable to equity holders of the Company		2,598,927	3,461,143	4,311,021	4,679,736
Minority interests		520,648	1,923,192	2,069,906	2,108,892
Total equity		**3,119,575**	**5,384,335**	**6,380,927**	**6,788,628**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Capital reserve	Available-for-sale investment revaluation reserve	Retained earnings	Owner's equity	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	—	—	—	—	2,446,798	2,446,798	426,257	2,873,055
Profit for the year	—	—	—	—	407,116	407,116	87,640	494,756
Distribution to CSRG (note 1)	—	—	—	—	(264,783)	(264,783)	—	(264,783)
Capital contributions from minority shareholders	—	—	—	—	—	—	45,077	45,077
Acquisition of subsidiaries	—	—	—	—	—	—	2,961	2,961
Disposal of subsidiaries	—	—	—	—	—	—	(11,012)	(11,012)
Dilution gain on disposal of partial interest in a subsidiary	—	—	—	—	9,796	9,796	—	9,796
Dividends paid to minority shareholders	—	—	—	—	—	—	(30,275)	(30,275)
At 31 December 2005 and 1 January 2006	—	—	—	—	2,598,927	2,598,927	520,648	3,119,575
Profit for the year	—	—	—	—	544,758	544,758	96,929	641,687
Distribution to CSRG (note 1)	—	—	—	—	(620,999)	(620,999)	—	(620,999)
Capital contributions from minority shareholders	—	—	—	—	—	—	1,468,847	1,468,847
Dilution gain on disposal of partial interest in a subsidiary (note 2)	—	—	—	—	940,090	940,090	—	940,090
Acquisition of subsidiaries	—	—	—	—	—	—	9,609	9,609
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(114,393)	(114,393)
Excess of acquirers' additional interests in the net carrying value of acquirees' identifiable net assets over the cost of acquisition of additional interests in subsidiaries	—	—	—	—	7,952	7,952	—	7,952
Excess of the cost of acquisition of additional interests in subsidiaries over the acquirers' additional interests in the carrying value of identifiable net assets	—	—	—	—	(9,585)	(9,585)	—	(9,585)
Dividends paid to minority shareholders	—	—	—	—	—	—	(58,448)	(58,448)
At 31 December 2006 and 1 January 2007	—	—	—	—	3,461,143	3,461,143	1,923,192	5,384,335
Changes in fair value of available-for-sale investments	—	—	45,581	—	—	45,581	—	45,581
Deferred tax liability on changes in fair value of available-for-sale investments	—	—	(10,525)	—	—	(10,525)	—	(10,525)
Total income and expense recognised directly in equity	—	—	35,056	—	—	35,056	—	35,056
Profit for the year	—	—	—	—	613,031	613,031	261,694	874,725

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

	Attributable to equity holders of the Company							
	Share capital	Capital reserve	Available-for-sale investment revaluation reserve	Retained earnings	Owner's equity	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total income and expense for the year	—	—	35,056	—	613,031	648,087	261,694	909,781
Distribution to CSRG (note 3)	—	—	—	—	(1,329,912)	(1,329,912)	—	(1,329,912)
Capital contributions from minority shareholders	—	—	—	—	—	—	66,931	66,931
Capital contribution from a promoter (note 4)	100,000	—	—	—	—	100,000	—	100,000
Capital contribution of lease prepayments (note 5)	—	—	—	—	1,769,821	1,769,821	—	1,769,821
Special distribution (note 6)	—	—	—	—	(327,758)	(327,758)	—	(327,758)
Acquisition of subsidiaries	—	—	—	—	—	—	3,441	3,441
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(141,358)	(141,358)
Excess of the cost of acquisition of additional interests in subsidiaries over the acquirers' additional interests in the carrying value of identifiable net assets	—	—	—	—	(10,360)	(10,360)	—	(10,360)
Disposal of subsidiaries	—	—	—	—	—	—	(1,237)	(1,237)
Dividends paid to minority shareholders	—	—	—	—	—	—	(42,757)	(42,757)
Capitalisation pursuant to the Reorganisation (note 7)	6,900,000	(2,724,035)	—	—	(4,175,965)	—	—	—
At 31 December 2007 and 1 January 2008	7,000,000	(2,724,035)	35,056	—	—	4,311,021	2,069,906	6,380,927
Changes in fair value of available-for-sale investments	—	—	(30,193)	—	—	(30,193)	—	(30,193)
Deferred tax liability on changes in fair value of available-for-sale investments	—	—	7,597	—	—	7,597	—	7,597
Total income and expense recognised directly in equity	—	—	(22,596)	—	—	(22,596)	—	(22,596)
Profit for the period	—	—	—	367,550	—	367,550	39,727	407,277
Total income and expense for the period	—	—	(22,596)	367,550	—	344,954	39,727	384,681
Capital contribution from minority shareholders	—	—	—	—	—	—	18,684	18,684
Capital contribution from a promoter	—	24,470	—	—	—	24,470	—	24,470
Acquisition of additional interests in a subsidiary	—	—	—	—	—	—	(10,000)	(10,000)
Excess of the cost of acquisition of additional interests in a subsidiary over the acquirers' additional interests in carrying value of identifiable net assets	—	(709)	—	—	—	(709)	709	—
Capital reduction of a subsidiary	—	—	—	—	—	—	(2,997)	(2,997)
Dividends paid to minority shareholders	—	—	—	—	—	—	(7,137)	(7,137)
At 31 March 2008	7,000,000	(2,700,274)	12,460	367,550	—	4,679,736	2,108,892	6,788,628

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

	Attributable to equity holders of the Company							
(Unaudited)	**Share capital**	**Capital reserve**	**Available-for-sale investment revaluation reserve**	**Retained earnings**	**Owner's equity**	**Total**	**Minority interest**	**Total equity**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2007	—	—	—	—	3,461,143	3,461,143	1,923,192	5,384,335
Changes in fair value of available-for-sale investments	—	—	12,317	—	—	12,317	—	12,317
Deferred tax liability on changes in fair value of available-for-sale investments	—	—	(3,079)	—	—	(3,079)	—	(3,079)
Total income and expense recognised directly in equity	—	—	9,238	—	—	9,238	—	9,238
Profit for the period	—	—	—	—	101,509	101,509	13,643	115,152
Total income and expense for the period	—	—	9,238	—	101,509	110,747	13,643	124,390
Capital contribution from minority shareholders	—	—	—	—	—	—	7,222	7,222
Acquisition of a subsidiary	—	—	—	—	—	—	3,441	3,441
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(57,382)	(57,382)
Dividends paid to minority shareholders	—	—	—	—	—	—	(12,405)	(12,405)
At 31 March 2007	—	—	9,238	—	3,562,652	3,571,890	1,877,711	5,449,601

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notes:

(1) The Group's distribution to CSRG during the years ended 31 December 2005 and 2006 mainly included funding provided to CSRG and its retained entities which had been treated as deemed distribution to CSRG.

(2) The dilution gain included RMB863 million which arose from the issuance of shares by an indirectly-owned subsidiary, Zhuzhou CSR Times Electric Co., Ltd, to the public in Hong Kong in December 2006.

(3) Pursuant to the Reorganisation, certain assets and liabilities historically associated with the Relevant Businesses were retained by CSRG and treated as a deemed distribution upon completion of the Reorganisation.

(4) On 28 December 2007, BRIT made a capital contribution of RMB100 million in cash into the Company.

(5) Pursuant to an approval document issued by the relevant PRC government authorities on 28 December 2007, lease prepayments in an aggregate amount of approximately RMB1,769.8 million were injected into the Group as owner's equity.

(6) The Group has made a profit distribution to CSRG. Further details of which are set out in note 12 of section II below.

(7) Upon the incorporation of the Company on 28 December 2007 and the effective transfer of net asset of the Relevant Businesses to the Company by CSRG pursuant to an asset transfer agreement dated 30 December 2007 (further details are set out in note 1.2(b) of section II below), the historical net asset value of the Relevant Businesses was converted into the Company's share capital of RMB6,900 million with all the then existing reserves (except for the available for sale investment revaluation reserve) eliminated and the difference between the amount of share capital and the historical net asset value of the Relevant Businesses transferred to the Company was presented in the reserves of both the Group and the Company. Separate classes of reserves, including retained profits of the Group prior to incorporation of the Company were not separately disclosed as all of these reserves, except for the available for sale investment revaluation reserve, had been capitalised and incorporated in the capital reserves of the Group and the Company pursuant to the Reorganisation.

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended 31 December 2005 RMB'000	2006 RMB'000	2007 RMB'000	Three-month period ended 31 March 2007 RMB'000 (unaudited)	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		593,966	712,124	947,960	152,136	549,891
Adjustments for:						
Non-cash:						
Depreciation of items of property, plant and equipment	7	510,384	559,854	654,170	159,594	156,359
Impairment of items of property, plant and equipment	7	14,982	19,570	4,812	159	—
Impairment of other intangible assets	7	3,047	1,934	—	—	—
Amortisation of lease prepayments	7	5,572	6,655	9,340	2,513	15,178
Amortisation of other intangible assets	7	36,250	47,214	54,764	12,883	14,532
Impairment of available-for-sale investments	7	300	—	—	—	—
(Gain)/loss on disposal of items of property, plant and equipment, net	7	(15,255)	(25,477)	12,727	(4,147)	3,213
Loss on disposal of other intangible assets, net	7	805	2	76	—	—
Provision/(reversal of provision) against obsolete inventories	7	72,303	83,507	(23,150)	13,650	5,215
Impairment of trade receivables	7	16,521	425	52,072	23,509	12,437
Impairment of other receivables	7	13,649	4,189	7,807	7,301	5,809
Interest income	6	(58,271)	(81,198)	(115,926)	(25,564)	(21,231)
Dividend income	6	(3,787)	(2,547)	(6,147)	(120)	—
Finance costs	8	190,202	294,875	314,448	70,273	119,448
Share of profits and losses of associates and jointly-controlled entities		(24,724)	(26,171)	(192,318)	(15,236)	(32,712)
Loss on dilution of interest in an associate	7	—	26,314	—	—	—
Gain on disposal of subsidiaries, net	6	(3,558)	—	(53)	—	—
Net fair value gain on derivative instruments not qualifying as hedges	6	—	—	—	—	(83,885)
Gain on disposal of available-for-sale investments	6	—	—	(18,477)	—	(31,652)
		1,352,386	1,621,270	1,702,105	396,951	712,602

CONSOLIDATED CASH FLOW STATEMENTS (continued)

	Notes	Year ended 31 December			Three-month period ended 31 March	
		2005	2006	2007	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Working capital adjustments:						
Decrease/(increase) in trade receivables, bills receivable and prepayments, deposits and other receivables		(742,877)	131,462	(2,465,993)	(3,297,237)	(2,809,861)
Decrease/(increase) in inventories		(1,165,067)	(940,138)	(582,724)	94,321	(40,860)
Decrease/(increase) in other non-current assets		8,232	6,256	(12,536)	(15,047)	(1,355)
Decrease/(increase) in pledged time deposits		(263,681)	105,004	35,728	91,228	(31,423)
Increase/(decrease) in trade payables, bills payable and other payables and accruals		1,459,930	918,500	2,860,553	566,445	(682,209)
Decrease in provision for supplemental pension subsidies and early retirement benefit		(120,830)	(180,890)	(204,430)	(57,252)	(44,810)
Increase in provision for warranties		11,628	13,561	31,846	10,829	8,940
Decrease in other non-current liabilities		—	(16,585)	—	—	—
Cash generated from/(used in) operations		539,721	1,658,440	1,364,549	(2,209,762)	(2,888,976)
Interest received		58,271	81,198	115,926	25,564	21,231
Income tax paid		(38,916)	(28,055)	(41,681)	(7,701)	(50,844)
Net cash inflow/(outflow) from operating activities		559,076	1,711,583	1,438,794	(2,191,899)	(2,918,589)

CONSOLIDATED CASH FLOW STATEMENTS (continued)

	Notes	Year ended 31 December			Three-month period ended 31 March	
		2005	2006	2007	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment, excluding interest capitalised		(1,492,834)	(1,329,400)	(1,561,483)	(202,318)	(488,009)
Acquisition of lease prepayments		(19,211)	(89,815)	(173,691)	(1,644)	(583)
Purchases of other intangible assets		(80,990)	(91,906)	(104,624)	(6,569)	(13,234)
Investments in associates		(19,748)	(9,284)	(18,414)	(6,106)	(1,500)
Investments in jointly-controlled entities		(83,303)	(7,131)	—	—	—
Purchases of available-for-sale investments		(2,870)	(59,993)	(4,227)	(4,903)	—
Purchases of financial assets at fair-value through profit or loss		—	—	—	—	(100,000)
Purchases of financial instruments classified as other receivables		—	—	—	—	(400,000)
Loan to a jointly-controlled entity included in other receivables		—	—	—	—	(25,000)
Acquisition of subsidiaries	37	1,886	(32,823)	(10,551)	9,053	(10,298)
Additional investments in subsidiaries		—	(14,047)	—	—	—
Instalment payment on acquisition of certain subsidiaries in a prior year		(17,000)	(19,095)	—	—	—
Dividends received from associates		9,306	2,135	2,361	—	105
Dividends received from a jointly-controlled entity		—	5,557	21,488	—	—
Dividends received from available-for-sale investments		3,787	2,547	6,147	104	—
Interest on financial instruments included in other receivable		—	—	—	—	2,480
Interest on loan to a jointly-controlled entity		—	—	—	—	126
Proceeds from disposal of interests in associates		16,504	18,036	17,831	14,881	—
Disposal of subsidiaries	38	(8,387)	5,360	(1,255)	—	—
Proceeds from disposal of lease prepayments		579	5,645	—	—	—
Proceeds from disposal of items of property, plant and equipment		421,075	322,858	301,614	24,228	10,341
Proceeds from disposal of other intangible assets		205	2,229	1,895	3	—
Proceeds from disposal of available-for sale investments		5,391	13,442	53,139	8,659	33,691
Decrease/(increase) in non-pledged time deposits with original maturity of three months or more when acquired		(47,696)	107,696	(879,523)	(49,000)	771,523
Net cash outflow from investing activities		(1,313,306)	(1,167,989)	(2,349,293)	(213,612)	(220,358)

CONSOLIDATED CASH FLOW STATEMENTS (continued)

	Notes	Year ended 31 December 2005 RMB'000	Year ended 31 December 2006 RMB'000	Year ended 31 December 2007 RMB'000	Three-month period ended 31 March 2007 RMB'000 (unaudited)	Three-month period ended 31 March 2008 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment of bank and other borrowings		(5,529,496)	(10,677,957)	(7,087,191)	(1,154,622)	(2,992,087)
Capital contributions from minority shareholders		62,041	312,864	69,721	7,222	18,783
Capital contribution from a promoter		—	—	100,000	—	24,470
Purchase of minority interests		(9,952)	(116,095)	(150,563)	(57,382)	(12,997)
Dividends paid to minority shareholders		(30,275)	(58,448)	(42,757)	(12,405)	(7,137)
Interest paid		(206,940)	(278,438)	(277,561)	(66,577)	(124,541)
Proceeds from issue of shares of a subsidiary, net		—	2,087,187	—	—	—
Distribution to CSRG		(273,642)	(341,240)	(1,030,619)	—	—
Proceeds from bank and other borrowings		7,496,251	11,069,507	10,921,604	1,109,541	2,598,251
Net cash inflow/(outflow) from financing activities		1,507,987	1,997,380	2,502,634	(174,223)	(495,258)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		753,757	2,540,974	1,592,135	(2,579,734)	(3,634,205)
Cash and cash equivalents at beginning of year/period		2,012,594	2,766,351	5,307,325	5,307,325	6,899,460
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	28	2,766,351	5,307,325	6,899,460	2,727,591	3,265,255

BALANCE SHEET

	Notes	As at 31 December 2007	As at 31 March 2008
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	10,008	9,489
Other intangible assets	17	379	448
Interests in subsidiaries	18	10,552,866	10,622,866
Available-for-sale investments	21	678	678
Total non-current assets		10,563,931	10,633,481
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	2,707,884	3,142,528
Cash and cash equivalents	28	2,100,000	192,247
Total current assets		4,807,884	3,334,775
CURRENT LIABILITIES			
Other payables and accruals	31	1,426,798	508,686
Interest-bearing bank and other borrowings	32	3,334,547	3,040,000
Provision for supplemental pension subsidies and early retirement benefit	33	1,840	1,840
Government grants	35	500	500
Total current liabilities		4,763,685	3,551,026
NET CURRENT ASSETS/(LIABILITIES)		**44,199**	**(216,251)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,608,130**	**10,417,230**
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	1,900,000	1,750,000
Provision for supplemental pension subsidies and early retirement benefit	33	19,651	19,651
Total non-current liabilities		1,919,651	1,769,651
Net assets		**8,688,479**	**8,647,579**
EQUITY			
Share capital	36	7,000,000	7,000,000
Capital reserve	36	1,688,479	1,712,949
Retained earnings	36	—	(65,370)
Total equity		**8,688,479**	**8,647,579**

(II) NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 Corporate information

The Company was incorporated in the PRC on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. The registered capital of the Company is RMB7,000 million, divided into 7,000 million shares of par value of RMB1.00 each.

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

The Group is 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 CSRG, a state-owned enterprise established in the PRC, which is under the control of the SASAC.

1.2 Reorganisation

(a) Pursuant to the Reorganisation, CSRG transferred its core businesses and operations to the Company, which include 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.

The Relevant Businesses transferred to the Company also included CSRG's 100% equity interest in CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. ("Zhuzhou Institute") and CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. ("Qishuyan Institute"). Prior to the Reorganisation, CSRG owned a 51% equity interest in each of Zhuzhou Institute and Qishuyan Institute, and pursuant to the Reorganisation, the SASAC transferred the 49% equity interest in each of Zhuzhou Institute and Qishuyan Institute (collectively the "Two Institutes") held by China Northern Locomotive & Rolling Stock Industry (Group) Corporation ("CNRG") to CSRG at nil consideration. Accordingly, CSRG's equity interests in the Two Institutes were increased to 100%, and such 100% equity interests in the Two Institutes comprised part of the Relevant Businesses transferred to the Company pursuant to the Reorganisation. CNRG is also a state-owned enterprise under the control and supervision of the SASAC.

Certain assets and liabilities with a net asset value of RMB1,329,912,000 historically associated with the Relevant Businesses that were retained by CSRG upon the Reorganisation have been included in the Financial Information up to the date when they are carved out from the Relevant Businesses and at the same time reflected as a distribution to CSRG.

1. CORPORATE INFORMATION, REORGANISATION AND BASIS OF PRESENTATION (continued)

1.2 Reorganisation (continued)

Details of such assets are as below:-

	RMB'000
Cash and bank balances	1,030,619
Non-cash net assets (note 39)	299,293
Net assets	1,329,912

In addition, CSRG also retained the non-core and social function businesses, such as hotels, schools, hospitals and etc. Such businesses and operations retained by CSRG represent distinct and identifiable activities under separate management personnel.

(b) The net asset value of the Relevant Businesses as at 30 June 2007 was RMB8,588,478,600 as appraised by a PRC valuer, and pursuant to the Reorganisation, such net asset value was converted into the Company's share capital of RMB6,900 million owned by CSRG in consideration for CSRG transferring the Relevant Businesses to the Company.

Upon the establishment of the Company in December 2007, CSRG and BRIT contributed cash of RMB2,000 million and RMB100 million respectively into the Company as its initial share capital. The cash contributed by CSRG into the Company represented part of the transfer of the net assets of the Relevant Businesses to the Company by CSRG.

The capital verification in respect of such capital contribution was completed in December 2007 and according to the Company's business license issued by relevant government authorities on 28 December 2007, the initial share capital of the Company was RMB2,100 million.

For the transfer of the remaining net assets of the Relevant Businesses to the Company, CSRG and the Company entered into an asset transfer agreement on 30 December 2007 pursuant to which CSRG agreed to transfer the relevant net assets comprising the Relevant Businesses to the Company as capital contribution, and the Company effectively owned and controlled the relevant net assets comprising the Relevant Businesses starting from the date of such asset transfer agreement. CSRG also agreed to procure the early completion of the relevant asset transfer registration procedures.

The Directors are of the view that CSRG has effectively transferred such net assets of the Relevant Businesses to the Company for capital contribution purposes on 30 December 2007, accordingly, the aggregate net asset value of the Relevant Businesses of RMB8,588,478,600 effectively transferred to the Company was recognised as capital contribution on that date in the Company's accounts and as at 31 December 2007, the Company's share capital owned by CSRG recognised in the Company's accounts was increased to RMB6,900 million. The excess of net asset contribution by CSRG of RMB8,588,478,600 over the Company's registered share capital of RMB6,900 million owned by CSRG of RMB1,688,478,600 was recorded as capital reserve. As at 31 December 2007, the share capital recognised in the Company's accounts was

1. CORPORATE INFORMATION, REORGANISATION AND BASIS OF PRESENTATION (continued)

1.2 Reorganisation (continued)

RMB7,000 million, which included share capital owned by CSRG and BRIT of RMB6,900 million and RMB100 million respectively.

In January 2008, BRIT further contributed cash of RMB24.5 million to the Company in settlement of the remaining consideration payable for the shares issued to it, and such cash contribution of RMB24.5 million was recorded as capital reserve in the Company's accounts for the three-month period ended 31 March 2008.

The capital verification was completed subsequently in January 2008, and according to the business licence of the Company issued by the relevant PRC government authorities upon the completion of legal formalities on 28 January 2008, the share capital of the Company was increased from RMB2,100 million to RMB7,000 million.

1.3 Basis of presentation

CSRG controlled the Relevant Businesses before the Reorganisation and continues to have control over the Group after the Reorganisation. In addition, the Relevant Businesses are ultimately controlled by the SASAC both before and after the Reorganisation. Therefore, the Reorganisation has been accounted for as a reorganisation of entities under common control in a manner similar to pooling of interests. As a result, the Group's consolidated financial statements has been prepared on the basis as if the Relevant Businesses had been transferred to the Company by CSRG at the beginning of the Relevant Periods. Accordingly, the assets and liabilities comprising the Relevant Businesses transferred to the Company have been stated at historical amounts in the Group's consolidated financial statements.

In particular, the Group's consolidated financial statements included the 100% equity interests in the Two Institutes throughout the Relevant Periods since the SASAC ultimately controlled the 100% equity interests in the Two Institutes both before and after the Reorganisation, and the 100% equity interests in the Two Institutes were transferred to the Company pursuant to the Reorganisation.

The businesses, operations, assets and liabilities, historically associated with the Relevant Businesses that were retained by CSRG have been included in the Financial Information up to the date when such businesses, operations, assets and liabilities have been carved out from the Relevant Businesses in 2007 and at the same time dealt with as a distribution to CSRG in the Financial Information.

The financial information of businesses and operations historically not associated with the Relevant Businesses has not been included in the Financial Information throughout the Relevant Periods and the three-month period ended 31 March 2007 as they are distinct and identifiable businesses under separate management personnel and were not transferred to the Group pursuant to the Reorganisation.

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB and the International Accounting Standards and Standing Interpretations Committee interpretations approved by the

1. CORPORATE INFORMATION, REORGANISATION AND BASIS OF PRESENTATION (continued)

1.3 Basis of presentation (continued)

International Accounting Standards Committee that remain in effect. The Financial Information has been prepared under a historical cost convention, except for certain financial assets as further explained below. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the Relevant Periods and the three-month period ended 31 March 2007. Except for the Reorganisation which has been accounted for as a combination of business under common control in a manner similar to pooling of interests as described in note 1.3 of section II above, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The pooling of interests method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs in the Relevant Periods as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using their existing book values. No amount is recognised in respect of goodwill or any excess of acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The purchase method of accounting involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired and liabilities and contingent liabilities incurred or assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Under the purchase method of accounting, the results of subsidiaries are fully 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

1. CORPORATE INFORMATION, REORGANISATION AND BASIS OF PRESENTATION (continued)

1.3 Basis of presentation (continued)

Basis of consolidation (continued)

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.1 IMPACT OF 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 the Financial Information:

IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 1 Amendment	*Puttable Financial Instruments*[1]
IAS 32 Amendment	*Puttable Financial Instruments*[1]
IFRS 2 Amendment	*Share-based Payment—Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
IFRS 8	*Operating Segments*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IFRIC-Int 13	*Customer Loyalty Programmes*[3]

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[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 July 2008

The revised IAS 1 was issued in September 2007. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

Amendments to IAS 32 and IAS 1 were issued in February 2008. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

IFRS 2 Amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity

2.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

The revised IFRS 3 and IAS 27 were issued in January 2008. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary 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 amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 (Revised) and IAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 8, which will replace IAS 14 *Segment reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the equity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009. The revised standard will not have a material effect on the segment identification of the Group.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

IFRIC-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

As the Group currently has no customer loyalty award credits, IFRIC-Int 13 is not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received or receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 entity 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 Company has unilateral control, directly or indirectly, over the joint venture;

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

(c) an associate, if the 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, if the 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.

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 share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statements 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 interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interest in jointly-controlled entities.

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statements 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 interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates represents the excess of the cost of the business combination over the Group's interests in the net fair value of the acquirees' identifiable assets acquired and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, jointly-controlled entities and associates, after reassessment, is recognised immediately in the income statement.

The excess for associates and jointly-controlled entities is included in the Group's share of the associates and jointly-controlled entities' profits or losses in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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 impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

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

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

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

(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).

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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 the above 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 each balance sheet date.

An item of property, plant and equipment 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 the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 balance sheet date.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Purchased patents and technical know-how

Purchased patents and technical know-how are stated at cost less impairment losses and are amortised on the straight-line basis over the 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 the income statement 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.

Operating leases

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 the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Lease prepayments represent upfront prepayments made for the land use rights and are expensed in the income statement on a straight line basis over the lease terms or when there is impairment, the impairment is expensed in the income statement.

Investments and other financial assets

Financial assets in 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 assets, as appropriate. 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. The Group assesses whether a contract contains an embedded derivative when

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. 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 under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does 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.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial assets contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using 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.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 assets

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 the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset 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. 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 the consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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 the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such 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 on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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 cash flow statements, 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 balance sheets, 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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date 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 the income statement.

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 is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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 interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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 at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

(b) from the rendering of services, when the related services are provided;

(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 discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 charged to the income statement as and when incurred.

The Group implemented 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 expense when incurred.

In addition, the Group also pays supplemental pension subsidies to retired employees. As detailed in note 33 below, such supplemental pension payables were assessed using the projected unit credit actuarial cost method; the cost of providing such subsidies is charged to the consolidated income statements so as to spread the service cost over the average service lives of such former employees, in accordance with the actuarial reports which contained full valuations of 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 or 10% of the defined benefit obligation are charged or credited to the income statement 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 terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide 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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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 are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

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

Employee retirement benefits

The Group has recognised the employee retirement benefits obligations as a liability. The amount of such expense obligations are determined using actuarial valuations, which should rely on various assumptions and conditions. Such assumptions used in actuarial valuation reports included discount rates, growth rate of the benefits and other factors. The deviation from the actual result and 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 benefits obligation.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 change of accounting estimates will affect the carrying value of debtors in the relevant accounting periods.

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.

4. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the principal subsidiaries comprising the Group, its principal jointly-controlled entities and its principal associates, at the date of this report are set out below:

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	
Subsidiaries					
CSR Zhuzhou Electric Locomotive Co., Ltd. (i) 南車株洲電力機車有限公司	PRC 31 August 2005	RMB613,025,800	69.0	29.4	Manufacturing, selling and repairing of locomotives
CSR Ziyang Locomotive Co., Ltd (ii) 南車資陽機車有限公司	PRC 12 May 2006	RMB662,420,607	81.0	12.1	Manufacturing, selling and repairing of locomotives
CSR Sifang Locomotive and Rolling Stock Co., Ltd. (iii) 南車四方機車車輛股份有限公司	PRC 22 July 2002	RMB550,061,200	90.0	—	Manufacturing, selling and repairing of locomotives
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (i) 南車株洲電力機車研究所有限公司	PRC 9 September 1992	RMB2,000,000,000	100.0	—	Investment holding
CSR Sifang Rolling Stock Co., Ltd. (i) 南車四方車輛有限公司	PRC 4 September 1980	RMB212,095,500	100.0	—	Repairing locomotives and rolling stock
New Leap Transportation Equipment Investment & Leasing Co, Ltd. (iv) 新力搏交通裝備投資租賃有限公司	PRC 26 April 1999	RMB300,000,000	100.0	—	Trading and investment holding
CSR Yangtze Rolling Stock Co., Ltd. (v) 南車長江車輛有限公司	PRC 14 September 2006	RMB436,960,080	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. (i) 南車戚墅堰機車車輛工藝研究所有限公司	PRC 15 May 1992	RMB210,000,000	100.0	—	Research and development of train-related products
CSR Xiangfan Locomotive Co., Ltd. (vi) 南車襄樊機車有限公司	PRC 27 June 2007	RMB1,332,600	100.0	—	Repairing locomotives
CSR Shijiazhuang Rolling Stock Co., Ltd. (vii) 南車石家莊車輛有限公司	PRC 28 June 2007	RMB78,394,000	100.0	—	Manufacturing, selling and repairing of rolling stock

4. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (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
Subsidiaries (continued)					
CSR Chengdu Locomotive & Rolling Stock Co., Ltd. (viii) 南車成都機車車輛有限公司	PRC 28 June 2007	RMB234,591,900	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Nanjing Puzhen Rolling Stock Co., Ltd. (ix) 南車南京浦鎮車輛有限公司	PRC 27 June 2007	RMB77,020,200	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Feb. 7th Rolling Stock Co., Ltd. (x) 南車二七車輛有限公司	PRC 28 June 2007	RMB197,671,068	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Meishan Rolling Stock Co., Ltd. (xi) 南車眉山車輛有限公司	PRC 28 June 2007	RMB103,281,100	100.0	—	Manufacturing and selling of rolling stock
CSR Luoyang Locomotive Co., Ltd. (xii) 南車洛陽機車有限公司	PRC 27 June 2007	RMB26,356,400	100.0	—	Repairing locomotives & rolling stock
CSR Qishuyan Locomotive Co., Ltd. (xiii) 南車戚墅堰機車有限公司	PRC 26 June 2007	RMB369,065,636	100.0	—	Manufacturing, selling and repairing of locomotives
Zhuzhou CSR Times Electric Co., Ltd. (i) 株州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-borne systems and components
Jointly-controlled entities					
Bombardier Sifang (Qingdao) Transportation Ltd. (xiv) 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 and selling of locomotives and rolling stock
Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. (xv) 石家莊國祥運輸設備有限公司	PRC 25 July 2003	US$10,000,000	—	60.0*	Manufacturing and selling of air-conditioners
Zhuzhou Shiling Transportation Equipment Co., Ltd. (xvi) 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. (xvii) 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

4. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (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	
Associates					
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	RMB204,355,200	—	21.8	Manufacturing and selling of polymer compounds, etc.
Siemens Traction Equipment Ltd., Zhuzhou (xviii) 株洲西門子牽引設備有限公司	PRC 28 November 1998	RMB128,989,000	—	48.5	Manufacturing and selling of locomotive accessories
Zhuzhou High-tech Investment & Guaranty, Co., Ltd. (xix) 株洲高新創業投資擔保有限責任公司	PRC 28 December 2007	RMB50,250,000	—	27.2	Providing investment and consulting service
Changzhou RIMAN Turbo-charging Precision Casting Co., Ltd. (xx) 常州瑞盟增壓器精密鑄造有限公司	PRC 14 September 2006	RMB30,000,000	—	40.0	Manufacturing and selling of engines of automobiles
Beijing Times Wharton Technology Co., Ltd. (xxi) 北京時代沃頓科技有限公司	PRC 16 January 2007	RMB19,500,000	—	38.0	Manufacturing of chemical materials

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* *The Group's control over Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. is restricted by its memorandum and articles of association.*

The English names of the Company's certain subsidiaries, jointly-controlled entities and associates represent translated names of these companies as no English names have been registered.

The above table lists the subsidiaries, jointly-controlled entities and associates of the Company which, in the opinion of the Directors, principally affected the results of the Group for the Relevant Periods or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries, jointly-controlled entities and associates would, in the opinion of the Directors, result in particulars of excessive length.

Notes:

(i) The statutory accounts of these companies for the years ended 31 December 2005, 2006 and 2007 were audited by REANDA Certified Public Accountants Co., Ltd.

(ii) The statutory accounts of the company's predecessor, CSR Ziyang Locomotive Works (中國南車集團資陽機車廠), for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company for the years ended 31 December 2006 and 2007 were audited by REANDA Certified Public Accountants Co., Ltd.

(iii) The statutory accounts of the company for the year ended 31 December 2005 were audited by Shandong Huide CPA Co., Ltd. The statutory accounts of the company for the years ended 31 December 2006 and 2007 were audited by REANDA Certified Public Accountants Co., Ltd.

(iv) The statutory accounts of the company for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company for the years ended 31 December 2006 and 2007 were audited by Baker Tilly China Ltd.

4. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(v) No statutory audited accounts of the company for the period ended 31 December 2006 was prepared. The statutory accounts of the company for the year ended 31 December 2007 were audited by REANDA Certified Public Accountants Co., Ltd.

(vi) The statutory accounts of the company's predecessor, CSR Xiangfan Gas Engine Locomotive Works (中國南車集團襄樊內燃機車廠), for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company's predecessor for the years ended 31 December 2006 and 2007 were audited by Baker Tilly China Ltd.

(vii) The statutory accounts of the company's predecessor, CSR Shijiazhuang Rolling Stock Works (中國南車集團石家莊車輛廠), for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company's predecessor for the years ended 31 December 2006 and 2007 were audited by Baker Tilly China Ltd.

(viii) The statutory accounts of the company's predecessor, CSR Chengdu Rolling Stock Works (中國南車集團成都機車車輛廠), for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company's predecessor for the years ended 31 December 2006 and 2007 were audited by Baker Tilly China Ltd.

(ix) The statutory accounts of the company's predecessor, CSR Nanjing Puzhen Rolling Stock Works (中國南車集團南京浦鎮車輛廠), for the years ended 31 December 2005, 2006 and 2007 were audited by REANDA Certified Public Accountants Co., Ltd.

(x) The statutory accounts of the company's predecessor, CSR Beijing Feb. 7th Rolling Stock Works (中國南車集團北京二七車輛廠), for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company's predecessor for the years ended 31 December 2006 and 2007 were audited by Baker Tilly China Ltd.

(xi) The statutory accounts of the company's predecessor, CSR Meishan Rolling Stock Works (中國南車集團眉山車輛廠) for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company's predecessor for the years ended 31 December 2006 and 2007 were audited by Baker Tilly China Ltd.

(xii) The statutory accounts of the company's predecessor, CSR Luoyang Electric Locomotive Works (中國南車集團洛陽機車廠), for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company's predecessor for the years ended 31 December 2006 and 2007 were audited by Baker Tilly China Ltd.

(xiii) The statutory accounts of the company's predecessor, CSR Qishuyan Rolling Stock Works (中國南車集團戚墅堰機車車輛廠), for the year ended 31 December 2005 were audited by Beijing Zhongxing New Century Certified Public Accountants Co., Ltd. The statutory accounts of the company's predecessor for the years ended 31 December 2006 and 2007 were audited by Baker Tilly China Ltd.

(xiv) The statutory accounts of the company for the years ended 31 December 2005, 2006 and 2007 were audited by Ernst & Young Hua Ming.

(xv) The statutory accounts of the company for the years ended 31 December 2005 and 2006 were audited by Zhongxi Certified Public Accountants Shijiazhuang Branch. The statutory accounts of the company for the year ended 31 December 2007 were audited by Baker Tilly China Ltd.

(xvi) The statutory accounts of the company for the years ended 31 December 2005, 2006 and 2007 were audited by Tianzhi International Certified Public Accountants.

4. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

(xvii) The statutory accounts of the company for the years ended 31 December 2005, 2006 and 2007 were audited by Shandong Huide CPA Co., Ltd.

(xviii) The statutory accounts of the company for the years ended 31 December 2005, 2006 and 2007 were audited by KPMG Huazhen Certified Public Accountants.

(xix) No statutory audited accounts of the company for the period ended 31 December 2007 was prepared.

(xx) No statutory audited accounts of the company for the period ended 31 December 2006 was prepared. The statutory accounts of the company for the year ended 31 December 2007 were audited by Changzhou Kairui Certified Public Accountants Co., Ltd.

(xxi) The statutory accounts of the company for the year ended 31 December 2007 were audited by REANDA Certified Public Accountants Co., Ltd.

5. SEGMENT INFORMATION

Segment information is required by IAS 14 *Segment Reporting* to be presented by way of two segment formats: (1) on a primary segment reporting basis, which the Group has determined to be by business segment; and (2) on a secondary segment reporting basis, which the Group has determined to be by geographical segment.

The Group is principally engaged in the manufacturing, maintenance, upgrade and refurbishment of mainline rail vehicles, including locomotives, passenger carriage, freight wagons, multiple units as well as key components used in these vehicles. All of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single business segment. In addition, the Group's revenue, expenses, profits, assets and liabilities and capital expenditures are principally attributable to a single geographical region, which is the PRC. Therefore, no analysis by business or geographical segment is presented.

6. 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 transaction.

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

		Group				
		Year ended 31 December			Three-month period ended 31 March	
	Notes	2005	2006	2007	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue						
Sale of goods		19,784,502	23,046,994	26,803,519	6,065,839	6,586,062
Other income and gains						
Interest income		58,271	81,198	115,926	25,564	21,231
Dividend income		3,787	2,547	6,147	120	—
Profit from sales of scrap materials		10,781	3,904	23,095	5,909	10,012
Gain on disposal of subsidiaries, net	38	3,558	—	53	—	—
Gain on disposal of available-for-sale investments		—	—	18,477	—	31,652
Value-added tax refunds		10,273	18,729	115,124	11,083	48,858
Government grants	35	48,523	28,013	129,835	15,226	22,947
Net fair value gain on derivative instruments not qualifying as hedges	27	—	—	—	—	83,885
Others		39,123	39,375	21,483	3,332	7,020
Total		174,316	173,766	430,140	61,234	225,605

7. PROFIT BEFORE TAX

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

		Group				
		Year ended 31 December			**Three-month period ended 31 March**	
	Notes	**2005**	**2006**	**2007**	**2007**	**2008**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Cost of inventories sold		17,094,755	19,803,184	22,785,003	5,221,342	5,387,742
Depreciation of items of property, plant and equipment	14	510,384	559,854	654,170	159,594	156,359
Amortisation of lease prepayments	15	5,572	6,655	9,340	2,513	15,178
Amortisation of other intangible assets	17	36,250	47,214	54,764	12,883	14,532
Provision/(reversal of provision) against obsolete inventories	(i)	72,303	83,507	(23,150)	13,650	5,215
Auditors' remuneration		3,062	7,507	9,663	1,653	1,997
Provision for warranties	34	86,753	99,593	152,512	20,947	28,658
Minimum lease payments under operating leases:						
Plant and machinery		9,366	16,679	9,832	2,409	4,153
Land and buildings		6,563	8,244	7,961	3,831	3,229
Research and development costs		247,718	328,526	489,156	100,252	123,592
Less: amount capitalised		—	—	(10,601)	—	(1,544)
		247,718	328,526	478,555	100,252	122,048
Staff costs (including directors' and supervisors' remuneration)						
Wages, salaries and other employees' benefits		2,479,701	2,682,634	2,788,444	702,796	742,688
Contribution to government-operated pension schemes		331,716	339,344	383,769	102,818	104,057
Contribution to annuity pension schemes		758	11,610	43,694	3,895	11,459
Supplemental pension subsidies and early retirement benefit:						
— interest costs		115,430	85,270	89,220	19,840	23,640
		2,927,605	3,118,858	3,305,127	829,349	881,844
Included in other expenses, net:						
Impairment of trade receivables	23	16,521	425	52,072	23,509	12,437
Impairment of other receivables	25	13,649	4,189	7,807	7,301	5,809
Exchange losses/(gains), net		(5,891)	3,474	26,329	18,886	30,805
(Gain)/loss on disposal of items of property, plant and equipment, net		(15,255)	(25,477)	12,727	(4,147)	3,213
Loss on disposal of items of other intangible assets, net		805	2	76	—	—
Impairment of items of property, plant and equipment	14	14,982	19,570	4,812	159	—
Loss on dilution of interest in an associate	(ii)	—	26,314	—	—	—
Impairment of other intangible assets	17	3,047	1,934	—	—	—
Impairment of available-for-sale investments		300	—	—	—	—
		28,158	30,431	103,823	45,708	52,264

Notes:

(i) *Included in "Cost of sales" on the face of the consolidated income statements for the Relevant Periods and the three-month period ended 31 March 2007. During the year ended 31 December 2007, certain provision for inventories has been reversed as a result of the sale of certain inventories written down to net realisable value in prior years.*

7. PROFIT BEFORE TAX (continued)

(ii) In March 2006, Zhuzhou Times New Material Technology Co., Ltd. ("ZTNM"), an associate of the Group with its shares listed on the Shanghai Stock Exchange, has approved in its shareholders' meeting to launch a share reform scheme under the requirement of the relevant PRC government authorities. Pursuant to the scheme which was completed in March 2006, the Group was required to grant certain portion of its shares in ZTNM free of consideration to the public shareholders who held the tradeable shares in ZTNM in order to convert the non-tradeable shares in ZTNM held by the Group into tradeable shares. Accordingly, the Group's equity interest in ZTNM was diluted from 27.64% to 21.78%, and the dilution loss in aggregate of RMB26,314,000 attributable to the decrease in the share of net assets of ZTNM was accounted for as a dilution loss in the consolidated income statements for the year ended 31 December 2006.

8. FINANCE COSTS

	Group				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on bank and other borrowings wholly repayable within five years	210,087	298,972	311,845	69,543	120,582
Interest on bills discounted	899	5,172	2,970	1,097	562
Less: Interest capitalised in construction in progress	(20,784)	(9,269)	(367)	(367)	(1,696)
Total	190,202	294,875	314,448	70,273	119,448

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the Relevant Periods and the three-month period ended 31 March 2007, disclosed pursuant to the Rules Governing 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				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fees	—	—	—	—	130
Other emoluments:					
Salaries, allowances and benefits in kind	1,230	1,377	1,584	570	760
Performances-related bonuses	828	858	1,072	236	252
Pension scheme contributions	111	133	147	35	35
Total	2,169	2,368	2,803	841	1,177

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

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and supervisors and their remuneration for the Relevant Periods and the three-month period ended 31 March 2007 are as follows:

Year ended 31 December 2005

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Zhao Xiaogang	—	168	225	16	409
Mr. Zheng Changhong	—	168	225	16	409
Mr. Tang Kelin	—	143	188	16	347
Mr. Liu Hualong	—	142	190	15	347
	—	621	828	63	1,512
Supervisors:					
Mr. Wang Yan	—	203	—	16	219
Mr. Li Jianguo	—	203	—	16	219
Mr. Qian Yi	—	203	—	16	219
	—	609	—	48	657
	—	1,230	828	111	2,169

Year ended 31 December 2006

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Zhao Xiaogang	—	179	234	19	432
Mr. Zheng Changhong	—	179	234	19	432
Mr. Tang Kelin	—	154	195	19	368
Mr. Liu Hualong	—	154	195	19	368
	—	666	858	76	1,600
Supervisors:					
Mr. Wang Yan	—	237	—	19	256
Mr. Li Jianguo	—	237	—	19	256
Mr. Qian Yi	—	237	—	19	256
	—	711	—	57	768
	—	1,377	858	133	2,368

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

Year ended 31 December 2007

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Zhao Xiaogang	—	189	291	21	501
Mr. Zheng Changhong	—	189	291	21	501
Mr. Tang Kelin	—	160	245	21	426
Mr. Liu Hualong	—	160	245	21	426
	—	698	1,072	84	1,854
Independent non-executive directors:					
Mr. Zhao Jibin	—	—	—	—	—
Mr. Yang Yuzhong	—	—	—	—	—
Mr. Chen Yongkuan	—	—	—	—	—
Mr. Dai Deming	—	—	—	—	—
Mr. Tsoi, David	—	—	—	—	—
	—	—	—	—	—
Supervisors:					
Mr. Wang Yan	—	307	—	21	328
Mr. Li Jianguo	—	292	—	21	313
Mr. Qian Yi	—	287	—	21	308
	—	886	—	63	949
	—	1,584	1,072	147	2,803

Three-month period ended 31 March 2007 (unaudited)

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Zhao Xiaogang	—	47	64	5	116
Mr. Zheng Changhong	—	47	64	5	116
Mr. Tang Kelin	—	41	54	5	100
Mr. Liu Hualong	—	41	54	5	100
	—	176	236	20	432
Supervisors:					
Mr. Wang Yan	—	134	—	5	139
Mr. Li Jianguo	—	132	—	5	137
Mr. Qian Yi	—	128	—	5	133
	—	394	—	15	409
	—	570	236	35	841

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

Three-month period ended 31 March 2008

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Mr. Zhao Xiaogang	—	73	68	5	146
Mr. Zheng Changhong	—	73	68	5	146
Mr. Tang Kelin	—	66	58	5	129
Mr. Liu Hualong	—	66	58	5	129
	—	278	252	20	550
Independent non-executive directors:					
Mr. Zhao Jibin	30	16	—	—	46
Mr. Yang Yuzhong	30	16	—	—	46
Mr. Chen Yongkuan	30	16	—	—	46
Mr. Dai Deming	30	16	—	—	46
Mr. Tsoi, David	10	11	—	—	21
	130	75	—	—	205
Supervisors:					
Mr. Wang Yan	—	142	—	5	147
Mr. Li Jianguo	—	136	—	5	141
Mr. Qian Yi	—	129	—	5	134
	—	407	—	15	422
	130	760	252	35	1,177

No emoluments were paid by the Group to any of the persons who are 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 Relevant Periods and the three-month period ended 31 March 2007.

There was no arrangement under which a director or a supervisor of the Company waived or agreed to waive any remuneration during the Relevant Periods and the three-month period ended 31 March 2007.

10. FIVE HIGHEST PAID EMPLOYEES

The number of the five highest paid employees of the Group during the Relevant Periods and the three-month period ended 31 March 2007 in the following categories is as follows:

	Number of employees				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
				(unaudited)	
Directors and supervisors	—	—	—	2	1
Non-director and non-supervisor employees	5	5	5	3	4
	5	5	5	5	5

10. FIVE HIGHEST PAID EMPLOYEES (continued)

Details of the remuneration paid to the above non-director and non-supervisor highest paid employees during the Relevant Periods and the three-month period ended 31 March 2007 are as follows:

	Group				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, allowances and benefits in kind	509	556	658	91	149
Performance-related bonuses	2,122	2,222	2,599	318	444
Pension scheme contributions	63	51	61	9	13
	2,694	2,829	3,318	418	606

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

	Number of employees				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
				(unaudited)	
Nil to RMB500,000	1	1	—	3	4
RMB500,001 to RMB1,000,000	4	4	5	—	—
	5	5	5	3	4

During the Relevant Periods and the three-month period ended 31 March 2007, no emoluments were paid by the Group to any of such non-director and non-supervisor employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. TAX

	Group				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Group:					
Current income tax	72,292	27,824	63,493	67,134	148,295
Deferred income tax	26,918	42,613	9,742	(30,150)	(5,681)
Total tax charge for the year	99,210	70,437	73,235	36,984	142,614

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 33% is applied to the Group for the three years ended 31 December 2007 and the three month period ended 31 March 2007 and that the income tax rate of 25% is applied to the Group for the three month period ended 31 March 2008, except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the Relevant Periods and the three-month period ended 31 March 2007.

In March 2007, the PRC government announced for a unified tax rate arrangements among different types of PRC entities which result in a reduction of tax rate from 33% to 25% with effect from 1 January 2008, the effect of this change has been dealt with in the calculation of deferred taxation at 31 March 2007 and thereafter.

11. TAX (continued)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods and the three-month period ended 31 March 2007.

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the locations in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	Group									
	Year ended 31 December						Three-month period ended 31 March			
	2005		2006		2007		2007		2008	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Profit before tax	593,966		712,124		947,960		152,136		549,891	
Tax at the applicable tax rate	196,009	33.0	235,001	33.0	312,827	33.0	50,205	33.0	137,473	25.0
Entities subject to lower statutory income tax rates	(112,398)	(18.9)	(132,992)	(18.6)	(182,721)	(19.3)	(4,786)	(3.1)	(12,795)	(2.3)
Change in the PRC statutory tax rate	—	—	—	—	928	0.1	—	—	—	—
Adjustments in respect of current tax of previous years	(1,082)	(0.2)	120	0.0	90	0.0	1,048	0.7	(56)	(0.0)
Profits and losses of associates and jointly-controlled entities	(5,489)	(0.9)	(5,448)	(0.8)	(56,960)	(6.0)	(4,675)	(3.1)	(8,385)	(1.5)
Expenses not deductible for tax (note 1)	73,119	12.3	54,271	7.6	64,095	6.8	6,793	4.4	19,410	3.5
Prior year tax losses utilised	(4,813)	(0.8)	(220)	(0.0)	(1,130)	(0.1)	—	—	(3,563)	(0.7)
Income not subject to tax (note 2)	—	—	—	—	(12,988)	(1.4)	—	—	(6,852)	(1.2)
Tax losses not recognised	—	—	—	—	39,211	4.1	10,622	7.0	25,017	4.5
Prior year income tax refunds	—	—	(4,081)	(0.6)	—	—	—	—	—	—
Others (note 3)	(46,136)	(7.8)	(76,214)	(10.7)	(90,117)	(9.5)	(22,223)	(14.6)	(7,635)	(1.4)
Tax charge at effective tax rate	99,210	16.7	70,437	9.9	73,235	7.7	36,984	24.3	142,614	25.9
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 income statements	1,054		294		4,637		1,056		2,193	

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 and etc.

11. TAX (continued)

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

	Group								
	As at 31 December			**As at 31 March**	**Year ended 31 December**			**Three-month period ended 31 March**	
	2005	**2006**	**2007**	**2008**	**2005**	**2006**	**2007**	**2007**	**2008**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Deferred income tax assets									
Losses available for offsetting against future taxable profit	918	—	—	—	8,311	918	—	(5,499)	—
Provision for supplemental pension subsidies and early retirement benefits	81,489	44,079	—	—	29,929	37,410	44,079	7,207	—
Warranty claim provision	6,728	9,140	19,765	29,814	(170)	(2,412)	(10,625)	(10,409)	(10,049)
Assets impairment	—	1,657	—	—	—	(1,657)	1,657	(5,281)	—
Wages payable	30,089	26,303	—	—	(10,776)	3,786	26,303	(390)	—
Accrued expenses	—	—	—	16,603	—	—	—	(9,382)	(16,603)
Gross deferred income tax assets	119,224	81,179	19,765	46,417					
Deferred income tax liabilities									
Provision for staff welfare	(47,104)	(51,672)	—	—	(376)	4,568	(51,672)	(6,396)	—
Fair value adjustments arising from available-for-sale financial assets	—	—	(10,525)	(2,928)	—	—	10,525	3,079	(7,597)
Fair value adjustments arising from derivative financial instruments	—	—	—	(20,971)	—	—	—	—	20,971
Gross deferred income tax liabilities	(47,104)	(51,672)	(10,525)	(23,899)					
					26,918	42,613	20,267	(27,071)	(13,278)
Represented by:									
Deferred income tax charged/(credited) to the income statement					26,918	42,613	9,742	(30,150)	(5,681)
Deferred tax charged/(credited) to equity during the year/period					—	—	10,525	3,079	(7,597)
					26,918	42,613	20,267	(27,071)	(13,278)

12. DISTRIBUTIONS

The distributions during the Relevant Periods and the three-month period ended 31 March 2007 are set out below:

		Year ended 31 December			Three-month period ended 31 March	
	Note	**2005**	**2006**	**2007**	**2007**	**2008**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Distribution to CSRG						
—Cash and bank balances		264,783	620,999	1,030,619	—	—
—Non-cash net assets	39	—	—	299,293	—	—
		264,783	620,999	1,329,912	—	—
Special distribution*		—	—	327,758	—	—
		264,783	620,999	1,657,670	—	—

Note:

* In accordance with the "Provisional Regulation Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment" notice issued by the Ministry of Finance (財政部關于印發《企業公司制改建有關國有資本管理與財務處理的暫行規定》的通知), the Company is required to make a pre-incorporation profit distribution to CSRG which represents an amount equal to the Group's combined net profit attributable to shareholders, as determined based on PRC GAAP, generated during the period from 30 June 2007 (the asset valuation date) to 28 December 2007 (the date of incorporation of the Company) by the Relevant Businesses to CSRG. In addition, the Company has agreed with BRIT that the profit for the period from 30 June 2007 to 31 December 2007 shall belong to the Company. Accordingly, the net profit for the period from 30 June 2007 to 31 December 2007 amounting to RMB327,758,000 was recognised as special distribution payable to CSRG by the Group. Such payable to CSRG has been settled subsequently in April 2008.

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on:

	Year ended 31 December			Three-month period ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Earnings					
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	407,116	544,758	613,031	101,509	367,550
Shares					
Weighted average number of domestic shares in issue during the Relevant Periods and the three-month period ended 31 March 2007 used in the basic earnings per share calculation	6.9 billion	6.9 billion	6.9 billion	6.9 billion	7.0 billion

The Company's weighted average number of domestic shares in issue during the Relevant Periods and the three-month period ended 31 March 2007 used in the basic earnings per share calculation is determined on the assumption that the 6,900 million domestic shares of RMB1.00 each issued

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (continued)

as a result of the Reorganisation had been in issue throughout the Relevant Periods and the three-month period ended 31 March 2007 and as adjusted to add the 100 million domestic shares of RMB1.00 each issued to the other promoter upon the establishment of the Company on 28 December 2007.

No diluted earnings per share have been disclosed as no diluting events existed during the Relevant Periods and the three-month period ended 31 March 2007.

14. PROPERTY, PLANT AND EQUIPMENT

		Group					
	Notes	Buildings	Plant, machinery and equipment	Motor vehicles	Computer equipment and others	Construction in progress	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005, net of accumulated depreciation and impairment		2,624,321	2,322,012	170,077	308,866	716,837	6,142,113
Additions		78,796	109,017	26,192	60,270	1,251,590	1,525,865
Transfer from construction in progress		455,483	511,463	33,402	76,686	(1,077,034)	—
Acquisition of subsidiaries	37	312	1,664	446	424	—	2,846
Disposals		(255,621)	(78,805)	(8,456)	(18,352)	(44,460)	(405,694)
Disposal of subsidiaries	38	(5,396)	(1,008)	(434)	(780)	(301)	(7,919)
Depreciation	7	(129,722)	(285,973)	(28,201)	(66,488)	—	(510,384)
Impairment	7	(384)	(12,315)	—	(2,177)	(106)	(14,982)
At 31 December 2005 and 1 January 2006, net of accumulated depreciation and impairment		2,767,789	2,566,055	193,026	358,449	846,526	6,731,845
Additions		132,491	119,601	21,628	78,336	1,160,958	1,513,014
Transfer from construction in progress		512,677	758,996	30,747	57,542	(1,359,962)	—
Acquisition of subsidiaries	37	3,232	7,840	278	1,960	1,331	14,641
Disposals		(124,758)	(110,092)	(8,758)	(30,947)	(22,826)	(297,381)
Depreciation	7	(140,312)	(317,705)	(32,433)	(69,404)	—	(559,854)
Impairment	7	(2,421)	(15,428)	(480)	(1,217)	(24)	(19,570)
At 31 December 2006 and 1 January 2007, net of accumulated depreciation and impairment		3,148,698	3,009,267	204,008	394,719	626,003	7,382,695
Additions		62,289	153,527	81,614	67,689	1,256,840	1,621,959
Transfer from construction in progress		420,517	541,992	20,034	57,807	(1,040,350)	—
Acquisition of subsidiaries	37	29,737	34,027	639	647	1,850	66,900
Disposals		(137,441)	(116,538)	(12,906)	(23,540)	(29,944)	(320,369)
Disposal of subsidiaries	38	—	(500)	(26)	—	—	(526)
Depreciation	7	(149,843)	(380,728)	(36,448)	(87,151)	—	(654,170)
Impairment	7	(153)	(3,437)	(272)	(950)	—	(4,812)
Distribution to CSRG pursuant to the Reorganisation	39	(770,983)	(159,679)	(10,084)	(38,392)	(44,901)	(1,024,039)
At 31 December 2007 and 1 January 2008, net of accumulated depreciation and impairment		2,602,821	3,077,931	246,559	370,829	769,498	7,067,638
Additions		14	22,398	1,690	5,409	477,213	506,724
Transfer from construction in progress		37,932	50,704	1,946	8,632	(99,214)	—
Reclassification		(18,656)	4,538	(22,595)	36,713	—	—
Disposals		(9,833)	(953)	(369)	(463)	(3,158)	(14,776)
Depreciation	7	(31,646)	(90,863)	(9,471)	(24,379)	—	(156,359)
At 31 March 2008, net of accumulated depreciation and impairment		2,580,632	3,063,755	217,760	396,741	1,144,339	7,403,227

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group					
	Buildings	Plant, machinery and equipment	Motor vehicles	Computer equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2005:						
Cost	4,074,502	4,425,137	447,322	712,411	848,160	10,507,532
Accumulated depreciation and impairment	(1,306,713)	(1,859,082)	(254,296)	(353,962)	(1,634)	(3,775,687)
Net carrying amount	2,767,789	2,566,055	193,026	358,449	846,526	6,731,845
At 31 December 2006:						
Cost	4,567,812	5,107,978	464,466	762,971	627,661	11,530,888
Accumulated depreciation and impairment	(1,419,114)	(2,098,711)	(260,458)	(368,252)	(1,658)	(4,148,193)
Net carrying amount	3,148,698	3,009,267	204,008	394,719	626,003	7,382,695
At 31 December 2007:						
Cost	3,782,693	5,151,830	494,901	725,600	771,156	10,926,180
Accumulated depreciation and impairment	(1,179,872)	(2,073,899)	(248,342)	(354,771)	(1,658)	(3,858,542)
Net carrying amount	2,602,821	3,077,931	246,559	370,829	769,498	7,067,638
At 31 March 2008:						
Cost	3,769,288	5,262,725	433,797	784,198	1,145,997	11,396,005
Accumulated depreciation and impairment	(1,188,656)	(2,198,970)	(216,037)	(387,457)	(1,658)	(3,992,778)
Net carrying amount	2,580,632	3,063,755	217,760	396,741	1,144,339	7,403,227

	Company
	Computer equipment and others
	RMB'000
At 1 January 2007, net of accumulated depreciation and impairment	—
Transfer to the Company by CSRG pursuant to the Reorganisation	10,008
At 31 December 2007 and 1 January 2008, net of accumulated depreciation and impairment	10,008
Additions	38
Depreciation	(557)
At 31 March 2008, net of accumulated depreciation and impairment	9,489

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company
	RMB'000
At 31 December 2007:	
Cost	20,334
Accumulated depreciation and impairment	(10,326)
Net carrying amount	10,008
At 31 March 2008:	
Cost	20,372
Accumulated depreciation and impairment	(10,883)
Net carrying amount	9,489

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, capitalisation rates ranging between 4% and 7% have been applied to the expenditure on the 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. LEASE PREPAYMENTS

		Group			
		As at 31 December			Three-month period ended 31 March
	Notes	2005	2006	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January, net of accumulated amortisation		850,289	863,349	940,864	2,804,055
Additions		19,211	89,815	1,949,540	1,718
Acquisition of subsidiaries	37	—	—	6,444	—
Disposal		(579)	(5,645)	—	—
Amortisation provided during the year/period	7	(5,572)	(6,655)	(9,340)	(15,178)
Distribution to CSRG pursuant to the Reorganisation	39	—	—	(83,453)	—
Carrying amount at 31 December/31 March		863,349	940,864	2,804,055	2,790,595

The leasehold land is held under medium term leases and is situated in the PRC.

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

16. GOODWILL

		Group			
		As at 31 December			Three-month period ended 31 March
	Note	2005	2006	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000
Cost, net of accumulated impairment:					
At beginning of year/period		—	—	3,150	3,150
Acquisition of a subsidiary	37	—	3,150	—	—
At end of year/period		—	3,150	3,150	3,150
Cost		—	3,150	3,150	3,150
Accumulated impairment		—	—	—	—
Net carrying amount		—	3,150	3,150	3,150

17. OTHER INTANGIBLE ASSETS

		Group			
	Notes	Purchased patents and technical know-how	Computer software	Deferred development costs	Total
		RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005, net of accumulated amortisation and impairment		139,029	28,864	—	167,893
Additions		67,224	13,766	—	80,990
Acquisition of subsidiaries	37	—	16	—	16
Disposals		(692)	(318)	—	(1,010)
Amortisation	7	(29,741)	(6,509)	—	(36,250)
Impairment	7	(2,708)	(339)	—	(3,047)
At 31 December 2005 and 1 January 2006, net of accumulated amortisation and impairment		173,112	35,480	—	208,592
Additions		68,479	23,427	—	91,906
Acquisition of subsidiaries	37	850	79	—	929
Disposals		(16)	(103)	—	(119)
Amortisation	7	(36,408)	(10,806)	—	(47,214)
Impairment	7	(1,934)	—	—	(1,934)
At 31 December 2006 and 1 January 2007, net of accumulated amortisation and impairment		204,083	48,077	—	252,160
Additions		53,397	40,626	10,601	104,624
Acquisition of subsidiaries	37	—	109	—	109
Disposals		—	(1,971)	—	(1,971)
Amortisation	7	(40,725)	(14,039)	—	(54,764)
Distribution to CSRG pursuant to the Reorganisation	39	(747)	(2,864)	—	(3,611)
At 31 December 2007 and 1 January 2008, net of accumulated amortisation and impairment		216,008	69,938	10,601	296,547
Additions		9,252	2,526	1,544	13,322
Amortisation	7	(10,165)	(4,367)	—	(14,532)
At 31 March 2008, net of accumulated amortisation and impairment		215,095	68,097	12,145	295,337

17. OTHER INTANGIBLE ASSETS (continued)

	Group			
	Purchased patents and technical know-how	Computer software	Deferred development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2005:				
Cost	245,501	55,325	—	300,826
Accumulated amortisation and impairment	(72,389)	(19,845)	—	(92,234)
Net carrying amount	173,112	35,480	—	208,592
At 31 December 2006:				
Cost	299,406	71,240	—	370,646
Accumulated amortisation and impairment	(95,323)	(23,163)	—	(118,486)
Net carrying amount	204,083	48,077	—	252,160
At 31 December 2007:				
Cost	350,266	103,205	10,601	464,072
Accumulated amortisation and impairment	(134,258)	(33,267)	—	(167,525)
Net carrying amount	216,008	69,938	10,601	296,547
At 31 March 2008:				
Cost	348,778	105,731	12,145	466,654
Accumulated amortisation and impairment	(133,683)	(37,634)	—	(171,317)
Net carrying amount	215,095	68,097	12,145	295,337

	Company
	Computer software
	RMB'000
At 1 January 2007, net of accumulated amortisation and impairment	—
Transfer to the Company by CSRG pursuant to the Reorganisation	379
At 31 December 2007 and 1 January 2008, net of accumulated amortisation and impairment	379
Additions	89
Amortisation	(20)
At 31 March 2008, net of accumulated amortisation and impairment	448

	RMB'000
At 31 December 2007:	
Cost	406
Accumulated amortisation and impairment	(27)
Net carrying amount	379
At 31 March 2008:	
Cost	495
Accumulated amortisation and impairment	(47)
Net carrying amount	448

18. INTERESTS IN SUBSIDIARIES

	Company	
	As at 31 December 2007	As at 31 March 2008
	RMB'000	RMB'000
Unlisted investments, at cost	9,865,866	9,865,866
Loans to subsidiaries	687,000	757,000
	10,552,866	10,622,866

The loans to the subsidiaries are unsecured, interest-bearing at relevant market rates and repayable within two years. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries of the Company are set out in note 4 above.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	255,925	274,041	409,565	439,656

Particulars of the principal jointly-controlled entities of the Group are set out in note 4 above.

The financial information of the jointly-controlled entities attributable to the Group is presented as follows:

	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Share of the jointly-controlled entities' net assets:				
Non-current assets	273,867	296,167	282,851	284,591
Current assets	811,781	745,117	1,539,049	1,958,474
Current liabilities	(829,723)	(767,243)	(1,412,335)	(1,803,409)
Net assets	255,925	274,041	409,565	439,656

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Share of the jointly-controlled entities' revenue and profit:					
Revenue	345,309	691,520	1,417,758	276,829	260,935
Expenses	(329,596)	(670,880)	(1,234,001)	(260,164)	(229,510)
Profit before tax	15,713	20,640	183,757	16,665	31,425
Tax	(6)	(55)	(3,104)	(842)	(1,334)
Profit for the year/period	15,707	20,585	180,653	15,823	30,091

20. INTERESTS IN ASSOCIATES

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	311,893	299,731	163,490	167,611

Particulars of the principal associates of the Group are set out in note 4 above.

The financial information of the associates attributable to the Group is presented as follows:

	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Share of the associates' net assets:				
Non-current assets	193,023	175,717	62,130	61,833
Current assets	326,143	303,880	233,327	241,143
Current liabilities	(195,622)	(164,791)	(122,082)	(124,938)
Non-current liabilities	(5,726)	(13,607)	(7,706)	(8,515)
Minority interests	(5,925)	(1,468)	(2,179)	(1,912)
Net assets	311,893	299,731	163,490	167,611

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Share of the associates' revenue and profit:					
Revenue	397,218	266,155	201,876	51,584	53,478
Expenses	(386,991)	(260,172)	(188,493)	(51,985)	(49,987)
Profit/(loss) before tax	10,227	5,983	13,383	(401)	3,491
Tax	(1,048)	(239)	(1,533)	(214)	(859)
	9,179	5,744	11,850	(615)	2,632
Minority interests	(162)	(158)	(185)	28	(11)
Profit/(loss) for the year/period	9,017	5,586	11,665	(587)	2,621

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity investments, at cost less impairment	80,746	104,994	33,190	33,190	678	678
Listed equity investments, in the PRC, at fair value	990	4,393	49,156	16,835	—	—
	81,736	109,387	82,346	50,025	678	678

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 value 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. INVENTORIES

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Cost, net of provision				
Raw materials	1,408,748	1,810,677	2,136,963	2,811,632
Work in progress	1,949,352	2,131,500	2,117,142	2,020,199
Finished goods	1,038,592	1,350,684	1,585,451	1,043,369
	4,396,692	5,292,861	5,839,556	5,875,200

23. TRADE RECEIVABLES

The Group generally requires its customers to make payment before or upon delivery, however, the Group granted certain credit periods to those long standing customers with bulk purchases and good payment history. 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 2 to 3 months to the customers after taking into account the practice of the industry in which the Group conducted its business. The Group seeks to maintain strict control over its outstanding receivables and keep close monitoring on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	4,672,255	3,733,595	4,288,521	6,139,023
Impairment	(240,480)	(236,782)	(268,098)	(280,410)
	4,431,775	3,496,813	4,020,423	5,858,613

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

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	3,755,775	2,880,518	3,294,087	5,030,912
6 months to 1 year	396,797	338,055	413,402	462,121
Over 1 year	279,203	278,240	312,934	365,580
	4,431,775	3,496,813	4,020,423	5,858,613

An aged analysis of the trade receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	2,275,401	1,894,701	2,651,117	5,072,907
Past due but not impaired				
— Less than 3 months past due	35,218	94,482	48,012	70,271
— 3 to 6 months past due	43,657	82,888	34,822	28,158
— Over 6 months past due	6,096	4,088	11,194	5,548
	2,360,372	2,076,159	2,745,145	5,176,884

23. TRADE RECEIVABLES (continued)

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

		Group			
		As at 31 December			As at 31 March
	Note	2005	2006	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period		228,793	240,480	236,782	268,098
Impairment losses recognised	7	16,521	425	52,072	12,437
Acquisition of subsidiaries		—	295	—	—
Amount written off as uncollectible		(4,405)	(4,418)	(13,349)	(125)
Disposal of subsidiaries		(429)	—	(52)	—
Distribution to CSRG pursuant to the Reorganisation		—	—	(7,355)	—
At end of year/period		240,480	236,782	268,098	280,410

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

	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
— CSRG and its subsidiaries, excluding the Group (the "CSRG Group")	99,883	18,023	44,069	131,521
— Jointly-controlled entities	28,040	56,375	81,972	66,387
	127,923	74,398	126,041	197,908

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

The Group has pledged trade receivables of approximately RMB150,000,000, RMB310,172,000 RMB617,938,000 and RMB15,606,000 as at 31 December 2005, 2006, 2007 and as at 31 March 2008 respectively for securing bank facilities granted to the Group.

24. BILLS RECEIVABLE

The maturity profiles of the bills receivable of the Group as at each of the balance sheet dates during the Relevant Periods are as follows:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	192,339	351,917	475,717	312,093
6 months to 1 year	3,321	2,600	11,592	2,050
	195,660	354,517	487,309	314,143

24. BILLS RECEIVABLE (continued)

The amounts due from the related parties of the Group included in bills receivable can be analysed as follows:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
— Jointly-controlled entities	—	—	—	13,446

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	683,740	1,342,437	2,343,505	2,888,269	—	—
Deposits and other receivables	579,090	634,652	829,108	1,232,898	2,707,884	3,142,528
	1,262,830	1,977,089	3,172,613	4,121,167	2,707,884	3,142,528

Movements in the provision for impairment of other receivables are as follows:

		Group				Company	
		As at 31 December			As at 31 March	As at 31 December	As at 31 March
	Note	2005	2006	2007	2008	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period		131,963	140,557	142,116	59,497	—	13,592
Transfer to the Company by CSRG pursuant to the Reorganisation		—	—	—	—	13,592	—
Impairment losses recognised	7	13,649	4,189	7,807	5,809	—	—
Written off		(4,889)	(2,630)	(64,459)	(13,690)	—	(13,592)
Disposal of subsidiaries		(166)	—	(9)	—	—	—
Distribution to CSRG pursuant to the Reorganisation		—	—	(25,958)	—	—	—
At end of year/period		140,557	142,116	59,497	51,616	13,592	—

The Group's other receivables at 31 March 2008 included investments in one year maturity financial instruments with principal repayment guaranteed by banks aggregating to RMB400 million. Such financial instruments are due in January 2009 to March 2009, and have interest returns ranging from 6.25% per annum to 7.47% per annum.

25. 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	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
— CSRG Group	109,436	115,965	284,301	210,319	240,517	3
— Jointly-controlled entities	—	—	—	25,000	—	—
— Associates	19,000	10,210	89,738	112,975	—	—
— Subsidiaries	—	—	—	—	2,407,353	3,075,363
	128,436	126,175	374,039	348,294	2,647,870	3,075,366

Except for the balances due from subsidiaries which bear interest at relevant market rates, balances due from related parties are unsecured, interest-free and have no fixed terms of repayment.

The above balances due from CSRG Group as at 31 March 2008 have been fully settled subsequently.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group
	As at 31 March
	2008
	RMB'000
Deposits and investments with embedded derivatives	100,000

The principals of the above deposits and investments are guaranteed by banks with repayment due date of 1 year. The return thereon will change in response to the changes in certain commodity price index and inflation index, and hence constitute embedded derivatives to the deposits and investments. The entire deposits and investments including the related embedded derivatives are accounted for as financial assets designated at fair value through profit or loss.

No changes in fair value was recognised in the income statement during the three-month period ended 31 March 2008 because the aggregate changes of fair values of such financial assets were immaterial since their respective acquisition dates.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group
	As at 31 March
	2008
	RMB'000
Forward currency contracts	83,885

The carrying amounts of forward currency contracts approximate to their fair values. The above forward currency contracts entered into by the Group to manage its exchange rate exposures did not meet the criteria for hedge accounting, and changes in fair value of such non-hedging currency derivatives amounting to RMB83,885,000 were credited to the income statement during the three-month period ended 31 March 2008.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	3,507,317	5,835,591	8,271,521	3,897,216	2,100,000	192,247
Less: Pledged time deposits	(619,770)	(514,766)	(479,038)	(510,461)	—	—
Cash and cash equivalents in the consolidated balance sheets	2,887,547	5,320,825	7,792,483	3,386,755	2,100,000	192,247
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(121,196)	(13,500)	(893,023)	(121,500)	—	—
Cash and cash equivalents in the consolidated cash flow statements	2,766,351	5,307,325	6,899,460	3,265,255	2,100,000	192,247
Cash and bank balances and time deposits denominated in:						
— RMB	3,412,765	3,564,781	8,176,077	3,816,495	2,100,000	192,247
— United States dollars	66,746	134,711	62,829	38,294	—	—
— Hong Kong dollars	9,323	2,128,016	5,618	5,129	—	—
— Other currencies	18,483	8,083	26,997	37,298	—	—
	3,507,317	5,835,591	8,271,521	3,897,216	2,100,000	192,247

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.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

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 which are set out in note 32 below.

29. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	4,346,850	4,861,859	5,459,776	6,015,701
6 months to 1 year	452,136	671,115	500,448	355,303
Over 1 year	319,517	347,537	269,649	198,718
	5,118,503	5,880,511	6,229,873	6,569,722

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

	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
— CSRG Group	139,423	54,347	72,480	81,419
— Jointly-controlled entities	49,967	72,697	64,730	125,625
— Associates	—	11,405	—	10,833
	189,390	138,449	137,210	217,877

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 as at each of the balance sheet dates during the Relevant Periods is as follows:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	1,414,594	1,693,274	1,605,261	1,370,691
6 months to 1 year	23,900	101,884	6,920	1,300
	1,438,494	1,795,158	1,612,181	1,371,991

30. BILLS PAYABLE (continued)

The amounts due to the related parties of the Group included in bills payable can be analysed as follows:

	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
— CSRG Group	19,255	13,961	16,770	10,450
— Jointly-controlled entities	5,720	12,800	9,150	1,200
— Associates	—	10,000	—	—
	24,975	36,761	25,920	11,650

The above balances are unsecured, interest-free and repayable on similar credit terms to those offered by major suppliers of the Group.

As at 31 December 2005, 2006, 2007 and 31 March 2008, bills payable of the Group amounting to RMB396,797,000, RMB321,960,000, RMB122,463,000 and RMB110,403,000 respectively, were secured by its bank balances.

31. OTHER PAYABLES AND ACCRUALS

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

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
— CSRG Group	85,371	58,233	567,280	426,560	352,746	181,851
— Jointly-controlled entities	39,536	4,014	—	—	—	—
— Associates	8,275	34,234	60,341	15,067	—	—
— Subsidiaries	—	—	—	—	997,646	308,288
	133,182	96,481	627,621	441,627	1,350,392	490,139

The above balances are unsecured, interest-free and have no fixed terms of repayment.

The above balances due to CSRG Group as at 31 March 2008 have been fully settled subsequently.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group											
	Effective interest rate per annum	**Maturity**	**As at 31 December 2005**	**Effective interest rate per annum**	**Maturity**	**As at 31 December 2006**	**Effective interest rate per annum**	**Maturity**	**As at 31 December 2007**	**Effective interest rate per annum**	**Maturity**	**As at 31 March 2008**
	%		**RMB'000**	**%**		**RMB'000**	**%**		**RMB'000**	**%**		**RMB'000**
Current												
Bank loans												
—Secured	4.70-5.58	2006	545,770	4.68-5.02	2007	429,472	5.00-7.96	2008	707,339	5.51-7.78	2008	97,005
— Unsecured	2.94-6.79	2006	3,175,432	3.00-6.70	2007	1,724,504	3.00-8.02	2008	4,777,103	4.45-8.96	2008	5,331,868
			3,721,202			2,153,976			5,484,442			5,428,873
Short term bonds												
— Unsecured			—	3.28	2007	1,181,959	2.67	2008	794,547			—
			3,721,202			3,335,935			6,278,989			5,428,873
Non-current												
Bank loans												
— Unsecured	0.2-6.34	2007-2018	1,353,483	0.2-6.44	2008-2035	2,179,557	0.2-6.57	2009-2035	2,086,368	0.2-7.56	2009-2035	1,973,050
			5,074,685			5,515,492			8,365,357			7,401,923

	Company					
	Effective interest rate per annum	**Maturity**	**As at 31 December 2007**	**Effective interest rate per annum**	**Maturity**	**As at 31 March 2008**
	%		**RMB'000**	**%**		**RMB'000**
Current						
Bank loans						
— Unsecured	5.43-6.56	2008	2,540,000	5.43-6.72	2008-2009	3,040,000
Short term bonds						
— Unsecured	2.67	2008	794,547			—
			3,334,547			3,040,000
Non-current						
Bank loans						
— Unsecured	5.99-6.50	2017-2022	1,900,000	7.18-7.49	2017-2022	1,750,000
			5,234,547			4,790,000

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

Analysed into:

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans repayable:						
Within one year or on demand	3,721,202	2,153,976	5,484,442	5,428,873	2,540,000	3,040,000
In the second year	118,819	2,004,190	105,000	101,848	—	—
In the third to fifth years, inclusive	1,176,569	117,242	71,785	103,798	—	—
Beyond five years	58,095	58,125	1,909,583	1,767,404	1,900,000	1,750,000
	5,074,685	4,333,533	7,570,810	7,401,923	4,440,000	4,790,000
Short term bonds repayable within one year	—	1,181,959	794,547	—	794,547	—
	5,074,685	5,515,492	8,365,357	7,401,923	5,234,547	4,790,000

The above secured bank loans and other banking facilities were secured by certain assets and their carrying values are as follows:

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	157,433	135,824	139,982	107,869	—	—
Time deposits and bank balances	619,770	514,766	479,038	510,461	—	—
Lease prepayments	141,691	1,246	—	1,409	—	—
Other assets	233,402	310,172	617,938	15,606	—	—
	1,152,296	962,008	1,236,958	635,345	—	—

Bank and other borrowings of the Group in aggregate equivalent to RMB171,146,000, RMB143,011,000, RMB23,620,000 and RMB27,623,000 are denominated in United States dollars as at 31 December 2005, 2006, 2007 and 31 March 2008 respectively. In addition, bank and other borrowings of the Group in aggregate equivalent to RMB19,159,000, RMB717,880,000 and RMB717,880,000 are denominated in Euro as at 31 December 2005, 2007 and 31 March 2008 respectively. Save as aforesaid, all of the bank and other borrowings of the Group are denominated in RMB.

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

Other interest rate information:

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fixed interest rate:						
Bank loans	3,450,985	2,099,543	4,743,464	2,860,121	2,280,000	300,000
Bonds	—	1,181,959	794,547	—	794,547	—
	3,450,985	3,281,502	5,538,011	2,860,121	3,074,547	300,000
Floating interest rate:						
Bank loans	1,623,700	2,233,990	2,827,346	4,541,802	2,160,000	4,490,000
Total	5,074,685	5,515,492	8,365,357	7,401,923	5,234,547	4,790,000

33. PROVISION FOR SUPPLEMENTAL PENSION SUBSIDIES AND EARLY RETIREMENT BENEFIT

In addition to the monthly contributions to various defined contribution pension schemes regulated by the PRC government, the Group provided supplemental pension subsidies and early retirement benefits to certain qualified employees. The amounts of employee benefit obligations recognised in the balance sheets represent the present value of the unfunded obligations.

Pursuant to the Reorganisation, the Group has terminated the supplemental 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 supplemental pension subsidies and early retirement benefit obligations during the Relevant Periods are as follows:

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	3,010,180	2,889,350	2,708,460	2,504,030	—	21,491
Transfer to the Company by CSRG pursuant to the Reorganisation	—	—	—	—	21,491	—
Interest cost	115,430	85,270	89,220	23,640	—	210
Amount paid	(236,260)	(266,160)	(293,650)	(68,450)	—	(210)
At end of year/period	2,889,350	2,708,460	2,504,030	2,459,220	21,491	21,491

33. PROVISION FOR SUPPLEMENTAL PENSION SUBSIDIES AND EARLY RETIREMENT BENEFIT (continued)

The provision for supplemental pension subsidies and early retirement benefits recognised in the balance sheets is determined as follows:

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Present value of unfunded defined benefit obligations	2,975,230	2,785,780	2,351,120	2,341,930	20,421	20,421
Unrecognised net actuarial gain/ (loss)	(85,880)	(77,320)	152,910	117,290	1,070	1,070
Defined benefit liabilities recognised	2,889,350	2,708,460	2,504,030	2,459,220	21,491	21,491
Portion classified as current liabilities	(266,160)	(280,900)	(252,280)	(252,280)	(1,840)	(1,840)
Non-current portion	2,623,190	2,427,560	2,251,750	2,206,940	19,651	19,651

The net expenses recognised in the consolidated income statements of the Group are analysed as follows:

	Group				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest cost	115,430	85,270	89,220	19,840	23,640

The above employee benefit obligations were determined based on actuarial valuations performed by Towers Perrin, an independent actuary, whose registered office is 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:

	As at 31 December			As at 31 March
	2005	2006	2007	2008
Discount rate adopted	3.00%	3.00%	4.25%	4.00%
Health care cost trend	8.00%	8.00%	8.00%	8.00%
Cost of living adjustment for early retirees	8.00%	8.00%	8.00%	8.00%

Interest cost is charged in the administrative expenses.

33. PROVISION FOR SUPPLEMENTAL PENSION SUBSIDIES AND EARLY RETIREMENT BENEFIT (continued)

A one percentage point change in the assumed rate of increase in health care costs would have the following effects:

	Group				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Increase in effect on the interest cost	1,220	1,260	1,680	1,350	1,630
Decrease in effect on the interest cost	(990)	(1,020)	(1,360)	(1,090)	(1,320)
Increase in effect on the defined benefit obligations	40,770	41,990	39,550	41,450	40,780
Decrease in effect on the defined benefit obligations	(32,940)	(33,920)	(31,880)	(33,470)	(32,890)

34. PROVISION FOR WARRANTIES

		Group			
		As at 31 December			As at 31 March
	Note	2005	2006	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period		69,970	81,598	95,159	127,005
Charged for the year/period	7	86,753	99,593	152,512	28,658
Utilised during the year/period		(75,125)	(86,032)	(120,666)	(19,718)
At end of year/period		81,598	95,159	127,005	135,945

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

		Group				Company	
		As at 31 December			As at 31 March	As at 31 December	As at 31 March
	Note	2005	2006	2007	2008	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period		99,010	100,817	152,981	334,635	—	500
Transfer to the Company by CSRG pursuant to the Reorganisation		—	—	—	—	500	—
Received during the year/period		50,330	80,177	311,489	27,477	—	—
Recognised as other income and gains during the year/period	6	(48,523)	(28,013)	(129,835)	(22,947)	—	
At end of year/period		100,817	152,981	334,635	339,165	500	500
Current portion		(3,817)	(17,769)	(66,155)	(66,186)	(500)	(500)
Non-current portion		97,000	135,212	268,480	272,979	—	—

36. EQUITY

Share capital

	Company			
	As at 31 December 2007		As at 31 March 2008	
	Number of shares	Nominal value	Number of shares	Nominal value
		RMB'000		RMB'000
Registered and fully paid				
— State legal person shares of RMB1.00 each	7,000,000,000	7,000,000	7,000,000,000	7,000,000

Equity movement

	Company			
	Share capital	Capital reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Capitalisation as a result of Reorganisation	7,000,000	1,688,479	—	8,688,479
As at 31 December 2007	7,000,000	1,688,479	—	8,688,479
Capital contribution from a promoter	—	24,470	—	24,470
Loss for the period	—	—	(65,370)	(65,370)
As at 31 March 2008	7,000,000	1,712,949	(65,370)	8,647,579

Capital reserve of the Company represents the excess of net asset value of the Relevant Businesses transferred to the Company by CSRG pursuant to the Reorganisation over the amount of the Company's share capital owned by CSRG. Further details are set out in section 1.2(b) above.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRS. Under the PRC Company Law and the Company's articles of association, net profit after tax can only be distributed as dividends after allowances have been made for the following:

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

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

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

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

For dividend purpose, the amount which the Company's PRC subsidiaries can legally distribute by way of a dividend is determined with reference to their profits available for distribution as reflected in their respective financial statements which are prepared in accordance with PRC

36. EQUITY (continued)

GAAP. These profits differ from those dealt with in this report which is prepared in accordance with IFRS.

37. BUSINESS COMBINATIONS

During the Relevant Periods and the three-month period ended 31 March 2007, the Group had the following acquisitions of subsidiaries:

In 2005, a subsidiary of the Group acquired a 10% equity interest in Qingdao Sifang Railway Electrical Equipment Co., Ltd (青島四方鐵路電氣設備有限公司), a then 45%-owned associate of the Group at a consideration of RMB550,000. Thereafter, the Group had a 55% equity interest in Qingdao Sifang Railway Electrical Equipment Co., Ltd which became a subsidiary of the Group. Such acquisition is included in the Financial Information from the effective date of acquisition.

Since the date of acquisition, Qingdao Sifang Railway Electrical Equipment Co., Ltd contributed a loss of RMB188,000 to the Group's profit attributable to equity holders of the Company for the year ended 31 December 2005.

Had the aforesaid acquisition taken place alone at the beginning of 2005, the Group's profit attributable to equity holders of the Company would have been RMB407,142,000 and the revenue of the Group would have been RMB19,788,210,000 for that year.

In 2006, a subsidiary of the Group acquired a 85.92% equity interest in Zhuzhou Times Electro-technical Technology Co., Ltd. (株洲時代電工技術有限責任公司) at a consideration of RMB20,793,000. Thereafter, the Group had a 85.92% equity interest in Zhuzhou Times Electro-technical Technology Co., Ltd. which became a subsidiary of the Group. Such acquisition is included in the Financial Information from the effective date of acquisition.

Since the date of acquisition, Zhuzhou Times Electro-technical Technology Co., Ltd. contributed a profit of RMB3,475,000 to the Group's profit attributable to equity holders of the Company for the year ended 31 December 2006.

Had the aforesaid acquisition taken place alone at the beginning of 2006, the Group's profit attributable to equity holders of the Company would have been RMB543,687,000 and the revenue of the Group would have been RMB23,104,591,000 for that year.

In 2006, a subsidiary of the Group acquired a 99.26% equity interest in Zhuzhou Times Investment Co., Ltd. (株洲時代投資有限責任公司) at a consideration of RMB18,020,000. Thereafter, the Group had a 99.26% equity interest in Zhuzhou Times Investment Co., Ltd. which became a subsidiary of the Group. Such acquisition is included in the Financial Information from the effective date of acquisition.

Since the date of acquisition, Zhuzhou Times Investment Co., Ltd. contributed a loss of RMB149,000 to the Group's profit attributable to equity holders of the Company for the year ended 31 December 2006.

37. BUSINESS COMBINATIONS (continued)

Had the aforesaid acquisition taken place alone at the beginning of 2006, the Group's profit attributable to equity holders of the Company would have been RMB546,066,000 and the revenue of the Group would have been RMB23,124,591,000 for that year.

On 1 January 2007, a subsidiary of the Group acquired a 28.54% equity interest in Zhuzhou Times Huatong Power Technology Co., Ltd. (株洲時代華通電動技術有限公司), formerly known as Beijing Times Huatong Power Technology Co., Ltd. (北京時代華通電動技術有限公司), an associate of the Group, at a consideration of RMB4,245,000. Thereafter, the Group had a 76.87% equity interest in Zhuzhou Times Huatong Power Technology Co., Ltd. which became a subsidiary of the Group. Such acquisition is included in the Financial Information from the effective date of acquisition.

Since the date of acquisition, Zhuzhou Times Huatong Power Technology Co., Ltd. contributed a profit of RMB1,019,000 to the Group's profit attributable to equity holders of the Company for the year ended 31 December 2007.

Since the aforesaid acquisition took place on 1 January 2007, the Group's profit attributable to equity holders of the Company remained at RMB613,031,000 and the revenue of the Group remained at RMB26,803,519,000 for that year, under the basis that such acquisition took place at the beginning of 2007.

On 31 December 2007, a subsidiary of the Group acquired a 53% equity interest in Qingdao Sifang New Material Manufacturing Co., Ltd. (青島四方新材料製造有限責任公司), an associate of the Group, at a consideration of RMB49,670,000. Thereafter, the Group had a 100% equity interest in Qingdao Sifang New Material Manufacturing Co., Ltd. which became a subsidiary of the Group. Such acquisition is included in the Financial Information from the effective date of acquisition.

Had the aforesaid acquisition taken place alone at the beginning of 2007, the Group's profit attributable to equity holders of the Company would have been RMB616,707,000 and the revenue of the Group would have been RMB26,865,058,000 for that year.

37. BUSINESS COMBINATIONS (continued)

The fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries acquired at the dates of acquisition were as follows:

		Group				
		Year ended 31 December			Three-month period ended 31 March	
	Notes	2005	2006	2007	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Property, plant and equipment	14	2,846	14,641	66,900	551	—
Lease prepayments	15	—	—	6,444	—	—
Goodwill arising on acquisition	16	—	3,150	—	—	—
Other intangible assets	17	16	929	109	—	—
Interests in associates		300	7,835	—	—	—
Other non-current assets		—	858	844	—	—
Inventories		8,060	39,538	21,367	307	—
Trade receivables		4,426	51,795	19,820	417	—
Bills receivable		251	664	4,300	—	—
Prepayments, deposits and other receivables		1,339	21,771	7,304	7,063	—
Cash and cash equivalents		2,436	5,990	23,694	13,298	—
Trade payables		(10,867)	(41,222)	(19,843)	(542)	—
Other payables and accruals		(751)	(29,520)	(18,900)	(6,061)	—
Interest-bearing bank and other borrowings		—	(24,000)	(7,000)	—	—
Tax payable		—	(244)	(246)	(158)	—
Other non-current liabilities		(1,476)	(3,763)	—	—	—
Minority interests		(2,961)	(9,609)	(3,441)	(3,441)	—
Fair value of net assets acquired at the dates of acquisition		3,619	38,813	101,352	11,434	—
Satisfied by:						
Cash		550	38,813	44,543	4,245	—
Interests in associates		3,069	—	47,437	—	—
Non-cash assets		—	—	9,372	7,189	—
		3,619	38,813	101,352	11,434	—

In the opinion of the Directors, the fair values of identifiable assets, liabilities and contingent liabilities approximate to their respective carrying values.

37. BUSINESS COMBINATIONS (continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Group				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash consideration paid and payable	(550)	(38,813)	(44,543)	(4,245)	(10,298)
Less: cash consideration payable	—	—	10,298	—	—
Cash consideration paid	(550)	(38,813)	(34,245)	(4,245)	(10,298)
Cash and cash equivalents acquired	2,436	5,990	23,694	13,298	—
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries in the consolidated cash flow statements	1,886	(32,823)	(10,551)	9,053	(10,298)

38. DISPOSAL OF SUBSIDIARIES

In 2005, a subsidiary of the Group has disposed of its 60.0%, 90.0% and 57.5% equity interests in Zhuzhou Times Electric Appliances Cast Co., Ltd. (株洲時代電器鑄件有限公司), Zhuzhou Times Real Estate Co., Ltd. (株洲時代置業有限公司) and Shenzhen Luye Machine Electric Co., Ltd. (深圳路業機電有限公司) for considerations of RMB1,621,000, RMB2,781,000 and RMB8,139,000, respectively.

In 2007, a subsidiary of the Group has disposed of its 52.47% and 90% equity interests in Beijing Dewoli Loose Proof Technology Co., Ltd. (北京特沃力防鬆技術有限公司) and Qingdao Siji Material Co., Ltd. (青島四機物資經營有限公司) for considerations of RMB1,335,982 and Nil, respectively.

38. DISPOSAL OF SUBSIDIARIES (continued)

The fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries disposed of and derecognised from the Financial Information at the dates of disposal were as follows:

		Group				
		Year ended 31 December			Three-month period ended 31 March	
	Notes	2005	2006	2007	2007	2008
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Property, plant and equipment	14	7,919	—	526	—	—
Available-for-sale investments		50	—	—	—	—
Inventories		7,854	—	—	—	—
Trade receivables		22,638	—	1,652	—	—
Bills receivable		40	—	—	—	—
Prepayments, deposits and other receivables		18,429	—	44	—	—
Cash and cash equivalents		15,568	—	2,591	—	—
Trade payables		(19,657)	—	(74)	—	—
Other payables and accruals		(26,411)	—	(2,219)	—	—
Interest-bearing bank and other borrowings		(5,400)	—	—	—	—
Tax payable		(1,035)	—	—	—	—
Minority interests		(11,012)	—	(1,237)	—	—
		8,983	—	1,283	—	—
Gain on disposal of subsidiaries	6	3,558	—	53	—	—
		12,541	—	1,336	—	—
Satisfied by:						
Cash		12,541	—	1,336	—	—

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

	Group				
	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash consideration received and receivable	12,541	5,360	1,336	—	—
Less: cash consideration receivable	(5,360)	—	—	—	—
Cash consideration received	7,181	5,360	1,336	—	—
Cash and cash equivalents disposed of	(15,568)	—	(2,591)	—	—
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries in the consolidated cash flow statements	(8,387)	5,360	(1,255)	—	—

39. NON-CASH TRANSACTIONS

(a) In connection with the Reorganisation, the assets and liabilities distributed to and retained by CSRG are as follows:

	Notes	Group Year ended 31 December 2007
		RMB'000
Assets		
Property, plant and equipment	14	1,024,039
Lease prepayments	15	83,453
Other intangible assets	17	3,611
Available-for-sale investments		29,140
Interests in associates		98,691
Other non-current assets		4,726
Inventories		80,546
Trade receivables, net of impairment allowance		12,162
Prepayments, deposits and other receivables		552,087
Total assets		1,888,455
Liabilities		
Trade payables and bills payable		564,612
Other payables and accruals		257,926
Other non-current liabilities		46,892
Interest-bearing bank and other borrowings		718,500
Total liabilities		1,587,930
Minority interests		1,232
Equity attributable to equity holders of the Company		299,293

(b) In December 2007, the Group acquired an additional equity interest of 53% in Qingdao Sifang New Material Manufacturing Co., Ltd., an associate of the Group in 2006, at a consideration of RMB49,670,000. Such consideration comprised cash and bank balances of RMB40,298,000 and non-cash assets of RMB9,372,000. Upon the completion of such acquisition, the Group owned a 100% equity interest in Qingdao Sifang New Material Manufacturing Co., Ltd. and it became a subsidiary of the Group thereafter.

(c) Pursuant to an approval document issued by the relevant PRC government authorities on 28 December 2007, lease prepayments in an aggregate amount of approximately RMB1,770 million were injected into the Group as equity.

40. OUTSTANDING GUARANTEES

The Group had the following outstanding guarantees as at each of the balance sheet dates during the Relevant Periods:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given to banks at nil consideration in connection with facilities granted to:				
CSRG Group	—	50,000	—	—
Associates	54,000	71,000	—	—
Jointly-controlled entities	36,000	26,000	63,000	67,722
Independent third parties	356,000	319,700	—	—
	446,000	466,700	63,000	67,722

41. OPERATING LEASE COMMITMENTS

(a) *As lessor*

The Group leases certain property, plant and equipment under operating lease arrangements, with lease negotiated for terms ranging from 1 to 5 years.

At each of the balance sheet dates during the Relevant Periods, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	10,843	8,872	5,229	21,056
In the second to fifth years	20,225	12,681	16,803	33,502
	31,068	21,553	22,032	54,558

(b) *As lessee*

The Group leases certain of its land and buildings under operating lease arrangements negotiated for terms ranging from 1 to 20 years.

At each of the balance sheet dates during the Relevant Periods, the Group's and the Company's future minimum rental payables under non-cancellable operating leases in respect of land and buildings falling due are as follows:

	Group				Company	
	As at 31 December			As at 31 March	As at 31 December	As at 31 March
	2005	2006	2007	2008	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,455	2,999	10,460	16,047	9,100	12,474
In the second to fifth years	390	7,628	59,347	58,567	58,676	58,087
More than five years	20	20	202,478	199,085	202,376	199,003
	1,865	10,647	272,285	273,699	270,152	269,564

42. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 41 above, the Group had the following commitments as at each of the balance sheet dates during the Relevant Periods:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
— Property, plant and equipment	178,113	197,739	865,155	1,161,848
— Lease prepayments	—	23,040	—	129,221
— Other intangible assets	1,390	1,250	155,521	163,241
	179,503	222,029	1,020,676	1,454,310
Authorised, but not contracted for:				
— Property, plant and equipment	62,340	16,955	1,509,850	3,734,147
— Lease prepayments	—	—	—	1,800
— Other intangible assets	—	350	—	17,650
	62,340	17,305	1,509,850	3,753,597

43. RELATED PARTY TRANSACTIONS

In addition to the transactions related to the Reorganisation as detailed in note 1.2 of section II above, during the Relevant Periods and the three-month period ended 31 March 2007, the Group had the following significant transactions with its related parties:

In the opinion of the Directors, the below transactions were conducted in the ordinary course of business of the Group and will continue after the listing of the Company's H shares on the Stock Exchange.

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(a) Purchases of materials and components from:					
— CSRG Group	100,148	129,008	175,604	34,736	36,113
— Jointly-controlled entities	65,669	113,017	257,295	89,631	99,135
— Associates	46,779	63,431	88,320	19,661	7,914
	212,596	305,456	521,219	144,028	143,162

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(b) Sales of goods to:					
— CSRG Group	45,978	37,077	43,651	7,017	18,250
— Jointly-controlled entities	14,047	113,134	343,385	85,085	41,263
	60,025	150,211	387,036	92,102	59,513

43. RELATED PARTY TRANSACTIONS (continued)

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(c) Purchases of property, plant and equipment from the CSRG Group	—	—	17,313	—	3,324

	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
(d) Guarantees given to banks at nil consideration in connection with facilities granted to:				
— Associates	54,000	71,000	—	—
— Jointly-controlled entities	36,000	26,000	63,000	67,722
	90,000	97,000	63,000	67,722

The Directors of the Group confirmed that the below transactions will be discontinued after the listing of the Company's H shares on the Stock Exchange.

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(a) Purchases of materials and components from:					
— CSRG Group	233,358	23,423	10,210	1,844	145
— Associates	—	46,868	62,553	3,105	—
	233,358	70,291	72,763	4,949	145

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(b) Sales of goods to:					
— CSRG Group	111,916	15,309	6,739	506	273,513
— Associates	—	3,230	17,508	2,006	—
	111,916	18,539	24,247	2,512	273,513

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(c) Guarantees from jointly-controlled entities for securing the Group's banking facilities	103,104	—	—	—	—

43. RELATED PARTY TRANSACTIONS (continued)

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(d) Guarantees given to banks at nil consideration in connection with facilities granted to:					
— CSRG Group	—	50,000	—	—	—

The discontinued transactions were conducted with those CSRG Group entities which are different from the CSRG Group entities which have continuing transactions with the Group. The transactions with such CSRG Group entities have been disclosed as discontinued related party transactions because such CSRG Group entities have either been disposed of by the CSRG Group, or discontinued to have transactions with the Group because such CSRG Group entities no longer purchase from nor sell to the Group due to changes in product structure of such CSRG Group entities and business arrangements.

These transactions were conducted in accordance with terms agreed between the Group and its related parties.

Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in notes 23, 24, 25, 29, 30 and 31 of section II above.

Compensation of key management personnel of the Group:

	Year ended 31 December			Three-month period ended 31 March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short term employee benefits	3,203	3,580	4,179	1,167	1,562
Post-employment benefits	163	205	228	53	59
Total compensation paid to key management personnel	3,366	3,785	4,407	1,220	1,621

Transactions with other state-controlled enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-controlled Enterprises"). During the Relevant Periods and the three-month period ended 31 March 2007, the Group had transactions with State-controlled Enterprises including, but not limited to, the provision of rolling stock products and services. The Directors consider that the transactions with these State-controlled Enterprises are activities in the ordinary course of the Group's business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these State-controlled Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for services and products, and such pricing policies do not depend on whether or not the customers are State-controlled Enterprises. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

44. FINANCIAL INSTRUMENTS BY CATEGORY

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

As at 31 December 2005

Financial assets	Group		
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	—	81,736	81,736
Trade receivables	4,431,775	—	4,431,775
Bills receivable	195,660	—	195,660
Financial assets included in prepayments, deposits and other receivables	576,735	—	576,735
Pledged deposits	619,770	—	619,770
Cash and cash equivalents	2,887,547	—	2,887,547
	8,711,487	81,736	8,793,223

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Trade payables	5,118,503
Bills payable	1,438,494
Financial liabilities included in other payables and accruals	1,272,867
Financial liabilities included in other non-current liabilities	102,225
Interest-bearing bank and other borrowings	5,074,685
	13,006,774

As at 31 December 2006

Financial assets	Group		
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	—	109,387	109,387
Trade receivables	3,496,813	—	3,496,813
Bills receivable	354,517	—	354,517
Financial assets included in prepayments, deposits and other receivables	628,814	—	628,814
Pledged deposits	514,766	—	514,766
Cash and cash equivalents	5,320,825	—	5,320,825
	10,315,735	109,387	10,425,122

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Trade payables	5,880,511
Bills payable	1,795,158
Financial liabilities included in other payables and accruals	1,465,857
Financial liabilities included in other non-current liabilities	87,020
Interest-bearing bank and other borrowings	5,515,492
	14,744,038

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

As at 31 December 2007

	Group		
Financial assets	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Available-for-sale investments	—	82,346	82,346
Trade receivables	4,020,423	—	4,020,423
Bills receivable	487,309	—	487,309
Financial assets included in prepayments, deposits and other receivables	783,214	—	783,214
Pledged deposits	479,038	—	479,038
Cash and cash equivalents	7,792,483	—	7,792,483
	13,562,467	82,346	13,644,813

Financial liabilities	**Financial liabilities at amortised cost**
	RMB'000
Trade payables	6,229,873
Bills payable	1,612,181
Financial liabilities included in other payables and accruals	1,522,114
Financial liabilities included in other non-current liabilities	10,196
Interest-bearing bank and other borrowings	8,365,357
	17,739,721

As at 31 March 2008

	Group				
			Financial assets at fair value through profit or loss		
Financial assets	**Loans and receivables**	**Available-for-sale financial assets**	**Designated as such upon initial recognition**	**Held for trading**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Available-for-sale investments	—	50,025	—	—	50,025
Trade receivables	5,858,613	—	—	—	5,858,613
Bills receivable	314,143	—	—	—	314,143
Financial assets included in prepayments, deposits and other receivables	1,187,709	—	—	—	1,187,709
Financial assets at fair value through profit or loss	—	—	100,000	—	100,000
Derivative financial instruments	—	—	—	83,885	83,885
Pledged deposits	510,461	—	—	—	510,461
Cash and cash equivalents	3,386,755	—	—	—	3,386,755
	11,257,681	50,025	100,000	83,885	11,491,591

Financial liabilities	**Financial liabilities at amortised cost**
	RMB'000
Trade payables	6,569,722
Bills payable	1,371,991
Financial liabilities included in other payables and accruals	1,357,080
Financial liabilities included in other non-current liabilities	7,396
Interest-bearing bank and other borrowings	7,401,923
	16,708,112

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2007

	Company		
Financial assets	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Loans to subsidiaries (note 18)	687,000	—	687,000
Available-for-sale investments	—	678	678
Financial assets included in prepayments, deposits and other receivables	2,692,795	—	2,692,795
Cash and cash equivalents	2,100,000	—	2,100,000
	5,479,795	678	5,480,473

Financial liabilities	**Financial liabilities at amortised cost**
	RMB'000
Financial liabilities included in other payables and accruals	1,411,434
Interest-bearing bank and other borrowings	5,234,547
	6,645,981

As at 31 March 2008

	Company		
Financial assets	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Loans to subsidiaries (note 18)	757,000	—	757,000
Available-for-sale investments	—	678	678
Financial assets included in prepayment, deposits and other receivables	3,125,627	—	3,125,627
Cash and cash equivalents	192,247	—	192,247
	4,074,874	678	4,075,552

Financial liabilities	**Financial liabilities at amortised cost**
	RMB'000
Financial liabilities included in other payables and accruals	507,555
Interest-bearing bank and other borrowings	4,790,000
	5,297,555

45. 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 and bills receivables, other receivables, trade and bills payables and other 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 policies for managing each of the risks and they are summarised below:

Credit risk

Credit risk means the risk of loss in respect of the financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group's credit risk is mainly related to trade receivables. 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 method are determined based on the credit rating of customers.

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 has continued to monitor over the trade receivable balance, insists on the principle of cash collection responsibility on salespersons and persons who approve sales contracts are accountable for the collection of receivables. For receivables which have not been collected for over 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 included cash and cash equivalents, and other receivables. The credit risk of such financial assets arose from the default of counterparty who transacted with the Group, with maximum exposure equal to the carrying amounts of such instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 40 to the financial statements.

The Group's principal customers are the Ministry of Railway 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.

Liquidity risk

Liquidity risk means the risk that an enterprise may encounter the difficulties to obtain adequate finance 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 repayment of debts before maturity date of debt obligations, or arise from liability to generate the expected cash flows.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The Group's objective is to maintain a balance between continuity and flexibility of financing through the use of measures such as bills settlement, loans and short term commercial papers and etc., to adopt appropriate combination of long term and short term financing, and improve financing structure.

The Group has already obtained facilities from various commercial banks to cope with working capital and capital expenditure.

The Group's management has monitored the working capital position to ensure that there are adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of the Group's financial resources.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at 31 December 2005

	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	3,721,202	121,732	1,423,356	74,196	5,340,486
Trade payables	5,118,503	—	—	—	5,118,503
Bills payable	1,438,494	—	—	—	1,438,494
Financial liabilities included in other payables and accruals	1,272,867	—	—	—	1,272,867
Financial liabilities included in other non-current liabilities	102,225	—	—	—	102,225
	11,653,291	121,732	1,423,356	74,196	13,272,575

As at 31 December 2006

	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	3,353,976	2,251,203	139,493	73,459	5,818,131
Trade payables	5,880,511	—	—	—	5,880,511
Bills payable	1,795,158	—	—	—	1,795,158
Financial liabilities included in other payables and accruals	1,465,857	—	—	—	1,465,857
Financial liabilities included in other non-current liabilities	87,020	—	—	—	87,020
	12,582,522	2,251,203	139,493	73,459	15,046,677

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

As at 31 December 2007

	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	6,284,442	120,050	82,453	3,595,689	10,082,634
Trade payables	6,229,873	—	—	—	6,229,873
Bills payable	1,612,181	—	—	—	1,612,181
Financial liabilities included in other payables and accruals	1,522,114	—	—	—	1,522,114
Financial liabilities included in other non-current liabilities	10,196	—	—	—	10,196
	15,658,806	120,050	82,453	3,595,689	19,456,998

As at 31 March 2008

	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	5,428,873	112,870	123,176	3,421,011	9,085,930
Trade payables	6,569,722	—	—	—	6,569,722
Bills payable	1,371,991	—	—	—	1,371,991
Financial liabilities included in other payables and accruals	1,357,080	—	—	—	1,357,080
Financial liabilities included in other non-current liabilities	7,396	—	—	—	7,396
	14,735,062	112,870	123,176	3,421,011	18,392,119

As at 31 December 2007

	Company				
	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	3,340,000	—	—	3,585,576	6,925,576
Financial liabilities included in other payables and accruals	1,411,434	—	—	—	1,411,434
	4,751,434	—	—	3,585,576	8,337,010

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

As at 31 March 2008

	Company				
	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	3,040,000	—	—	3,399,363	6,439,363
Financial liabilities included in other payables and accruals	507,555	—	—	—	507,555
	3,547,555	—	—	3,399,363	6,946,918

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The Group maintains an appropriate fixed and floating interest rate instrument portfolio to manage interest rate risk mainly by regular reviews and monitoring.

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
Three-month period ended 31 March 2008	100	(45,418)
	(100)	45,418
Year ended 31 December 2007	100	(28,273)
	(100)	28,273
Year ended 31 December 2006	100	(22,340)
	(100)	22,340
Year ended 31 December 2005	100	(16,237)
	(100)	16,237

Foreign currency risk

Foreign currency risk means the risk on the fluctuation of fair value or future cash flows of financial instruments which arose from changes in exchange rates.

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 United States dollars. The fluctuation of the exchange rate of such currency against Renminbi will affect the Group's results of operations.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The Group endeavours to reduce foreign currency risk to a minimum mainly by close monitoring market exchange rate changes and actively adopting reactive measures.

The Group uses forward currency contracts to eliminate the foreign currency exposures on some material foreign currency transaction. The forward currency contracts must be in the same currency as the hedge item.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

For export businesses, the Group's policy is to encourage the export entities to adopt measures such as exchange rate maintenance and forward settlement to avoid exchange rate risk. For foreign business contracts under negotiation, the Group also requires price quotations to be based on the expected exchange rate changes. In negotiation of foreign businesses, the relevant terms should clearly state the scope of exchange rate fluctuations and 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.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Hong Kong dollar, United States dollar and Japanese Yen 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).

	Group	
	Increase/ (decrease) in exchange rate	**Increase/(decrease) in profit before tax**
	%	**RMB'000**
Three-month period ended 31 March 2008		
If Renminbi strengthens against Hong Kong dollar	10	(513)
If Renminbi weaken against Hong Kong dollar	(10)	513
If Renminbi strengthens against United States dollar	10	43,548
If Renminbi weaken against United States dollar	(10)	(43,548)
If Renminbi strengthens against Japanese Yen	10	(14,785)
If Renminbi weaken against Japanese Yen	(10)	14,785
Year ended 31 December 2007		
If Renminbi strengthens against Hong Kong dollar	5	(500)
If Renminbi weaken against Hong Kong dollar	(5)	500
If Renminbi strengthens against United States dollar	5	(15,222)
If Renminbi weaken against United States dollar	(5)	15,222
If Renminbi strengthens against Japanese Yen	10	(451)
If Renminbi weaken against Japanese Yen	(10)	451
Year ended 31 December 2006		
If Renminbi strengthens against Hong Kong dollar	5	(106,401)
If Renminbi weaken against Hong Kong dollar	(5)	106,401
If Renminbi strengthens against United States dollar	5	(5,280)
If Renminbi weaken against United States dollar	(5)	5,280
If Renminbi strengthens against Japanese Yen	10	4,563
If Renminbi weaken against Japanese Yen	(10)	(4,563)
Year ended 31 December 2005		
If Renminbi strengthens against Hong Kong dollar	5	(466)
If Renminbi weaken against Hong Kong dollar	(5)	466
If Renminbi strengthens against United States dollar	5	(6,102)
If Renminbi weaken against United States dollar	(5)	6,102
If Renminbi strengthens against Japanese Yen	5	—
If Renminbi weaken against Japanese Yen	(5)	—

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 shareholder 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 Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

payable and other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to equity holders of the Company.

At the end of each of the Relevant Periods, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements 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 the end of each of the Relevant Periods were as follows:

	Group			
	As at 31 December			As at 31 March
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	5,074,685	5,515,492	8,365,357	7,401,923
Trade payables	5,118,503	5,880,511	6,229,873	6,569,722
Bills payable	1,438,494	1,795,158	1,612,181	1,371,991
Other payables and accruals	4,411,763	4,641,159	7,061,711	6,244,773
Less: Cash and cash equivalents and pledged deposits	(3,507,317)	(5,835,591)	(8,271,521)	(3,897,216)
Net debt	12,536,128	11,996,729	14,997,601	17,691,193
Total capital	2,598,927	3,461,143	4,311,021	4,679,736
Capital and net debt	15,135,055	15,457,872	19,308,622	22,370,929
Gearing ratio	83%	78%	78%	79%

Fair values

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of the Group's long term borrowings approximate to their fair values based on prevailing borrowing rates available for loans with similar terms and maturities at each of the balance sheet dates.

The carrying amounts of all other financial instruments approximate to their fair values due to the short term to maturity.

46. POST BALANCE SHEET EVENTS

The earthquake in the Sichuan Province in May 2008 has affected certain production facilities and interrupted the production of the Group's subsidiaries located in Sichuan Province. After due and careful enquiry, the Directors are of the view that such earthquake event will not have any material adverse effect on the Group's operations and businesses. In addition, the Directors estimated that the damage and loss to the Group arising from production facilities being affected is immaterial.

Such post balance sheet event was in addition to those already disclosed elsewhere in the financial statements.

(III) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 31 March 2008.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to provide the investors with further information about (i) how the proposed listing might have affected the net tangible assets of the Group as if the Global Offering had occurred on 31 March 2008; and (ii) how the proposed listing might have affected the forecast earnings per share of the Group for the year ending 31 December 2008 as if the Global Offering had taken place on 1 January 2008. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions of the financial periods concerns.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared based on the audited consolidated net tangible assets of our Company attributable to the equity holders of the Company as at 31 March 2008 as extracted from the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, and is adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared for illustrative purposes only and, because of their nature, they may not give a true picture of the financial position of our Company.

The following unaudited pro forma adjusted consolidated net tangible assets of our Company have been prepared to show the effect on the consolidated net tangible assets of our Company as at 31 March 2008 as if the Global Offering had occurred on 31 March 2008.

	Consolidated net tangible assets attributable to equity holders of the Company as at 31 March 2008	**Add: estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted consolidated net tangible assets**	**Unaudited pro forma adjusted consolidated net tangible asset per share**	
	RMB'000 (Note 1)	**RMB'000 (Note 2)**	**RMB'000**	**RMB (Note 3)**	**HK$ (Note 4)**
Based on an Offer Price of HK$2.49 per Share	4,381,249	3,265,287	7,646,536	0.89	1.02
Based on an Offer Price of HK$2.76 per Share	4,381,249	3,632,417	8,013,666	0.93	1.07

Notes:

(1) The consolidated net tangible assets attributable to equity holders of the Company as at 31 March 2008, was determined as follows:

	RMB'000
Audited consolidated net assets as set out in Appendix I	6,788,628
Less: Minority interests	(2,108,892)
Consolidated net assets attributable to equity holders of the Company	4,679,736
Less: Goodwill	(3,150)
Other intangible assets	(295,337)
Consolidated net tangible assets attributable to equity holders of the Company	4,381,249

(2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK$2.49 per H share or HK$2.76 per H Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any shares which may be issued upon A Share Offering and any H

Share which may be issued upon exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted at the PBOC Rate from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8744 to HK$1.00, the PBOC rate prevailing on 29 July 2008.

(3) The unaudited pro forma adjusted consolidated net tangible assets per share is determined after the adjustments as described in note (2) above and on the basis that 8,600,000,000 shares (being the number of shares expected to be in issue immediately after completion of the Global Offering, without taking into account of any shares which may be issued upon A Share Offering and any shares which may be issued upon the exercise of the Over-allotment Option) are issued and outstanding during the entire year. If the Over-allotment Option is exercised in full, the adjusted net tangible asset per Share will increase.

Had effect been given to the A Share Offering in this calculation, the unaudited pro forma adjusted consolidated net tangible assets per Share would have been RMB1.19 or HK$1.36 based on the offer price of HK$2.49 per H Share and RMB2.10 per A Share and RMB1.24 or HK$1.42 based on the offer price of HK$2.76 per H Share and RMB2.18 per A Share. This calculation is based on the assumption that 3,000,000,000 A Shares were issued in the A Share Offering and the resulting net proceeds (after deduction of estimated related fees and expenses payable by the Company) of approximately RMB6.12 billion (based on offer price of RMB2.10 per A Share) and approximately RMB6.35 billion (based on offer price of RMB2.18 per A Share) from the A Share Offering.

(4) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8744 to HK$1.00, the PBOC rate prevailing on 29 July 2008. No representation is made that the Hong Kong dollars amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(5) Details of the valuations of our Company's properties as at 30 June 2008 are set out in "Appendix IV— Property Valuation" in this Prospectus. The above adjustment does not take into account the surplus arising from the revaluation of the property interests of our Company amounting to RMB2,156 million. The revaluation surplus or deficit of properties included in buildings held for own use, assets under construction and land use rights will not be incorporated in our Company's financial statements for the year ending 31 December 2008. If the revaluation surplus was recorded in our Company's financial statements, the annual depreciation expense for the year ending 31 December 2008 would increase by approximately RMB55 million.

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per share for the year ending 31 December 2008 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2008. This unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and, because of its nature, it may not give true and fair picture of the financial results of the Group following the Global Offering.

Forecast consolidated net profit attributable to equity holders of the Company for the year ending 31 December 2008 (Notes 1 and 3)	not less than RMB1,360.0 million (about HK$1,555.4 million)
Unaudited pro forma forecast earnings per share on a fully diluted basis, without taking into account the A Share Offering (Notes 2 and 3)	not less than RMB0.16 (about HK$0.18)
Unaudited pro forma forecast earnings per share on a fully diluted basis, after taking into account the A Share Offering (Note 3 and 4)	not less than RMB0.12 (about HK$0.13)

Notes:

1. The forecast consolidated net profit attributable to equity holders of the Company for the year ending 31 December 2008 is extracted from the section headed "Financial information—Profit Forecast" in the prospectus. The bases on which the above profit forecast for the year ending 31 December 2008 has been prepared are summarized in Appendix III to the prospectus.

   The Group's forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 prepared by the Directors is based on the Group's audited consolidated results for the three months ended 31 March 2008 and a forecast of the consolidated results of the Group for the remaining nine months ending 31 December 2008. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarized in the accountants' report, the text of which is set forth in Appendix I to the prospectus.

2. The unaudited pro forma forecast earnings per share on a fully diluted basis without taking into account the A Share Offering is calculated by dividing the forecast consolidated net profit attributable to equity holders of the Company for the year ending 31 December 2008 by 8,600,000,000 shares assumed to be issued and outstanding during the entire year ending 31 December 2008, adjusted, as if the Global Offering had occurred on 1 January 2008, but without taking into account any share which may be issued upon exercise of the Over-allotment Option and any shares which may be issued upon A Share Offering.

3. The Group's forecast consolidated profit attributable to equity holders of the Company and the unaudited pro forma forecast earnings per share on a fully diluted basis are converted into Hong Kong dollars at an exchange rate of RMB0.8744 to HK$1.00 prevailing on 29 July 2008.

4. The unaudited pro forma forecast earnings per share on a fully diluted basis after taking into account the A Share Offering is calculated by dividing the forecast consolidated net profit attributable to equity holders of the Company for the year ending 31 December 2008 by 11,600,000,000 shares assumed to be issued and outstanding during the entire year ending 31 December 2008, adjusted as if the Global Offering and A Share Offering had occurred on 1 January 2008, but without taking into account any share which may be issued upon exercise of the Over-allotment Option.

(C) COMFORT LETTER ON UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following is the text of a report from the reporting accountants to the Company, Ernst & Young, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma adjusted consolidated net tangible assets and the unaudited pro forma forecast earnings per share.

ERNST & YOUNG
安 永

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

8 August 2008

The Directors
China South Locomotive & Rolling Stock Corporation Limited
China International Capital Corporation (Hong Kong) Limited
Macquarie Capital Securities Limited

Dear Sirs,

We report on the unaudited pro forma adjusted consolidated net tangible assets of the Group and the unaudited pro forma forecast earnings per share (the "Pro Forma Financial Information") set out in sections (A) and (B) of Appendix II, respectively, to the prospectus of China South Locomotive & Rolling Stock Corporation Limited (the "Company") dated 8 August 2008 (the "Prospectus") in connection with the global offering of the Company's shares and listing on The Stock Exchange of Hong Kong Limited, which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how such global offering might have affected the financial information presented therein.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circular" issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly, should not be relied upon as if it has been carried out in accordance with those standards.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 March 2008 or at any future date; or
- the forecast earnings per share of the Group for the year ending 31 December 2008 or any future periods.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of the Group's consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 is set out in the section headed "Financial Information—Profit Forecast" in this prospectus.

(A) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the Group's consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008 on the basis of the results shown in the audited consolidated results of the Group for the three months ended 31 March 2008 and a forecast of the consolidated results of the Group for the nine months ending 31 December 2008. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarized in Appendix I to this prospectus and is based on the following principal assumptions:

- there will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC or any other country or territory in which the Group carries on its business or from which it imports or sources its materials;
- there will be no changes in legislation, regulations or rules in the PRC or any other country or territory where the Group carries on its business or with which it has arrangements or agreements, which may have a material adverse effect on its business;
- there will be no material changes in the bases or rates of taxation or duties in the PRC or any other country or territory where the Group carries on its business, except as otherwise disclosed in this Prospectus; and
- there will be no material changes in interest rates or foreign currency exchanges rates from those prevailing as at the last audited balance sheet date.

(B) LETTERS

The following is the text of a letter, prepared for inclusion in this prospectus, received by the Directors and the Sponsors from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in connection with the forecast of the Group's consolidated profit attributable to equity holders of the Company for the year ending 31 December 2008.

ERNST & YOUNG
安 永

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

8 August 2008

The Directors
China South Locomotive & Rolling Stock Corporation Limited
China International Capital Corporation (Hong Kong) Limited
Macquarie Capital Securities Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast consolidated profit attributable to the equity holders of China South Locomotive & Rolling Stock Corporation Limited (the "Company") in respect of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2008 (the "Forecast"), for which the directors of the Company are solely responsible, as set out in the paragraph headed "Profit Forecast" in the section headed "Financial Information" in the prospectus of the Company dated 8 August 2008 (the "Prospectus").

The Forecast has been prepared by the directors of the Company based on the audited consolidated results of the Group for the three months ended 31 March 2008 and a forecast of the consolidated results of the Group for the nine months ending 31 December 2008.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the bases and assumptions adopted by the directors of the Company as set out in Part (A) of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our accountants' report dated 8 August 2008, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

B2. LETTER FROM THE JOINT SPONSORS

China International Capital Corporation
(Hong Kong) Limited
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Macquarie Capital Securities Limited
19/F, Citic Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors of China South Locomotive & Rolling Stock Corporation Limited

8 August 2008

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to the equity holders of China South Locomotive & Rolling Stock Corporation Limited (the "Company") and its subsidiaries for the year ending 31 December 2008 (the "Profit Forecast") as set out in the Prospectus issued by the Company dated 8 August 2008 (the "Prospectus").

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 8 August 2008 addressed to yourselves and ourselves from Ernst & Young, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
China International Capital Corporation
(Hong Kong) Limited

Huang Zhaohui
Managing Director

For and on behalf of
Macquarie Capital Securities Limited

William Je
Senior Managing Director

Debora Cheng
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this Prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 June 2008 of the property interests of the Group. As described in section "Documents Available for Inspection" in Appendix X, a copy of the full valuation report will be made available for public inspection.

JONES LANG
LASALLE® SALLMANNS

Jones Lang LaSalle Sallmanns Limited
22nd Floor Siu On Centre
188 Lockhart Road
Wanchai Hong Kong
tel +852 2169 6000 fax +852 2169 6001

8 August 2008

The Board of Directors
China South Locomotive & Rolling Stock Corporation Limited
No. 16, Central West Fourth Ring Road,
Haidian District,
Beijing,
The PRC

Dear Sirs,

In accordance with your instructions to value the properties in which China South Locomotive & Rolling Stock Corporation Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), Hong Kong and overseas countries, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 June 2008 (the "date of valuation").

We have categorized the property interests of the Group into 3 main groups according to the nature and location of the properties. In valuing the property interests in Group I which are held by the Group, we have classified the properties into 15 subgroups according to the names of the Company's directly controlled subsidiaries. The property interests of each sub-group are occupied by a directly controlled subsidiary and its subsidiaries in the PRC.

Our valuations of the property interests represent the market value which we would define as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

The concept of freehold and leasehold land does not exist in China. Private land ownership in China was abolished in the collectivization movement during the 1950's. Since then, the only form of ownership in land has been 'socialist public ownership' of which there are two generic types: state-owned and collectively owned. Land was 'allocated' free of charge by the state to the designated users (commonly state-owned enterprises) for an indefinite period. The users in return could not in any way transfer the land to other parties. Normally, when dealing with the valuation of such land, we will deem it to have 'no commercial value'.

In January 1995, the "PRC, Administration of Urban Real Property Law" came into effect, reinforcing previous legislation and establishing land as a commodity. By possessing 'land use rights' users, including state-owned enterprises, could assign, lease or mortgage land. Normally, to obtain such land use rights, a premium had to be paid whereupon the 'allocated' land could be reclassified as 'granted' land. The land is granted by the State and the premium is based upon the standard land prices (which are periodically reviewed) set by the Land Administration Bureau. Such land can be valued by reference to the standard land prices in each locality and prices paid in the market for it.

In occasional cases on a discretionary basis, allocated land held by certain state-owned enterprises can be injected by the State to those enterprises as capital investment for incorporation into a joint stock company in return for shares. We have defined such land as "State-capital-injection land" (作價出資). After the injection, the land use rights of the State-capital-injection land of specified tenure terms will be held by the joint stock company and a new relevant Land Use Rights Certificate will be issued to the joint stock company. The joint stock company may transfer, lease and mortgage the land use rights in accordance with the relevant land regulations and laws of the PRC in relation to granted land use rights.

We have valued the property interests of a portion of Group I by direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests of the remaining portion of Group I have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group II and Group III, which are leased by the Group in the PRC, Hong Kong and overseas countries respectively, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5, Practice Note 12 and Practice Note 16 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited except for those in respect of which exemptions and waivers have been applied for and granted in respect of Rules 5.01, 5.06(1), 5.06(2) and (3), 19A.27(4), paragraph 3(a) of Practice Note 16 and paragraph 34(2), of the Third Schedule to the Companies Ordinance. We have also complied with the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

As the Company is in compliance with paragraph 3(b) of Practice Note 16 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and section 6 of Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, the full details of the individual leased properties under operating lease have been excluded from the valuation certificates in our valuation report to this prospectus, of which a summary is included in the Summary of Values and the certificate for leased properties.

According to the aforesaid waivers and exemptions, we have summarized and disclosed the property interests in Group I, II and III in our valuation report.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates (the “LURCs”), Building Ownership Certificates (the “BOCs”), Real Estate Title Certificates (the “RETCs”) and official plans relating to the property interests in the PRC and have carried out searches at the Hong Kong Land Registry in respect of the Hong Kong property. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers — Grandall Legal Group (Beijing), concerning the validity of the Group’s titles of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB). The exchange rates adopted in our valuations are approximately USD$1 = RMB6.8591, EUR$1 = RMB10.8302, HK$1 = RMB0.8792 which were approximately the prevailing exchange rates as at the date of valuation.

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 25 years' experience in the valuation of properties in the PRC, extensive property valuation experience in Hong Kong and the Untied Kingdom and relevant valuation experience in the Asia-Pacific, the United States of America and Germany.

SUMMARY OF VALUES

GROUP I — PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 30 June 2008	Capital value attributable to the Group as at 30 June 2008
		RMB	RMB
1.	Various properties held by CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. and its subsidiaries in Beijing, Hunan Province and Zhejiang Province The PRC	710,845,000	487,253,000
2.	Various properties held by CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. and its subsidiaries in Beijing and Jiangsu Province The PRC	149,799,000	140,018,000
3.	Various properties held by CSR Yangtze Rolling Stock Co., Ltd. and its subsidiaries in Beijing, Hunan Province and Anhwei Province The PRC	518,184,000	503,595,000
4.	Various properties held by CSR Sifang Rolling Stock Co., Ltd. and its subsidiaries in Shandong Province The PRC	695,951,000	694,683,000
5.	Various properties held by CSR Feb. 7th Rolling Stock Co., Ltd. and its subsidiaries in Beijing The PRC	591,635,000	578,260,000
6.	Various properties held by CSR Shijiazhuang Rolling Stock Co., Ltd. and its subsidiaries in Hebei Province The PRC	349,167,000	349,167,000
7.	Various properties held by CSR Luoyang Locomotive Co., Ltd. and its subsidiaries in Beijing and Henan Province The PRC	364,779,000	364,432,000
8.	Various properties held by CSR Qishuyan Locomotive Co., Ltd. and its subsidiaries in Jiangsu Province The PRC	528,767,000	528,767,000
9.	Various properties held by CSR Meishan Rolling Stock Co., Ltd. and its subsidiaries in Shanghai and Sichuan Province The PRC	296,003,000	291,890,000
10.	Various properties held by CSR Xiangfan Locomotive Co., Ltd. and its subsidiaries in Beijing and Hubei Province The PRC	173,865,000	173,865,000
11.	Various properties held by CSR Nanjing Puzhen Rolling Stock Co., Ltd. and its subsidiaries in Beijing, Shanghai and Jiangsu Province The PRC	676,111,000	648,275,000
12.	Various properties held by CSR Chengdu Locomotive & Rolling Stock Co., Ltd. and its subsidiaries in Sichuan Province The PRC	459,515,000	459,515,000

No.	Property	Capital value in existing state as at 30 June 2008	Capital value attributable to the Group as at 30 June 2008
		RMB	RMB
13.	Various properties held by CSR Sifang Locomotive & Rolling Stock Co., Ltd. and its subsidiaries in Beijing, Shanghai, Shandong Province, Sichuan Province, Henan Province and Liaoning Province The PRC	622,200,000	560,224,000
14.	Various properties held by CSR Zhuzhou Electric Locomotive Co., Ltd. and its subsidiaries in Beijing, Zhejiang Province and Hunan Province The PRC	816,275,000	787,443,000
15.	Various properties held by CSR Ziyang Locomotive Co., Ltd. and its subsidiaries in Sichuan Province The PRC	410,858,000	382,603,000
	Sub-total:	**7,363,954,000**	**6,949,990,000**

GROUP II — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 30 June 2008
		RMB
16.	9 properties rented by the Group in the PRC	No commercial value
	Sub-total:	**Nil**

GROUP III — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN HONG KONG AND OVERSEAS COUNTRIES

No.	Property	Capital value in existing state as at 30 June 2008
		RMB
17.	3 properties rented by the Group in Hong Kong, United States of America and Germany	No commercial value
	Sub-total:	**Nil**

	Capital value in existing state as at, 30 June 2008	Capital value attributable to the Group as at 30 June 2008
	RMB	RMB
Grand Total:	**7,363,954,000**	**6,949,990,000**

VALUATION CERTIFICATE

GROUP I — PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

<table>
<tr><th>No.</th><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Capital value in existing state as at 30 June 2008
RMB</th></tr>
<tr><td>1.</td><td>Various properties held by CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. and its subsidiaries in Beijing, Hunan Province and Zhejiang Province
The PRC</td><td>The properties include 151 buildings or units and various structures completed in various stages between 1960 and 2008.
These buildings or units have a total gross floor area of approximately 295,750.12 sq.m.
Details of uses and gross floor areas of them are listed as follows:
<table>
<tr><th>Use</th><th>No. of Item</th><th>Area (sq.m.)</th></tr>
<tr><td>Office</td><td>27</td><td>103,883.95</td></tr>
<tr><td>Production</td><td>59</td><td>145,140.41</td></tr>
<tr><td>Ancillary</td><td>30</td><td>11,685.76</td></tr>
<tr><td>Others</td><td>35</td><td>35,040.00</td></tr>
<tr><td>Total:</td><td>151</td><td>295,750.12</td></tr>
</table>
The properties include 18 parcels of land with a total site area of approximately 821,620.47 sq.m. for industrial and scientific research and design uses.
The properties also include a building under construction as at the date of valuation (the "CIP"). The construction of the CIP is scheduled to be completed in October 2008. The planned construction area of the CIP upon completion will be approximately 28,272 sq.m. The total construction cost of the CIP is estimated to be approximately RMB45,000,000, of which approximately RMB38,030,000 has been paid at the date of valuation.</td><td>The properties are currently occupied by the Group for production, office, ancillary, residential and commercial purposes except for portions of the properties with a total gross floor area of approximately 37,045.74 sq.m. which are currently rented to various independent third parties (refer to note 5).</td><td>710,845,000
interest attributable to the Group: RMB487,253,000</td></tr>
</table>

Notes:

1. CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. is a wholly owned subsidiary of the Company.
2. Among 18 parcels of land, 13 parcels of land with a total site area of approximately 723,115.02 sq.m. are granted land with LURCs, including 2 parcels of land with a total site area of approximately 270,175.94 sq.m. which the registered names on the LURCs are being changed to the Group; for the remaining 5 parcels of land with a total site area of approximately 98,505.45 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and these 5 parcels of land have been injected into the Group as capital contribution (the "authorized land").
3. Among 151 buildings or units, the Group has obtained either valid BOCs or RETCs for 96 buildings or units with a total gross floor area of approximately 203,236.92 sq.m. Out of the remainder, 38 buildings or units with a total gross floor area of approximately 41,744.80 sq.m., the registered names on BOCs or RETCs are going to be changed to the Group. For the remaining 17 buildings or units with a total gross floor area of approximately 50,768.40 sq.m., we have not been provided with any title certificates.
4. Pursuant to a Construction Commencement Permit — No. 330203200710150201, permission by the relevant local authorities has been given to commence the construction of the CIP with a planned gross floor area of approximately 28,272 sq.m.
5. Pursuant to various Tenancy Agreements, portions of the properties with a total gross floor area of approximately 37,045.74 sq.m. are rented to various independent third parties for various terms at a total annual rental of RMB7,662,362 for production, office and ancillary uses.
6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
    a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;
    b. for the land which the registered names are being changed to the Group, there are no legal impediments in completing the registration process and those relevant land use certificates will be granted in the name of the Group once the registration process has been completed. After the land use rights of the granted land are legally vested in the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;
    c. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights in compliance with the PRC laws and regulations;
    d. for the buildings or units with BOCs or RETCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs or RETCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs or RETCs;

e. the registered names on BOCs or RETCs and LURCs are going to be changed to the Group and there are no material legal impediments to complete these procedures;

f. for the CIP with relevant construction permit, the Group has the rights to commence the construction of the CIP and legally use after completion and obtaining the relevant title certificate; and

g. the properties with title certificates are not subject to any mortgage or any other encumbrance.

7. In valuing the properties, we have attributed no commercial value to 55 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB109,201,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
				RMB
2.	Various properties held by CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. and its subsidiaries in Beijing and Jiangsu Province The PRC	The properties include 61 buildings or units and various structures completed in various stages between 1964 and 2007. These buildings or units have a total gross floor area of approximately 106,035.57 sq.m. Details of uses and gross floor areas of them are listed as follows:	The properties are currently occupied by the Group for production, office and ancillary purposes.	149,799,000 interest attributable to the Group: RMB140,018,000

Use	No. of Item	Area (sq.m.)
Office	9	22,320.89
Production	36	77,102.02
Ancillary	16	6,612.66
Total:	**61**	**106,035.57**

The properties also include 7 parcels of land with a total site area of approximately 183,848.90 sq.m. for industrial and scientific research uses.

Notes:

1. CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. is a wholly owned subsidiary of the Group.
2. Among 7 parcels of land, 5 parcels of land with a total site area of approximately 114,290.10 sq.m. are granted land with LURCs; for the remaining 2 parcels of land with a total site area of approximately 69,558.80 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation (“CSRG”), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of these 2 parcels of land have been injected into the Group as capital contribution (the “authorized land”).
3. Among 61 buildings or units, the Group has obtained either valid BOCs for 45 buildings or units with a total gross floor area of approximately 80,334.34 sq.m. Out of the remainder, a unit with a gross floor area of approximately 148.65 sq.m., the registered name on BOC is going to be changed to the Group. For the remaining 15 buildings or units with a total gross floor area of approximately 25,552.58 sq.m., we have not been provided with any title certificates.
4. We have been provided with a legal opinion regarding the property interests by the Company’s PRC legal advisers, which contains, inter alia, the following:
   a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;

b. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land in compliance with the PRC laws and regulations;

c. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs;

d. for the unit with the registered name on BOC is going to be changed to the Group and there is no material legal impediment to complete this procedure; and

e. according to a mortgage contract, the land use rights of a parcel of land with a site area of approximately 13,191.70 sq.m. are subject to a mortgage for a maximum loan amount of RMB2,900,000 in favor of Changzhou Branch of China CITIC Bank as security with the mortgage term from July 2006 to July 2008. CSRG has undertaken to release the mortgage before the incorporation of the Company and to indemnify the Group against any losses caused by the existing mortgage after the incorporation of the Company; and the Group can legally occupy, use and derive from the proceeds of the land but cannot freely transfer, mortgage and dispose of the land without the consent of the mortgagee; save for the aforesaid situation, the remaining properties with relevant title certificates are not subject to any mortgage or any other encumbrance. There would be no adverse material effects and legal risks on the listing or normal operation of the Group due to the mortgage. As at the date of the valuation report, the mortgage as mentioned above has been released.

5. In valuing the properties, we have attributed no commercial value to 16 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB26,758,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
				RMB
3.	Various properties held by CSR Yangtze Rolling Stock Co., Ltd. and its subsidiaries in Beijing, Hunan Province and Anhwei Province The PRC	The properties include 353 buildings or units and various structures completed in various stages between 1959 and 2008. These buildings or units have a total gross floor area of approximately 325,093.78 sq.m. Details of uses and gross floor areas of them are listed as follows:	The properties are currently occupied by the Group for production, office, ancillary and residential purposes.	518,184,000 interest attributable to the Group: RMB503,595,000

Use	No. of Item	Area (sq.m.)
Office	39	36,022.52
Production	152	238,755.89
Ancillary	158	49,950.10
Others	4	365.27
Total:	**353**	**325,093.78**

The properties also include 32 parcels of land with a total site area of approximately 1,013,731.36 sq.m. for industrial and railway uses.

Notes:

1. CSR Yangtze Rolling Stock Co., Ltd. is a wholly owned subsidiary of the Company.
2. Among 32 parcels of land, 5 parcels of land with a total site area of approximately 60,045 sq.m. are granted land with LURCs; for the remaining 27 parcels of land with a total site area of approximately 953,686.36 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of these 27 parcels of land have been injected into the Group as capital contribution (the "authorized land").
3. Among 353 buildings or units, the Group has obtained either valid BOCs or RETCs for 308 buildings or units with a total gross floor area of approximately 316,479.62 sq.m. Out of the remainder, a unit with a gross floor area of approximately 102.62 sq.m., the registered name on BOC is going to be changed to the Group. For the remaining 44 buildings or units with a total gross floor area of approximately 8,511.54 sq.m., we have not been provided with any title certificates.
4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
   a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;

b. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights in compliance with the PRC laws and regulations;

c. for the buildings or units with BOCs or RETCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs or RETCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs or RETCs;

d. for the unit with the registered name on BOC is going to be changed to the Group and there is no material legal impediment to complete this procedure; and

e. the properties with title certificates are not subject to any mortgage or any other encumbrance.

5. In valuing the properties, we have attributed no commercial value to 45 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB4,374,000.

VALUATION CERTIFICATE

<table>
<tr><th>No.</th><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Capital value in existing state as at 30 June 2008
RMB</th></tr>
<tr>
<td>4.</td>
<td>Various properties held by CSR Sifang Rolling Stock Co., Ltd. and its subsidiaries in Shandong Province
The PRC</td>
<td>The properties include 142 buildings or units and various structures completed in various stages between 1940 and 2006.
These buildings or units have a total gross floor area of approximately 323,929.40 sq.m.
Details of uses and gross floor areas of them are listed as follows:
<table>
<tr><th>Use</th><th>No. of Item</th><th>Area (sq.m.)</th></tr>
<tr><td>Office</td><td>9</td><td>8,273.16</td></tr>
<tr><td>Production</td><td>108</td><td>288,576.08</td></tr>
<tr><td>Ancillary</td><td>20</td><td>24,581.13</td></tr>
<tr><td>Others</td><td>5</td><td>2,499.03</td></tr>
<tr><td>Total:</td><td>142</td><td>323,929.40</td></tr>
</table>
The properties also include 7 parcels of land with a total site area of approximately 870,821.40 sq.m. for industrial use.</td>
<td>The properties are currently occupied by the Group for production, office, ancillary and commercial purposes except for portions of the buildings with a total gross floor area of approximately 6,864 sq.m. and portions of a parcel of land with a total site area of approximately 22,066 sq.m. which are currently rented to various independent third parties (refer to note 4).</td>
<td>695,951,000
interest attributable to the Group:
RMB694,683,000</td>
</tr>
</table>

Notes:

1. CSR Sifang Rolling Stock Co., Ltd. is a wholly owned subsidiary of the Company.
2. Among 7 parcels of land, 2 parcels of land with a total site area of approximately 440,158.30 sq.m. are granted land with LURCs; and for the remaining 5 parcels of land with a total site area of approximately 430,663.10 sq.m. are state-capital-injection land with LURCs.
3. Among 142 buildings or units, the Group has obtained either valid BOCs or RETCs for 124 buildings or units with a total gross floor area of approximately 313,188.40 sq.m.; and for the remaining 18 buildings or units with a total gross floor area of approximately 10,741 sq.m., we have not been provided with any title certificates.
4. Pursuant to various Tenancy Agreements, portions of the buildings with a total gross floor area of approximately 6,864 sq.m. and portions of a parcel of land with a total site area of approximately 22,066 sq.m. of the properties are rented to various independent third parties for various terms at a total annual rental of RMB574,173.33 for production, office and commercial uses.
5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
   a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;

b. the land use rights of the state-capital-injection land are held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the land in accordance with the valid terms stipulated in the LURCs and the PRC laws;

c. for the buildings or units with BOCs or RETCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs or RETCs, China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs or RETCs; and

d. the properties with title certificates are not subject to any mortgage or any other encumbrance.

6. In valuing the properties, we have attributed no commercial value to 18 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB8,301,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
				RMB
5.	Various properties held by CSR Feb. 7th Rolling Stock Co., Ltd. and its subsidiaries in Beijing The PRC	The properties include 191 buildings or units and various structures completed in various stages between 1958 and 2007. These buildings or units have a total gross floor area of approximately 198,520.59 sq.m. Details of uses and gross floor areas of them are listed as follows: Use / No. of Item / Area (sq.m.) Office 39 30,489.65 Production 126 155,176.78 Ancillary 26 12,854.16 **Total: 191 198,520.59** The properties also include 3 parcels of land with a total site area of approximately 640,428.28 sq.m. for industrial use.	The properties are currently occupied by the Group for production, office, and ancillary purpose except for a portion of a parcel of land with a site area of approximately 11,193.08 sq.m. which is currently rented to an independent third party (refer to note 4).	591,635,000 interest attributable to the Group: 578,260,000

Notes:

1. CSR Feb. 7th Rolling Stock Co., Ltd. is a wholly owned subsidiary of the Company.

2. Pursuant to 3 LURCs, the land use rights of 3 parcels of land with a total site area of approximately 640,428.28 sq.m. are granted land.

3. Among 191 buildings or units, the Group has obtained either valid BOCs for 153 buildings or units with a total gross floor area of approximately 183,643.93 sq.m.; and for the remaining 38 buildings or units with a total gross floor area of approximately 14,876.66 sq.m., we have not been provided with any title certificates.

4. Pursuant to a Lease Agreement, a portion of a parcel of land with a site area of approximately 11,193.08 sq.m. is rented to an independent third party at an annual rental of RMB11,193.08 for industrial use.

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;

b. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs; and

c. the properties with title certificates are not subject to any mortgage or any other encumbrance.

6. In valuing the properties, we have attributed no commercial value to 38 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB9,453,000.

VALUATION CERTIFICATE

<table>
<tr><th>No.</th><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Capital value in existing state as at 30 June 2008</th></tr>
<tr><td></td><td></td><td></td><td></td><td>RMB</td></tr>
<tr><td>6.</td><td>Various properties held by CSR Shijiazhuang Rolling Stock Co., Ltd. and its subsidiaries in Hebei Province The PRC</td><td>The properties include 114 buildings or units and various structures completed in various stages between 1954 and 2002.
These buildings or units have a total gross floor area of approximately 154,002.83 sq.m.
Details of uses and gross floor areas of them are listed as follows:
<table>
<tr><th>Use</th><th>No. of Item</th><th>Area (sq.m.)</th></tr>
<tr><td>Office</td><td>3</td><td>5,020.87</td></tr>
<tr><td>Production</td><td>97</td><td>147,341.96</td></tr>
<tr><td>Ancillary</td><td>14</td><td>1,640.00</td></tr>
<tr><td>Total:</td><td>114</td><td>154,002.83</td></tr>
</table>
The properties also include 5 parcels of land with a total site area of approximately 315,794.50 sq.m. for industrial use.</td><td>The properties are currently occupied by the Group for production, office, and ancillary purposes except for a portion of a parcel of land with a site area of approximately 40 sq.m. which is currently rented to an independent third party (refer to note 4).</td><td>349,167,000
interest attributable to the Group: RMB349,167,000</td></tr>
</table>

Notes:

1. CSR Shijiazhuang Rolling Stock Co., Ltd. is a wholly owned subsidiary of the Company.

2. For the land use rights of 5 parcels of land with a total site area of approximately 315,794.50 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of these 5 parcels of land have been injected into the Group as capital contribution (the "authorized land").

3. Among 114 buildings or units, the Group has obtained valid BOCs for 94 buildings or units with a total gross floor area of approximately 136,691.91 sq.m.; and for the remaining 20 buildings or units with a total gross floor area of approximately 17,310.92 sq.m., we have not been provided with any title certificates.

4. Pursuant to a Lease Agreement, a portion of a parcel of land with a site area of approximately 40 sq.m. is rented to an independent third party at an annual rental of RMB80,000 for ancillary use.

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights

of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights in compliance with the PRC laws and regulations;

b. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs; and

c. the properties with title certificates are not subject to any mortgage or any other encumbrance.

6. In valuing the properties, we have attributed no commercial value to 20 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB9,325,000.

VALUATION CERTIFICATE

<table>
<tr><th>No.</th><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Capital value in existing state as at 30 June 2008
RMB</th></tr>
<tr><td>7.</td><td>Various properties held by CSR Luoyang Locomotive Co., Ltd. and its subsidiaries in Beijing and Henan Province The PRC</td><td>The properties include 191 buildings or units and various structures completed in various stages between 1959 and 2006.
These buildings or units have a total gross floor area of approximately 192,512.27 sq.m.
Details of uses and gross floor areas of them are listed as follows:
<table>
<tr><th>Use</th><th>No. of Item</th><th>Area (sq.m.)</th></tr>
<tr><td>Office</td><td>16</td><td>14,365.01</td></tr>
<tr><td>Production</td><td>75</td><td>119,154.91</td></tr>
<tr><td>Ancillary</td><td>98</td><td>57,125.59</td></tr>
<tr><td>Others</td><td>2</td><td>1,866.76</td></tr>
<tr><td>**Total:**</td><td>**191**</td><td>**192,512.27**</td></tr>
</table>
The properties also include a parcel of land with a site area of approximately 657,322.40 sq.m. for industrial use.</td><td>The properties are currently occupied by the Group for production, office, ancillary and residential purposes except for portions of the properties with a total gross floor area of approximately 34,543 sq.m. which are currently rented to various independent third parties (refer to note 4).</td><td>364,779,000
interest attributable to the Group: RMB364,432,000</td></tr>
</table>

Notes:

1. CSR Luoyang Locomotive Co., Ltd. is a wholly owned subsidiary of the Company.

2. For the land use rights of a parcel of land with a site area of approximately 657,322.40 sq.m., China South Locomotive and Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of this parcel of land have been injected into the Group as capital contribution (the "authorized land").

3. Among 191 buildings or units, the Group has obtained valid BOCs for 160 buildings or units with a total gross floor area of approximately 185,469.64 sq.m. Out of a unit with a gross floor area of approximately 175.01 sq.m., the registered name on BOC is going to be changed the Group. For the remaining 30 buildings or units with a total gross floor area of approximately 6,867.62 sq.m., we have not been provided with any title certificates.

4. Pursuant to various Tenancy Agreements, portions of the properties with a total gross floor area of approximately 34,543 sq.m. are rented to various independent third parties for various terms at a total annual rental of RMB3,087,396.12 for production, office and ancillary uses.

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights

of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights in compliance with the PRC laws and regulations;

b. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs;

c. for the unit with the registered name on BOC is going to be changed to the Group and there is no material legal impediment to complete this procedure; and

d. the properties with title certificates are not subject to any mortgage or any other encumbrance.

6. In valuing the properties, we have attributed no commercial value to 31 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB7,280,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
				RMB
8.	Various properties held by CSR Qishuyan Locomotive Co., Ltd. and its subsidiaries in Jiangsu Province The PRC	The properties include 180 buildings or units and various structures completed in various stages between 1937 and 2004. These buildings or units have a total gross floor area of approximately 353,717.18 sq.m. Details of uses and gross floor areas of them are listed as follows: Use / No. of Item / Area (sq.m.) Office 12 9,285.62 Production 165 343,520.35 Ancillary 3 911.21 **Total: 180 353,717.18** The properties also include 2 parcels of land with a total site area of approximately 1,058,512.5 sq.m. for industrial use.	The properties are currently occupied by the Group for production, office and ancillary purposes except for portions of the properties with a total gross floor area of approximately 3,661.58 sq.m. which are currently rented to an independent third party (refer to note 4).	528,767,000 interest attributable to the Group: RMB528,767,000

Notes:

1. CSR Qishuyan Locomotive Co., Ltd. is a wholly owned subsidiary of the Company.
2. For the land use rights of 2 parcels of land with a total site area of approximately 1,058,512.5 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of these 2 parcels of land have been injected into the Group as capital contribution (the "authorized land").
3. Among 180 buildings or units, the Group has obtained either valid BOCs for 152 buildings or units with a total gross floor area of approximately 334,531.22 sq.m. Out of the remainder, 23 buildings or units with a total gross floor area of approximately 18,267.62 sq.m., the registered names on BOCs are going to be changed to the Group. For the remaining 5 buildings or units with a total gross floor area of approximately 918.34 sq.m., we have not been provided with any title certificates.
4. Pursuant to various Tenancy Agreements, portions of the properties with a total gross floor area of approximately 3,661.58 sq.m. are rented to an independent third party for terms at a total annual rental of RMB92,208.98 for production use.
5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
   a. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights

of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights in compliance with the PRC laws and regulations;

b. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs;

c. the registered names on BOCs are going to be changed to the Group and there are no material legal impediments to complete these procedures; and

d. the properties with title certificates are not subject to any mortgage or any other encumbrance.

6. In valuing the properties, we have attributed no commercial value to 28 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB3,499,000.

VALUATION CERTIFICATE

<table>
<tr><th>No.</th><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Capital value in existing state as at 30 June 2008
RMB</th></tr>
<tr>
<td>9.</td>
<td>Various properties held by CSR Meishan Rolling Stock Co., Ltd. and its subsidiaries in Sichuan Province The PRC</td>
<td>The properties include 115 buildings or units and various structures completed in various stages between 1971 and 2008.
These buildings or units have a total gross floor area of approximately 247,132.15 sq.m.
Details of uses and gross floor areas of them are listed as follows:
<table>
<tr><th>Use</th><th>No. of Item</th><th>Area (sq.m.)</th></tr>
<tr><td>Office</td><td>25</td><td>28,507.15</td></tr>
<tr><td>Production</td><td>65</td><td>164,924.81</td></tr>
<tr><td>Ancillary</td><td>25</td><td>53,700.19</td></tr>
<tr><td>Total:</td><td>115</td><td>247,132.15</td></tr>
</table>
The properties include 12 parcels of land with a total site area of approximately 667,283.50 sq.m. for industrial use.
The properties also include 3 buildings under construction as at the date of valuation (the “CIP”). The constructions of the CIP are scheduled to be completed in September 2008. The total planned construction area of the CIP upon completion will be approximately 15,854.50 sq.m. The total construction cost of the CIP is estimated to be approximately RMB20,698,000, of which approximately RMB14,528,000 has been paid at the date of valuation.</td>
<td>The properties are currently occupied by the Group for production, office and ancillary purposes, except for portions of the properties with a total gross floor area of approximately 5,121.23 sq.m. which are currently rented to an independent third party (refer to note 5).</td>
<td>296,003,000
interest attributable to the Group: RMB291,890,000</td>
</tr>
</table>

Notes:

1. CSR Meishan Rolling Stock Co., Ltd. is a wholly owned subsidiary of the Company.

2. Among 12 parcels of land, 11 parcels of land with a total site area of approximately 223,983.50 sq.m. are granted land with LURCs; for the remaining parcel of land with a site area of approximately 443,300 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of this parcel of land have been injected into the Group as capital contribution (the "authorized land").

3. Among 115 buildings or units, the Group has obtained BOCs for 111 buildings or units with a total gross floor area of approximately 237,620.21 sq.m. and for the remaining 4 buildings or units with a total gross floor area of approximately 9,511.94 sq.m., we have not been provided with any title certificates.

4. Pursuant to a Construction Commencement Permit — Mei Shan Jian Shi No. 2007-10, permission by the relevant local authorities has been given to commence the construction of the portions of the CIP with a total planned gross floor area of approximately 8,464.50 sq.m.; and for the remaining 7,390 sq.m., we have not been provided with any construction commencement permits as at the date of valuation.

5. Pursuant to various Tenancy Agreements, portions of the properties with a total gross floor area of approximately 5,121.23 sq.m. are rented to an independent third party for various terms at a total annual rental of RMB342,000 for production use.

6. In the course of our valuation to properties situated in Meishan of the Sichuan Province, we have paid attention to the fact that the aforesaid properties might be affected by the earthquake and the associated aftershocks in the Sichuan Province in May 2008. Re-inspections were carried out to these properties in July 2008 and no serious damages were noted except some cracked walls. However, we are not structure engineers and are unable to report that the properties are free of structure defects. Our valuation has been prepared on the assumption that the defects (if any) did not constitute any substantial repairing costs to the properties as at the date of valuation.

7. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;

   b. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights in compliance with the PRC laws and regulations;

   c. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs;

d. for the CIP with relevant construction permit, the Group has the rights to commence the construction of the CIP and legally use after completion and obtaining the relevant title certificate; for the CIP without relevant construction permits, CSRG has undertaken to endeavor to assist the Group in applying for construction permits and to indemnify the Group against any losses and claims arising from the absence of construction permits, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group; and

e. the properties with title certificates are not subject to any mortgage or any other encumbrance.

8. In valuing the properties, we have attributed no commercial value to 4 buildings or units without valid title certificates and portions of the CIP without construction permits. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units and portions of the CIP assuming all relevant title certificates and permits have been obtained and the units could be freely transferred as at the date of valuation would be RMB26,517,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
				RMB
10.	Various properties held by CSR Xiangfan Locomotive Co., Ltd. and its subsidiaries in Beijing and Hubei Province, The PRC	The properties include 92 buildings or units and various structures completed in various stages between 1970 and 2001. These buildings or units have a total gross floor area of approximately 90,038.56 sq.m. Details of uses and gross floor areas of them are listed as follows:	The properties are currently occupied by the Group for production, office and ancillary purposes.	173,865,000 interest attributable to the Group: RMB173,865,000

Use	No. of Item	Area (sq.m.)
Office	10	8,816.89
Production	51	61,773.68
Ancillary	31	19,447.99
Total:	**92**	**90,038.56**

The properties also include 3 parcels of land with a total site area of approximately 400,047.56 sq.m. for industrial use.

Notes:

1. CSR Xiangfan Locomotive Co., Ltd. is a wholly owned subsidiary of the Company.

2. For the land use rights of 3 parcels of land with a total site area of approximately 400,047.56 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of these 3 parcels of land have been injected into the Group as capital contribution (the "authorized land").

3. Among 92 buildings or units, the Group has obtained either valid title BOCs for 86 buildings or units with a total gross floor area of approximately 88,474.12 sq.m. Out of the remainder, a unit with a gross floor area of approximately 162.45 sq.m., the registered name on BOC is going to be changed to the Group. For the remaining 5 buildings or units with a total gross floor area of approximately 1,401.99 sq.m., we have not been provided with any title certificates.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights in compliance with the PRC laws and regulations;

b. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs;

c. for the unit with the registered name on BOC is going to be changed to the Group and there is no material legal impediment to complete this procedure; and

d. the properties with title certificates are not subject to any mortgage or any other encumbrance.

5. In valuing the properties, we have attributed no commercial value to 6 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB3,575,000.

VALUATION CERTIFICATE

<table>
<tr><th>No.</th><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Capital value in existing state as at 30 June 2008
RMB</th></tr>
<tr><td>11.</td><td>Various properties held by CSR Nanjing Puzhen Rolling Stock Co., Ltd. and its subsidiaries in Beijing, Shanghai and Jiangsu Province, The PRC</td><td>The properties include 108 buildings or units and various structures completed in various stages between 1952 and 2007.
These buildings or units have a total gross floor area of approximately 163,082.47 sq.m.
Details of uses and gross floor areas of them are listed as follows:
<table>
<tr><th>Use</th><th>No. of Item</th><th>Area (sq.m.)</th></tr>
<tr><td>Office</td><td>15</td><td>27,465.43</td></tr>
<tr><td>Production</td><td>76</td><td>131,511.16</td></tr>
<tr><td>Ancillary</td><td>17</td><td>4,105.88</td></tr>
<tr><td>Total:</td><td>108</td><td>163,082.47</td></tr>
</table>
The properties include 12 parcels of land with a total site area of approximately 1,147,031.80 sq.m. for industrial, scientific research and design and railway uses.
The properties also include 4 buildings under construction as at the date of valuation (the "CIP"). The constructions of the CIP are scheduled to be completed in January 2009. The total planned construction area of the CIP upon completion will be approximately 61,167.78 sq.m. The total construction cost of the CIP is estimated to be approximately RMB112,199,000, of which approximately RMB43,195,000 has been paid at the date of valuation.</td><td>The properties are currently occupied by the Group for production, office and ancillary purposes except for portions of the properties with a total gross floor area of approximately 11,886.64 sq.m. which are currently rented to various independent third parties (refer to note 5).</td><td>676,111,000
interest attributable to the Group: RMB648,275,000</td></tr>
</table>

Notes:

1. CSR Nanjing Puzhen Rolling Stock Co., Ltd. is a wholly owned subsidiary of the Company.

2. Among 12 parcels of land, 4 parcel of land with a total site area of approximately 670,446.60 sq.m. are granted land with LURCs; for the remaining 8 parcels of land with a total site area of approximately 476,585.20 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of these 8 parcels of land have been injected into the Group as capital contribution (the "authorized land").

3. Among 108 buildings or units, the Group has obtained valid BOCs or RETCs for 107 buildings or units with a total gross floor area of approximately 162,710.47 sq.m. and for the remaining unit with a gross floor area of approximately 372 sq.m., we have not been provided with any title certificate.

4. Pursuant to a Construction Commencement Permit — Ning Pu Jian Shi Xu (2007) Di No. 0100, permission by the relevant local authorities has been given to commence the construction of the CIP with a total planned gross floor area of approximately 9,993.50 sq.m. and for the remaining portions of the CIP with a total planned gross floor area of approximately 51,174.28 sq.m., we have not been provided with any construction commencement permits as at the date of valuation.

5. Pursuant to various Tenancy Agreements, portions of the properties with a total gross floor area of approximately 11,886.64 sq.m. are rented to various independent third parties for various terms at a total annual rental of RMB1,092,434 for production use.

6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use right of the granted land in accordance with the valid term stipulated in the LURCs and the PRC laws;

   b. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights of the authorized land are held by the Group and the Group shall has the legal rights to transfer, occupy, use, lease, mortgage or otherwise dispose of the land in compliance with the PRC laws and regulations;

   c. for the buildings or units with BOCs or RETCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the unit without BOC, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificate to the unit, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to the unit without BOC;

   d. for the CIP with relevant construction permit, the Group has the rights to commence the construction of the CIP and legally use after completion and obtaining the relevant title certificates; for the CIP without relevant construction permits, CSRG has undertaken to assist the Group in applying for construction permits and to indemnify the Group against any losses and claims arising from the absence of construction permits, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group; and

   e. the properties with title certificates are not subject to any mortgage or any other encumbrance.

7. In valuing the properties, we have attributed no commercial value to a unit without valid title certificate and portions of the CIP without construction permits. However, for reference purpose, we are of the opinion that the aggregate sum of the capital value of the unit and portions of the CIP assuming all relevant title certificates and permits have been obtained and the unit could be freely transferred as at the date of valuation would be RMB46,761,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
				RMB
12.	Various properties held by CSR Chengdu Locomotive & Rolling Stock Co., Ltd. and its subsidiaries in Sichuan Province The PRC	The properties include 143 buildings or units and various structures completed in various stages between 1969 and 2007. These buildings or units have a total gross floor area of approximately 157,788.17 sq.m. Details of uses and gross floor areas of them are listed as follows:	The properties are currently occupied by the Group for production, office and ancillary purposes except for portions of the properties with a total gross floor area of approximately 25,687.21 sq.m. which are currently rented to various independent third parties (refer to note 4).	459,515,000 interest attributable to the Group: RMB459,515,000

Use	No. of Item	Area (sq.m.)
Office	10	10,806.81
Production	106	134,264.29
Ancillary	27	12,717.07
Total:	**143**	**157,788.17**

The properties also include 3 parcels of land with a total site area of approximately 512,593.19 sq.m. for industrial use.

Notes:

1. CSR Chengdu Locomotive & Rolling Stock Co., Ltd. is a wholly owned subsidiary of the Company.

2. Pursuant to 3 LURCs, the land use rights of 3 parcels of land with a total site area of approximately 512,593.19 sq.m. are state-capital-injection land.

3. Among 143 buildings or units, the Group has obtained valid BOCs for 38 buildings or units with a total gross floor area of approximately 88,476.86 sq.m. and for the remaining 105 buildings or units with a total gross floor area of approximately 69,311.31 sq.m., we have not been provided with any title certificates.

4. Pursuant to various Tenancy Agreements, portions of the properties with a total gross floor area of approximately 25,687.21 sq.m. which are currently rented to various independent third parties for various terms at a total annual rental of RMB2,082,273 for production use.

5. In the course of our valuation to properties situated in Chengdu of the Sichuan Province, we have paid attention to the fact that the aforesaid properties might be affected by the earthquake and the associated aftershocks in the Sichuan Province in May 2008. Re-inspections were carried out to these properties in July 2008 and no serious damages were noted except some cracked walls. However, we are not structure engineers and are unable to report that the properties are free of structure defects. Our valuation has been prepared on the assumption that the defects (if any) did not constitute any substantial repairing costs to the properties as at the date of valuation.

6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
   a. the land use rights of the state-capital-injection land are held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land in accordance with the valid terms stipulated in the LURCs and the PRC laws;
   b. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units; and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs; and
   c. the properties with title certificates are not subject to any mortgage or any other encumbrance.
7. In valuing the properties, we have attributed no commercial value to 105 buildings or units without valid title certificates. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units assuming all relevant title certificates have been obtained and the units could be freely transferred as at the date of valuation would be RMB56,342,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008 RMB
13.	Various properties held by CSR Sifang Locomotive & Rolling Stock Co., Ltd. and its subsidiaries in Beijing, Shanghai, Shandong Province, Henan Province, Sichuan Province and Liaoning Province The PRC	The properties include 75 buildings or units and various structures completed in various stages between 1987 and 2008. These buildings or units have a total gross floor area of approximately 233,352.63 sq.m. Details of uses and gross floor areas of them are listed as follows:	The properties are currently occupied by the Group for production, office and ancillary purposes.	622,200,000 interest attributable to the Group: RMB560,224,000

Use	No. of Item	Area (sq.m.)
Office	6	3,859.15
Production	64	221,214.17
Ancillary	5	8,279.31
Total:	**75**	**233,352.63**

The properties include 2 parcels of land with a total site area of approximately 806,040.40 sq.m. for industrial and railway uses.

The properties also include 3 buildings under construction as at the date of valuation (the "CIP"). The constructions of the CIP are scheduled to be completed in September 2008. The total planned construction area of the CIP upon completion will be approximately 40,633 sq.m. The total construction cost of the CIP is estimated to be approximately RMB85,429,000, of which approximately RMB35,724,000 has been paid at the date of valuation.

Notes:

1. CSR Sifang Locomotive & Rolling Stock Co., Ltd. is a 90.04% owned subsidiary of the Company.

2. Pursuant to 2 LURCs, the land use rights of 2 parcels of land with a total site area of approximately 806,040.40 sq.m. are state-capital-injection land.

3. Among 75 buildings or units, the Group has obtained valid BOCs for 73 buildings or units with a total gross floor area of approximately 232,951.53 sq.m.; and for the remaining 2 buildings or units with a total gross floor area of approximately 401.1 sq.m., we have not been provided with any title certificates.

4. For the CIP with a total gross floor area of approximately 40,633 sq.m., we have not been provided with any construction commencement permits as at the date of valuation.

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

    a. the land use rights of the state-capital-injection land are held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land in accordance with the valid terms stipulated in the LURCs and the PRC laws;

    b. for the buildings or units with BOCs or RETCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs or RETCs, China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs or RETCs;

    c. for the CIP without relevant construction permits, CSRG has undertaken to assist the Group in applying for construction permits and to indemnify the Group against any losses and claims arising from the absence of construction permits, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group; and

    d. the properties with title certificates are not subject to any mortgage or any other encumbrance.

6. In valuing the properties, we have attributed no commercial value to 2 buildings or units without valid title certificate and the CIP without construction permits. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units and the CIP assuming all relevant title certificates and permits have been obtained and the units could be freely transferred as at the date of valuation would be RMB36,980,000.

VALUATION CERTIFICATE

<table>
<tr><th>No.</th><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Capital value in existing state as at 30 June 2008
RMB</th></tr>
<tr>
<td>14.</td>
<td>Various properties held by CSR Zhuzhou Electric Locomotive Co., Ltd. and its subsidiaries in Beijing, Hunan Province and Zhejiang Province
The PRC</td>
<td>The properties include 188 buildings or units and various structures completed in various stages between 1948 and 2008.

These buildings or units have a total gross floor area of approximately 335,905.67 sq.m.

Details of uses and gross floor areas of them are listed as follows:

<table>
<tr><th>Use</th><th>No. of Item</th><th>Area (sq.m.)</th></tr>
<tr><td>Office</td><td>24</td><td>41,176.41</td></tr>
<tr><td>Production</td><td>132</td><td>272,706.47</td></tr>
<tr><td>Ancillary</td><td>32</td><td>22,022.79</td></tr>
<tr><td>Total:</td><td>188</td><td>335,905.67</td></tr>
</table>

The properties include 14 parcels of land with a total site area of approximately 1,133,968.45 sq.m. for industrial use.

The properties also include 7 buildings under construction as at the date of valuation (the “CIP”). The constructions of the CIP are scheduled to be completed in January 2009. The planned construction area of the CIP upon completion will be approximately 71,336 sq.m. The total construction cost of the CIP is estimated to be approximately RMB61,100,000, of which approximately RMB36,032,000 has been paid at the date of valuation.</td>
<td>The properties are currently occupied by the Group for production, office and ancillary purposes except for portions of the properties with a total gross floor area of approximately 17,039.73 sq.m. which are currently rented to various independent third parties (refer to note 5).</td>
<td>816,275,000

interest attributable to the Group:
RMB787,443,000</td>
</tr>
</table>

Notes:

1. CSR Zhuzhou Electric Locomotive Co., Ltd. is a 98.37% owned subsidiary of the Company.

2. Among 14 parcels of land, 6 parcels of land with a total site area of approximately 197,498.82 sq.m. are granted land with LURCs; for the remaining 8 parcels of land with a total site area of approximately 936,469.63 sq.m., China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has been authorized by the Ministry of Land and Resources of the PRC to manage and operate and the land use rights of these 8 parcels of land have been injected into the Group as capital contribution (the "authorized land").

3. Among 188 buildings or units, the Group has obtained either valid BOCs for 174 buildings with a total gross floor area of approximately 323,186.91 sq.m. Out of the remainder, a unit with a gross floor area of approximately 280.33 sq.m., the registered name on BOC is going to be changed to the Group. For the remaining 13 buildings or units with a total gross floor area of approximately 12,438.43 sq.m., we have not been provided with any title certificates.

4. Pursuant to 2 Construction Commencement Permits — Nos. 430211200801150101 and 430211200607240101, permissions by the relevant local authorities have been given to commence the construction of the CIP with a total planned gross floor area of approximately 10,369 sq.m.; and for the remaining portions of the CIP with a total planned gross floor area of approximately 60,967 sq.m., we have not been provided with any construction commencement permits as at the date of valuation.

5. Pursuant to various Tenancy Agreements, portions of the properties with a total gross floor area of approximately 17,039.73 sq.m. which are currently rented to various independent third parties for various terms at a total annual rental of RMB1,558,674.20 for production and ancillary uses.

6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;

   b. CSRG has the rights to deal with the authorized land by way of capital contribution to its subsidiaries or let within the validity period as prescribed in the LURCs. The land use rights of the authorized land are held by the Group and the Group shall has the legal rights to occupy, use, transfer, lease and mortgage or otherwise dispose of the land use rights in compliance with the PRC laws and regulations;

   c. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, CSRG has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs;

   d. for the unit with the registered name on BOC is going to be changed to the Group and there is no material legal impediment to complete this procedure;

   e. for the CIP with relevant construction permits, the Group has the rights to commence the constructions of the CIP and legally use after completion and obtaining the relevant title certificates; for the CIP without relevant construction permits, CSRG has undertaken to assist the Group in applying for construction permits and to indemnify the Group against any losses and claims arising from the absence of construction permits, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group; and

f. according to various mortgage contracts, 4 buildings with a total gross floor area of approximately 5,394.75 sq.m. and the land use rights of 2 parcels of land with a total site area of approximately 16,175 sq.m. are subject to mortgages for a total maximum loan amount of RMB9,250,000 in favor of various banks as security with various mortgage term from August 2005 to August 2012 and CSRG has undertaken to release these mortgages before the incorporation of the Company and to indemnify the Group against any losses caused by the existing mortgages after the incorporation of the Company; and the Group can legally occupy, use and derive from the proceeds of them but cannot freely transfer, mortgage and dispose of them without the consent of mortgagees; save for the aforesaid properties, the remaining properties with relevant title certificates are not subject to any mortgage or any other encumbrance. There would be no adverse material effects and legal risks on the listing or normal operation of the Group due to the mortgages.

7. In valuing the properties, we have attributed no commercial value to 14 buildings or units without valid title certificates and portions of the CIP without construction permits. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings or the capital value of the units and portions of the CIP assuming all relevant title certificates and permits have been obtained and the units could be freely transferred as at the date of valuation would be RMB37,133,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008 RMB
15.	Various properties held by CSR Ziyang Locomotive Co., Ltd. and its subsidiaries in Sichuan Province The PRC	The properties include 267 buildings or units and various structures completed in various stages between 1969 and 2006. These buildings or units have a total gross floor area of approximately 416,941.88 sq.m. Details of uses and gross floor areas of them are listed as follows:	The properties are currently occupied by the Group for production, office, ancillary and residential purposes except for portions of the properties with a gross floor area of approximately 2,495.04 sq.m. which is currently rented to various independent third parties (refer to note 5).	410,858,000 interest attributable to the Group: RMB382,603,000

Use	No. of Item	Area (sq.m.)
Office	20	26,984.43
Production	133	286,895.25
Ancillary	113	87,574.20
Others	1	15,488.00
Total:	**267**	**416,941.88**

The properties include 23 parcels of land with a total site area of approximately 1,017,701.60 sq.m. for industrial use.

The properties also include a building under construction as at the date of valuation (the "CIP"). The construction of the CIP is scheduled to be completed in September 2008. The planned construction area of the CIP upon completion will be approximately 6,176 sq.m.

The total construction cost of the CIP is estimated to be approximately RMB4,325,000, of which approximately RMB3,083,000 has been paid at the date of valuation.

Notes:

1. CSR Ziyang Locomotive Co., Ltd. is a 93.12% owned subsidiary of the Company.
2. Among 23 parcels of land, 10 parcels of land with a total site area of approximately 44,000.70 sq.m. are granted land with LURCs; 13 parcels of land with a total site area of approximately 973,700.90 sq.m. are state-capital-injection land.
3. Among 267 buildings or units, the Group has obtained valid BOCs for 258 buildings or units with a total gross floor area of approximately 363,906.68 sq.m., and for the remaining 9 buildings or units with a total gross floor area of approximately 53,035.20 sq.m., we have not been provided with any title certificates.
4. For the CIP with a planned gross floor area of approximately 6,176 sq.m., we have not been provided with any construction commencement permit as at the date of valuation.
5. Pursuant to various Tenancy Agreements, portions of the properties with a total gross floor area of approximately 2,495.04 sq.m. are currently rented to various independent third parties for a term of one year at a total annual rental of RMB108,623.92 for production use.
6. In the course of our valuation to properties situated in Ziyang of the Sichuan Province, we have paid attention to the fact that the aforesaid properties might be affected by the earthquake and the associated aftershocks in the Sichuan Province in May 2008. Re-inspections were carried out to these properties in July 2008 and no serious damages were noted except some cracked walls. However, we are not structure engineers and are unable to report that the properties are free of structure defects. Our valuation has been prepared on the assumption that the defects (if any) did not constitute any substantial repairing costs to the properties as at the date of valuation.
7. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
    a. the land use rights of the granted land are legally held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the granted land in accordance with the valid terms stipulated in the LURCs and the PRC laws;
    b. the land use rights of the state-capital-injection land are held by the Group and the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land in accordance with the valid terms stipulated in the LURCs and the PRC laws;
    c. for the buildings or units with BOCs, the Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of them under the PRC laws without paying any extra costs and expenses to relevant authorities; and for the buildings or units without BOCs, China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, has promised to compensate for all losses or damages arising from the lack of valid title certificates to the buildings or units, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group and legal disputes owing to these buildings or units without BOCs;
    d. for the CIP without relevant construction permit, CSRG has undertaken to assist the Group in applying for construction permit and to indemnify the Group against any losses and claims arising from the absence of construction permit, and there would be no adverse material effects and legal risks on the listing or normal operation of the Group; and
    e. the properties with title certificates are not subject to any mortgage or any other encumbrance.

8. In valuing the properties, we have attributed no commercial value to 9 buildings or units without valid title certificates and the CIP without construction permit. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings and the CIP or the capital value of the units assuming all relevant title certificates and permits have been obtained and the units could be freely transferred as at the date of valuation would be RMB66,737,000.

VALUATION CERTIFICATE

GROUP II — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008 RMB
16.	9 properties rented by the Group in the PRC	The properties include 8 buildings or units with a total gross floor area of approximately 25,648.59 sq.m., which were completed in various stages between 1994 and 2007. The properties also include a parcel of land with a site area of approximately 5,000 sq.m. The properties are rented by the Group from various independent third parties and connected parties ("Lessors"), for various terms at a total annual rental of RMB15,110,635.50.	The properties are currently occupied by the Group for residential, production and office purposes.	No commercial value

Notes:

1. Pursuant to various Tenancy Agreements entered into between the Group and various independent third parties, 4 buildings or units with a total gross floor area of approximately 463.48 sq.m. and a portion of a parcel of land with a site area of approximately 5,000 sq.m. are rented to the Group for various terms at a total annual rental of RMB230,640 for residential, production and office uses.

2. Pursuant to various Tenancy Agreements entered into between the Group and China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), the controlling shareholder of the Company, 4 buildings or units with a total gross floor area of approximately 25,185.11 sq.m. are rented to the Group for various terms at a total annual rental of RMB14,891,995.50 for production and office uses.

3. Pursuant to a Tenancy Agreement entered into between the Group and CSRG, 2 buildings with a total gross floor area of approximately 10,008 sq.m. are rented to the Group for 10 years for production use. The annual rental is RMB1,000,000 in the first 5 years and RMB1,200,000 in the second 5 years.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. for the 4 buildings or units with a total gross floor area of approximately 4,425.55 sq.m. and a parcel of land with a site area of approximately 5,000 sq.m. which the relevant lessors have provided with valid title certificates, the Group has legal rights to use these buildings or units and the land under the PRC laws and the Tenancy Agreements;

b. for the 4 buildings with a total gross floor area of approximately 21,223.04 sq.m. which the relevant lessors have not provided with valid title certificates, CSRG has undertaken to resolve any issue arising from the title dissents for the rented buildings and be responsible for any costs, expenses, claims and any other losses to the Group and acquire the title certificates for the rented buildings within 12 months since the incorporation of the Company; and

c. for those properties rented by the Group in the PRC, which the relevant Tenancy Agreements have not been registered in local competent authorities, there would be no adverse material effects and legal risks on the listing or normal operation of the Group due to the aforesaid situation.

VALUATION CERTIFICATE

GROUP III — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN HONG KONG AND OVERSEAS COUNTRIES

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
				RMB
17.	3 properties rented by the Group in Hong Kong, United States of America and Germany	The properties include 3 buildings or units with a total gross floor area of 259.94 sq.m., which were completed in various stages between 1970 and 2000. The properties are rented by the Group from various independent third parties for various terms at a total annual rental of RMB604,515.97.	The properties are currently occupied by the Group for residential and office purposes.	No commercial value

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Notes:

1. Pursuant to various Tenancy Agreements entered into between the Group and various independent third parties, 3 buildings or units with a total gross floor area of approximately 259.94 sq.m. are rented for various terms at a total annual rental of RMB604,515.97 for residential and office uses.

1. TAXATION

Taxation of Dividends

Individual Investors. According to the Interim Regulations Concerning Taxation Issues for Joint Stock Trial Enterprises of the PRC and the Individual Income Tax Law of the PRC, dividends paid by PRC companies are subject to a PRC withholding tax levied at a standard rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is subject to a withholding tax of 20%, unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty. However, the SAT issued, on 21 July 1993, a Notice of the PRC State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (the "Tax Notice") which states that dividends paid by a PRC company to foreign individuals with respect to shares listed on an overseas stock exchange ("Overseas Shares"), such as H shares, are temporarily not subject to PRC withholding tax.

In a letter dated 26 July 1994 to the State Commission for Restructuring Economy of the PRC, the Securities Commission and CSRC, the SAT reiterated that the temporary tax exemption as specified in the Tax Notice for dividends received from a PRC company listed overseas should remain effective. In the event that this temporary tax exemption is revoked, a 20% tax may be withheld on dividends in accordance with the Individual Income Tax Law of the PRC (as amended) (the "Individual Income Tax Law") and the Implementation Rules of the Individual Income Tax Law of the PRC (the "Implementation Rules"). Such withholding tax may be reduced pursuant to an applicable double taxation treaty. To date, the relevant tax authority has not been collecting any withholding tax on dividend payments on Overseas Shares.

Non-individual Investors. According to the Enterprises Income Tax Law of the PRC, non-resident enterprises which have not established offices or premises within the PRC, or if established, the dividends obtained are not actually associated with their established offices and premises, are required to pay enterprises income tax at a rate of 20% of their income generated within PRC. Such withholding tax could be reduced pursuant to an applicable double taxation treaty.

According to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Tax Evasion executed on 21 August 2006, the PRC government may collect taxes on dividends payable to Hong Kong residents by a mainland company provided that the taxes shall not exceed 10% of the total dividends payable. If a Hong Kong resident holds 25% or more of the shares in a mainland company, the taxes levied shall not exceed 5% of the total dividends payable by the company.

Tax Treaties. Investors who are not PRC residents and reside in countries which have entered into avoidance of double-taxation treaties with the PRC, may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The PRC currently has avoidance of double-taxation treaties with a number of countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Under each of such avoidance of double taxation treaties, the rate of withholding tax imposed by PRC's taxation authorities is generally reduced.

Taxation of Capital Gains

Individual Investors. According to the Individual Income Tax Law and the Implementation Rules, gains realized on the sale of equity interests would be subject to income tax at a rate of 20%. The Ministry of Finance has been empowered by the Implementation Rules to formulate the detailed implementing measures for levying the individual income tax on the gains realized on the sale of shares in PRC companies. However, to date, no such implementing measures have been promulgated by the Ministry of Finance, and no individual income tax on gains realized on sales of shares has been levied.

Pursuant to the notice jointly issued by the Ministry of Finance and the SAT dated 30 March 1998, in respect of suspending the enforcement of the collection of the individual income tax on gains realized in connection with sales of shares, gains on sales of shares by individuals are temporarily exempted from individual income tax. In addition, the Tax Notice provides that gains realized by foreign individuals on the sale of Overseas Shares, such as H shares, are temporarily not subject to PRC income tax. In the event that such temporary exemption ceases to be effective, individual holders of H shares may be subject to income tax at a rate of 20% on capital gains, unless such tax is reduced or eliminated by applicable double taxation treaties.

Non-individual Investors. The Tax Notice provides that gains realized by foreign enterprises, not including their entities or establishment in the PRC, which are holders of H shares would, temporarily, not be subject to PRC income taxes.

The State Council promulgated the Notice regarding issues on tax reductions of dividends incurred within the PRC and received by foreign enterprises on 18 November 2000. Pursuant to the Notice, with effect from 1 January 2001, foreign enterprises which have not established offices or premises within PRC, or if established, the dividends, rentals, royalties and other income obtained are not actually associated with their established offices and premises, are entitled to pay enterprises income tax at a preferential rate of 10% unless otherwise prescribed by relevant international treaties.

Stamp Duty

PRC stamp duty imposed on the transfer of shares of PRC listing companies should not apply to the acquisition and disposal by non-PRC investors of H shares outside the PRC by virtue of the Provisional Regulations of China Concerning Stamp Duty, which became effective on 1 October 1988 and which provide that PRC stamp duty is imposed only on various documents, executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Duty

Non-Chinese holders of H shares are not required to pay any estate duty according to the PRC law.

Corporate Income Tax

The Fifth Session of the Tenth National People’s Congress of the PRC held on 16 March 2007 approved the Enterprises Income Tax Law of the PRC (the “Enterprises Income Tax Law”), which stipulates that enterprises and other organizations which generate income in the People’s Republic of China are taxpayers of enterprises income tax and are required to pay enterprises income tax according to stipulations of the concerned law. The Enterprises Income Tax Law and the Implementation Regulations of the Enterprise Income Tax Law of the PRC were implemented on 1 January 2008, and the original Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and the PRC Provisional Regulations on Enterprise Income Tax were abolished at the same time.

According to the Enterprises Income Tax Law, the income tax rate of PRC enterprises is reduced from the original 33% to 25%, which is the same as the rate applied to foreign investment enterprises and foreign enterprises. Non-PRC resident enterprises (i.e. enterprises established according to non-PRC law with their actual management entity outside the PRC and, whether organization and premises are established or not in the PRC, generate income from enterprises in the PRC) who have not established organization or premises within PRC, or if established, the income derived is not actually associated with their established organization and premises, are required to pay enterprises income tax at a rate of 20% of their income generated within PRC.

Value-add Tax

The PRC Provisional Regulations on Value-added Tax (the "VAT Regulations") were promulgated on 13 December 1993 and became effective on 1 January 1994. The VAT Regulations apply to domestic and foreign investment enterprises that sell goods, provide processing or repair and replacement services or import goods in the PRC. Except for certain specified categories of goods sold or imported, the value-added tax rate for the sale or import of which is 13%, the tax rate for sale or import of goods and provision of processing and repair and replacement services is 17%. The amount of tax payable on the sale of goods or the provision of taxable services is the balance of the amount of tax on sales for the current period after deducting or setting off the amount of tax on purchases for the current period.

Business Tax

Pursuant to the PRC Provisional Regulations on Business Tax, which became effective on 1 January 1994, the enterprises (including foreign investment enterprises) and individuals that provide various labor services and that assign intangible assets or sell real estate in the PRC shall be subject to the business tax either at the rate of 3% or at 5% of the amount of taxable services or other transactions, except for the entertainment sector, the turnover of which is subject to the business tax at a rate of 5% to 20%.

2. FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center first had to obtain the approval from the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (the "Foreign Currency Notice"), effective from 1 January 1994. The Foreign Currency Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi into current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On 26 March 1994, the PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (the "Provisional Regulations"). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-US dollar base exchange rate. This PBOC Rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the PBOC Rate.

On 29 January 1996, the State Council promulgated new Regulations of the People's Republic of China for the Control of Foreign Exchange ("Control of Foreign Exchange Regulations") which became effective from 1 April 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the "Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Settlement Regulations") which became effective on 1 July 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-Investment Enterprises (the "Announcement"). The Announcement permits foreign-investment enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, the PBOC and the SAFE jointly promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (the "Discontinuance Notice") with effect from 1 December 1998. According to the Discontinuance Notice, all foreign exchange swapping business in the PRC targeted on the foreign-investment enterprises shall be discontinued, while the trading of foreign exchanges by foreign-investment enterprises shall be carried out under the banking system for the settlement and sale of foreign exchange.

Save for the foreign-investment enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for some foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their existing current account transactions and to make payments by such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (such as foreign exchange income received by our Company from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

PRC enterprises (including foreign-investment enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-investment enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like our Company), may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay distributions at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE and/or the relevant branch must be sought.

Dividends to holders of H Shares are declared in Renminbi but must be paid in Hong Kong dollars.

The PBOC sets and publishes daily the Renminbi-US dollar exchange rate with reference primarily to the supply and demand for the exchange of Renminbi to U.S. dollar in the market on the preceding day. The PBOC also takes into account external factors such as the overall prevailing situation in the international foreign exchange markets. Although the PRC government has, in 1996, implemented a policy to relax the restrictions in the exchange of Renminbi to foreign currencies in current account. However, approvals from the State Administration of Foreign Exchange and other relevant authorities are still warranted for the conversion of Renminbi into foreign currencies by foreign investors for capital-related purposes such as foreign direct investment, loans or securities.

This appendix sets out summaries of certain aspects of PRC law and regulations, which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix V to this Prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and Hong Kong Company Ordinance, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

1. PRC LAWS AND REGULATIONS

A. The PRC Legal System

The PRC legal system is based on the PRC Constitution (the "Constitution") and is made up of written laws, administrative regulations, local regulations, autonomy regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC Government is a signatory. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities directly under the control of the central government and their respective standing committee may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, subject to the Constitution, laws and administrative regulations. The people's congresses of larger cities and their respective standing committee may formulate local regulations based on the specific circumstances and actual needs of such cities and promulgate the same upon approval from the standing committees of the people's congresses of provinces or autonomous regions. The standing committees of the people's congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the government of the province or autonomous region concerned are identified in the examination of local regulations of larger cities by the standing committee of the people's congresses of provinces or autonomous regions, a decision should be made to resolve the issue. "Larger cities" refer to cities where the governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

The people's congresses of autonomous regions have the power to enact autonomous regulations and special rules in the light of the political, economic and cultural characteristics of ethnic groups in the region. The autonomous regulations or special rules enacted by an autonomous region shall be effective upon approval by the standing committee of the people's congresses of provinces, autonomous regions or municipalities directly under the control of the central government. An autonomous regulation or special rule enacted by an autonomous prefecture or autonomous county may be flexible provisions of a law or administrative regulation, so long as such flexible provisions do not contravene the basic principles thereof, but such autonomous regulations or special regulations shall not make flexible modifications to the provisions of the Constitution, laws or administrative regulations specifically enacted for the autonomous regions.

The ministries, commissions, the PBOC, the NAO and the institutions of all businesses with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations should relate to the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The governments of provinces, autonomous regions, municipalities directly under the control of the central government and larger cities may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law passed on 10 June 1981, the Supreme People's Court has the power to provide general interpretation of application of laws in judicial proceedings in addition to its power to issue specific interpretation of specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the statutes and administrative regulations which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative organs which promulgate such laws.

B. The PRC Judicial System

Under the Constitution and the Law of Organization of the People's Courts of the PRC, the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division). These two levels of people's courts are subject to supervision of people's courts at higher levels. The people's procuratorates also have the power to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The judgment or ruling of the second instance at a people's court is final. A party to the case concerned may appeal against the judgment or ruling of the first instance of a people's court. The people's procutorate may appeal to the people's court at the next higher level in accordance with procedures stipulated by the laws. In the absence of any appeal by any parties to the case and any protest by the people's procutorate within the stipulated period, the judgment or ruling of the people's court shall be the final judgment or ruling. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures. The Civil Procedure Law of the PRC (the "Civil Procedure Law") adopted on 9 April 1991 and amended on 28 October 2007 prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, the judicial procedures, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement amongst the parties to a contract provided that the people's court having jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of performing the contract or the place of executing the contract or the object of the action. However, such selection may not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign national or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a court of a foreign country limit the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within a stipulated period. Specific time limits are imposed on the rights to apply for such enforcement. If at least one of the parties to the dispute or arbitration is an individual, the time limit is one year. If both parties to the dispute or arbitration are legal persons or other entities, the time limit is six months. If a party fails to satisfy a judgment which the court has granted approval to enforce within the stipulated time, the court will, upon application of the other party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Similarly, if the PRC has entered into a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by a PRC court based on the equity principle unless the people's court considers that the recognition or enforcement of a judgment or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or social and public interest.

C. The Company Law

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on 29 December 1993 and came into effect on 1 July 1994. It was amended on 25 December 1999 and on 28 August 2004 and revised on 27 October 2005. The revised PRC Company Law came into effect on 1 January 2006.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on 4 July 1994 and promulgated and implemented on 4 August 1994. The Special Regulations are formulated in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions promulgated by Securities Commission of the State Council and the State Restructuring Commission on 27 August 1994 prescribe provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix VIII of this prospectus. References to a "company" made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

General

A "joint stock limited company" is a corporate legal person incorporated under PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the full amount of its assets and the liability of its shareholders is limited to the extent of the shares held by them.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by a minimum of two but no more than 200 promoters. But at least half of the promoters must have residence within the PRC. Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. The initial capital contribution by all promoters of the company shall not be less than 20% of the registered capital. The remainder shall be paid up within two years from the date of incorporation of the company by the promoters. For investment companies, the remainder may be paid up within five years. Shares in the company shall not be offered to other persons unless the registered capital has been paid up. For companies incorporated by public subscription, the registered capital of a company is the amount of its total paid up capital as registered with the relevant registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for shares required to be subscribed for by them under the articles of association. The full amount of capital contribution shall be paid up if payments are made in one lump sum and the first installment shall be paid forthwith if payments are made in installments. Procedures relating to the transfer of titles for non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provision shall assume liabilities for breach of contract in accordance with the covenants laid down in the promoters' agreement. After the promoters have completed the initial capital contribution, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authorities, together with capital verification certificate issued by a capital verification institution established by law and other documents required by the law or administrative regulations.

Where companies are incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters, unless otherwise provided for by the law or administrative regulations. A promoter who offers shares to the public must publish a share offer prospectus and draft a share subscription form to be signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities houses established by law, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also sign an agreement with a bank in relation to the receipt of subscription amounts. The receiving bank shall receive and keep in custody the subscription amounts, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to relevant authorities. After the subscription amounts for the share issuance have been paid in full, a capital verification institution established by law must be engaged to conduct capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days. The inauguration meeting shall be formed by the subscribers. Where shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days after subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter to return the subscription amounts so paid up together with interest at bank rates for a deposit for the same term. Within 30 days after the conclusion of the inauguration meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall individually and collectively be liable for:

(i) the debts and expenses incurred from incorporation if the company cannot be incorporated;

(ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the company cannot be incorporated; and

(iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

Share capital

The promoter may make capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised by monetary value and transferred lawfully, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made with non-monetary assets, a valuation and verification of the asset contributed must be carried out without any over-valuation or under-valuation, subject to any provisions of the law or administrative regulations on valuation. The amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

A company may issue registered or bearer share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC (other than the territories specified above) are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares. The share offering price may be equal to or greater than the par value, but may not be less than the par value.

Increase in share capital

According to the PRC Company Law, the issuance of shares shall be conducted in a fair and equitable manner. Shares in the same class shall rank pari passu with one another. Shares of the same class in the same offer shall be issued on the same terms and at the same price. The same price per share shall be paid by any organizations or individuals subscribing for shares.

Where a company is issuing new shares, resolutions shall be passed by the shareholders' general meeting or the board of directors in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end of the new share issue and the class and amount of new shares proposed to be issued to existing shareholders. When a company launches a public issue of new shares with the approval of the CSRC, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the company has been paid up, the change must be registered with the company registration authorities and an announcement must be made. Where a company is issuing new shares to increase its registered capital, the subscription of new shares by shareholders shall be conducted in accordance with provisions on the payment of subscription amounts in relation to the incorporation of the company.

Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

(i) the company shall prepare a balance sheet and an inventory of asset;

(ii) the reduction of registered capital must be approved by shareholders in a shareholders' general meeting;

(iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;

(iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and

(v) the company must apply to the relevant administration bureau for industry and commence for registration of the reduction in registered capital.

Repurchase of shares

A Company may not purchase its own shares other than for one of the following purposes:

(i) to reduce its registered share capital;

(ii) to merge with another company that holds its shares;

(iii) to grant shares to its employees as incentives; and

(iv) to purchase its own shares by request of its shareholders who vote against a resolution regarding a merger and demerger in a shareholders' general meeting.

The company's acquisition of its own shares on the grounds set out in paragraphs (i) to (iii) above shall require approval by way of a resolution of the shareholders' general meeting. Following the company's acquisition of its shares in accordance with the foregoing, such shares shall be cancelled within 10 days from the date of acquisition under paragraph (i) and transferred or cancelled within six months under paragraphs (ii) or (iv).

Shares acquired by the company in accordance with paragraph (iii) above shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the employees within one year.

Transfer of shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by any other way as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name and address of the transferee into the share register. No changes of registration in the share register provided in the foregoing shall be effected during a period of 20 days prior to the convening of a shareholders' general meeting or five days prior to the record day for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. The transfer of a bearer's share certificate shall become effective upon the delivery of such share certificate to the transferee by the shareholder.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue of shares shall not be transferred within one year from the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in the company and any changes of such shareholdings. During their term of office, they shall transfer no more than 25% of the total shares they hold in the company. They shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they have resigned from their positions with the company. The articles of association of the company may lay down other restrictive provisions in respect of the transfer of shares in the company held by the directors, supervisors and the senior management of the company.

Shareholders

Under the PRC Company Law, the rights of a shareholder include rights:

(i) to receive return on capital, participate in significant decision-making and be able to choose the management;

(ii) to petition the people's court to revoke any resolution passed at a general meeting or a meeting of board of directors that has been convened or whose voting has been conducted in a manner violating the law, or any resolution that is in violation of the articles of association, provided that such petition is submitted within 60 days of the passing of such resolution;

(iii) to transfer shares according to the applicable laws and regulations and the articles of associate of the company;

(iv) to appoint a proxy to attend general meetings;

(v) to inspect the articles of association, share register, counterfoil of company debentures, minutes of general meetings, board resolutions, resolutions of the supervisory committee and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;

(vi) to receive dividends in respect of the number of shares held;

(vii) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and

(viii) any other shareholders' rights provided for in the articles of association of the company.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholders' obligation specified in the company's articles of association.

General meetings

The general meeting of shareholders is the organ of authority of a company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers:

(i) to decide on the company's operational directions and investment plans;

(ii) to elect and remove the directors and supervisors (not being staff representative) and to decide on matters relating to the remuneration of directors and supervisors;

(iii) to examine and approve reports of the board of directors;

(iv) to examine and approve reports of the supervisory committee or supervisor;

(v) to examine and approve the company's proposed annual financial budget and final accounts;

(vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;

(vii) to decide on any increase or reduction of the company's registered capital;

(viii) to decide on the issue of bonds by the company;

(ix) to decide on issues, such as merger, division, dissolution and liquidation of the company;

(x) to amend the company's articles of association; and

(xi) other authorities as provided for in the articles of association of the company.

General meetings are required to be held once every year. An extraordinary general meeting is required to be held within 2 months after the occurrence of any of the following:

(i) the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the articles of association;

(ii) the aggregate losses of the company which are not made up reach one third of the company's total share capital;

(iii) when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;

(iv) whenever the board of directors deems necessary;

(v) when the supervisory committee so requests; or

(vi) other circumstances as provided for in the articles of association of the company.

General meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Notice of the general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. In accordance with the Mandatory Provisions, notice of the general meeting stating, among other things, matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting. Shareholders intending to attend the meeting shall return the reply slip to the company within 20 days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer's share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting. Shareholders alone or in aggregate holding more than 3% of the company's shares may submit interim proposals to the board of directors in writing 10 days before the general meeting.

The board of directors shall notify other shareholders within two days after receiving such proposal and table such interim proposal for review by the general meeting. Interim proposals shall be within the powers of the general meeting and shall carry specific subjects and matters for resolution. A general meeting shall not make any resolution in respect of any matters not set out in the two types of notices mentioned above. Holders of bearer's share certificate who wish to attend the general meeting shall deposit his share certificates with the company five days before the meeting, which share certificates shall remain in the custody of the company until the close of the general meeting.

Shareholders present at a general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division, dissolution of a company, increase or reduction of registered share capital, change of company form or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by a company must be approved by way of resolution of the general meeting, the directors shall convene a general meeting promptly to vote on the above matters. The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the general meeting for the election of directors and supervisors at the general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected for the election of directors and supervisors at the general meeting, and shareholders may consolidate their voting rights when casting a vote.

Minutes shall be prepared in respect of matters considered at the general meeting and the president of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of shares of any class, warrants or other similar securities, and bonds, the liquidation of the company and any other matters in respect of which the shareholders are required to decide by ordinary resolution, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a general meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when written replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within 5 days of the last day for receipt of the replies notify shareholders again by announcement of the matters to be considered at the meeting and the date and place of the meeting and the general meeting may be held thereafter.

The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a shareholder class. Holders of domestic invested shares and holders of H shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include staff representatives, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than 3 years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors may exercise its powers:

(i) to convene the general meetings and report on its work to the general meetings;

(ii) to implement the resolutions passed by the shareholders in general meetings;

(iii) to decide on the company's business plans and investment proposals;

(iv) to formulate the company's annual financial budget and final accounts;

(v) to formulate the company's profit distribution proposals and for recovery of losses;

(vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;

(vii) to prepare plans for the merger, division or dissolution of the company or change in formation of the company;

(viii) to decide on the company's internal management structure;

(ix) to appoint or dismiss the company's general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;

(x) to formulate the company's basic management system; and

(xi) to exercise other powers under the articles of association of the company.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the directors or the supervisory committee. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors. Meetings of the board of directors shall be held only if more than half of the directors are present. According to the Mandatory Provisions, meetings of the board of directors shall be held if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

(i) persons without civil capacity or with restricted civil capacity;

(ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the socialist economic order, and have been sentenced to criminal punishment, where less than 5 years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than 5 years have elapsed since the date of the completion of implementation of this deprivation;

(iii) persons who are directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than 3 years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) persons who were legal representatives of a company or enterprise which had its business license revoked or ordered for closure due to violation of the law and who are personally liable, where less than 3 years have elapsed since the date of the revocation of the business license;

(v) persons who have a relatively large amount of debts due and outstanding.

The election or appointment of directors elected or appointed by the company in violation of the aforesaid provisions shall be null and void. Directors committing the above during their terms of office shall be released of their duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions. The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall perform his duties.

Supervisors

A company shall have a supervisory committee composed of not less than 3 members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one third. Representatives of the company's staff at the supervisory committee shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors.

The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by the majority of supervisors shall convene and preside over supervisory committee meetings. Directors and senior management may not act concurrently as supervisors.

Each term of office of a supervisor is 3 years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his or her duties in accordance with the laws, administrative regulations and the company's articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory committee may exercise its powers:

(i) to review the company's financial position;

(ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association of the company or shareholders' resolutions;

(iii) when the acts of a director or manager is detrimental to the company's interests, to require the director and senior management to correct these acts;

(iv) to propose the convening of extraordinary general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under the PRC Company Law;

(v) to propose any bills to shareholders' general meetings;

(vi) to initiate proceedings against directors and senior management in accordance with the relevant requirements of the PRC Company Law;

(vii) other powers specified in the articles of association of the company.

Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist their work at the company's expense.

Managers and senior officers

A company shall have a general manager who shall be appointed or removed by the board of directors. The general manager may exercise the following powers:

(i) manage the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;

(ii) arrange for the implementation of the company's annual business plans and investment proposals;

(iii) formulate plans for the establishment of the company's internal management structure;

(iv) formulate the basic administration system of the company;

(v) formulate the company's internal rules;

(vi) recommend the appointment and dismissal of deputy managers and any financial controller;

(vii) appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);

(viii) other powers conferred by the board of directors.

Other provisions of the company's articles of association on the general manager's powers shall also be complied with. The general manager shall be in attendance at board meetings. Managers who are not directors have no voting rights at board meetings.

According to the PRC Company Law, senior management shall mean the general manager, deputy general manager(s), financial controller, board secretaries of a listed company and other personnel as stipulated in the articles of association of the company.

Duties of the directors, supervisors, general managers and other senior officers

Directors, supervisors, general manager, deputy general manager(s) and senior management of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association of the company, and carry out their duties honestly and diligently. Directors, supervisors, managers and officers are prohibited from accepting bribes or other unlawful income and from misappropriating the company's properties. Directors and officers are prohibited from:

(i) misappropriating of company funds;

(ii) depositing of company funds into accounts under their own name or the name of other individuals;

(iii) loaning company funds to others or providing guarantees in favor of others on the basis of the company properties in violation of the articles of association or without approval of the shareholders' meeting or board of directors;

(iv) entering into contracts or deals with the company in violation of the articles of association or without approval of the shareholders' meeting or board of directors;

(v) using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others' businesses similar to that of the company without approval of the shareholders' meeting;

(vi) accepting for their own benefit commission from a third party dealing with the company;

(vii) unauthorized divulgence of confidential information of company;

(viii) other acts in violation of the fiduciary duty to the company.

Income generated by directors or senior management in violation of the foregoing provisions shall be reverted to the company.

A director, supervisor or member of senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where a director, supervisor or member of the senior management is required to attend a shareholders' general meeting, such director, supervisor or member of the senior management shall attend the meeting and answer enquiries from shareholders. Directors and member of senior management shall furnish all truthful facts and information to the supervisory committee or the supervisor (for companies with limited liability that do not have supervisory committees) without impeding the discharge of duties by the supervisory committee or the supervisors.

Where a director or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company, shareholders holding alone or in aggregate more than 1% of the company's shares consecutively for 180 days may request in writing the supervisory committee to institute litigation at the people's court on their behalf. Where a supervisor violates the law or administrative regulations or the company's articles of association in the discharge of their duties resulting in losses to the company, the aforesaid shareholders may request in writing the board of directors to institute litigation at the people's court on their behalf. In the event that the supervisory committee or board of directors refuses to institute litigation after receiving the written request of shareholders as provided in the foregoing, or fails to institute litigation within 30 days after receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interest, shareholders mentioned in the foregoing shall have the power to institute litigation directly at the people's court in their own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in losses to the company, shareholders may institute litigation at the people's court in accordance with provisions in the two foregoing paragraphs. Where a director or senior management who contravenes any law, administrative regulation or the articles of association in infringement of shareholders' interests, shareholders may also institute litigation at the people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general manager and other senior management shall have fiduciary duties towards the company. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council. A company shall prepare a financial report which shall be audited by an accountant as provided by law, at the end of each financial year. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of financial department of the State Council.

A company shall deposit its financial statements at the company's registered address for the inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements. When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital). When the company's statutory common reserve fund is not sufficient to make up for the company's losses of previous years, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, except for distributions stipulated by the articles of association of the company which are not to be made in a proportionate manner.

Profit distributed to shareholders by resolution of a general meeting or the board of directors before losses have been made good and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. Shares held by the company shall not be entitled to any distribution of profits.

The premium over the nominal value of the shares of the company on issue and other income required by the relevant governmental authority to be treated as the capital common reserve shall be accounted for as capital common reserve. The common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital, the capital common reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the statutory common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and retirement of auditors

Pursuant to the PRC Company Law, the appointment or dismissal of accountants responsible for the company's auditing shall be determined by the general meeting or the board of directors in accordance with the articles of association of the company. The accountant should be allowed to make statements when the general meeting or board of directors is going to conduct a vote on the dismissal of the accountant. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant it hires without any refusal, withholding and false information.

The Special Regulations require a company to employ an independent qualified firm of accountants to audit the company's annual report and review and check other financial reports.

Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of H shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in applicable laws, regulations and the articles of association. Any amendment of provisions incorporated into the articles of association of the company in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the CSRC and the State Council and filed with the State Administration for Industry and Commerce or any of its local bureau for registration. If the amendment to the articles of association falls to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

Dissolution and liquidation

A company shall be dissolved by reason of the following:

(i) the term of its operations set down in the company's articles of association has expired or other events of dissolution specified in the company's articles of association have occurred;

(ii) the shareholders in general meeting have resolved to dissolve the company;

(iii) the company is dissolved by reason of its merger or demerger;

(iv) the business licence is revoked or the company's operation is ordered to close or is dissolved;

(v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation of the company experiences serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses for shareholders.

In the event of paragraph (i) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out in the previous paragraph shall require approval of shareholders holding more than two thirds of voting rights attending a general meeting.

Where the company is dissolved in the circumstances described in paragraphs (i), (ii), (iv) or (v) above, liquidation must commence within 15 days after the establishment of a liquidation committee. Members of the liquidation committee shall be appointed by the directors or the shareholders in a general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation committee for liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee shall exercise its powers during the liquidation period:

(i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;

(ii) to notify creditors or issue public notices;

(iii) to deal with and settle any outstanding businesses of the company;

(iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation;

(v) to settle the company's financial claims and liabilities;

(vi) to handle the surplus assets of the company after its debts have been paid off; and

(vii) to represent the company in civil lawsuits.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the general meeting or people's court for endorsement. The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debt shall be distributed to shareholders according to their proportion of capital contribution in the case of companies with limited liability or according to shareholding proportion in the case of joint stock limited companies. The company shall exist during the liquidation period, although it cannot be engaged in any operating activities that are not related to the liquidation. The company's properties shall not be distributed to the shareholders before repayments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the people's court for a declaration for bankruptcy according to law.

Following such declaration by the people's court, the liquidation committee shall hand over the affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' meeting, general meeting or the people's court for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation committee shall be prohibited from accepting bribes or other unlawful income and from misappropriating the company's properties. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Liquidation of a company declared bankrupt according to the law shall be processed in accordance with laws on corporate bankruptcy.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue H shares and domestic invested shares which has been approved by CSRC may be implemented by the board of directors of the company separately, within 15 months after approval is obtained from the CSRC.

Loss of share certificates

A shareholder may apply, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen, lost or destroyed, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions have additional provisions on loss of share certificates and H share certificates of shareholders of overseas listed foreign shares which are set out in the Articles of Association.

Suspension and termination of listing

The new and amended Company Law has deleted provisions governing suspension and termination of listing. The new Securities Law has been amended as follows: the trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances:

(1) the total amount of shares or shareholding distribution no longer complies with the necessary requirements for a listed company;

(2) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;

(3) the company has committed a major breach of the law;

(4) the company has incurred losses for latest three (3) consecutive years; or

(5) other circumstances as required by the listing rules of the relevant stock exchange(s).

The new Securities Law has been amended as follows: Where a listed company is in any of the following circumstances, the stock exchange shall decide to terminate the listing of its stocks:

(1) Where the total amount of shares or shareholding distribution of the company changes and thus, fails to meet the requirements of listing, and where the company fails again to meet the requirements of listing within the period as prescribed by the stock exchange;

(2) Where the company fails to make public its financial position according to the relevant provisions or has any false record in its financial statements, and refuses to make any correction;

(3) Where the company has incurred losses for the latest three (3) consecutive years and fails to gain profits in the year thereafter;

(4) Where the company is dissolved or is announced bankruptcy; or

(5) Under any other circumstance as prescribed in the listing rules of the stock exchange.

Merger and demerger

A merger agreement must be signed by merging companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within 10 days of the resolution of the merger inform their respective creditors and publish a notice in newspapers within 30 days. The creditors may, within 30 days for those who have received the notice or within 45 days for those who have not, request a company to satisfy any unpaid debts or provide equivalent guarantees. When companies merge, the credits and debts of the merging parties shall be assumed by the surviving company or the new company.

When a company demerges, its assets must be divided accordingly and a balance sheet and inventory of assets must be drawn up. When a resolution is passed approving the demerger of the company, the company should notify all its creditors within 10 days of such resolution being made and announce the same in newspapers within 30 days. Unless agreed in writing with a creditor in respect of settlement of debts, obligations in respect of the liabilities before the demerger of the company shall be jointly and severally borne by the demerged companies.

Changes in registrable particulars of the companies caused by merger or demerger must be registered with the companies registration authorities. Cancellation of a company should be registered in accordance with the law when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated.

D. Securities Law and Regulations and Regulatory Regimes

The PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. In early 1998, the State Council dissolved the then Securities Commission whose functions have now been assumed by the CSRC. The Securities Commission is responsible for coordinating the drafting of the securities law, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis.

On 22 April 1993, the State Council promulgated the Securities Provisional Regulations. The Securities Provisional Regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, disclosure of information, investigation, penalties and dispute settlement with respect to a listed company. The Securities Provisional Regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC require the approval of the Securities Commission (or the CSRC at present). Provisions of the Securities Provisional Regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to companies listed on a stock exchange in general without being confined to companies listed on any particular stock exchange. Such provisions may, therefore, be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC (eg. the Hong Kong Stock Exchange).

On 31 December 2006, the CSRC promulgated the Administrative Measures on Information Disclosure by Listed Companies. Under these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of regular reports (including annual, interim and quarterly reports) and announcement of material transactions or matters by companies which have offered shares to the public.

On 4 August 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of foreign capital stock listed aboard and the disclosure of information of articles of association of joint stock limited companies having foreign capital stock listed aboard.

On 25 December 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited companies having domestic listed foreign shares.

On 29 December 1998, the Standing Committee of the NPC promulgated the Securities Law of the PRC which came into effect on 1 July 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On 27 October 2005, the Securities Law of the PRC was revised. The Securities Law of the PRC is applicable to the issuance of and trading in shares, company bonds and other securities designated by the State Council according to law in the PRC. Where the Securities Law of the PRC does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations will apply.

On 29 March 1999, SETC and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas (the "Opinion"), which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Opinion regulates, amongst other things, the appointments and functions of external directors and independent directors in the board of directors, and the appointment and functions of external supervisors in the supervisory committee.

E. Arbitration and Enforcement of Arbitration Awards

The Arbitration Law of the People's Republic of China (the "Arbitration Law") was passed by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, economic disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court, unless the arbitration agreement has lapsed.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Hong Kong Listing Rules, also in a contract between the company and each director or supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of H shares and the directors, supervisors or other officers of the company, such parties shall submit that dispute or claim for arbitration before either CIETAC or HKIAC for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.

CIETAC is an economic and trade arbitration organ in the PRC. In accordance with CIETAC Arbitration Rules as amended on 11 January 2005 (which amendment became effective on 1 May 2005), the jurisdiction of CIETAC covers disputes involving Hong Kong. CIETAC is located in Beijing with branch offices in Shenzhen and Shanghai. Under the Arbitration Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee or the giving of an award beyond the scope of the arbitration agreement or the jurisdiction of the arbitration commission).

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention to disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. Arrangements for reciprocal enforcement of arbitral awards between Hong Kong and China was signed on 18 June 1999. This new arrangement has been approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. The new arrangement is made in accordance with the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforceable in Hong Kong and awards by Hong Kong arbitral authorities to be enforceable in the PRC.

F. Foreign Exchange Control

Foreign exchange control is implemented through three major regulatory regimes. On 28 December 1993, the PBOC, with the authorization of the State Council, issued the Notice on Further Reform of the Foreign Exchange Control System which came into effect on 1 January 1994. Other major regulations and implementation measures include the Foreign Exchange Control

Regulations promulgated by the State Council on 29 January 1996 and which came into effect on 1 April 1996 (as amended on 14 January 1997) and the Regulations on the Foreign Exchange Settlement, Sale and Payments which were promulgated on 20 June 1996 by the PBOC and took effect on 1 July 1996 and which contain detailed provisions regulating the holding, sale and purchase of foreign exchange by enterprises, individuals, economic organizations and social institutions in the PRC. The PBOC publishes the Renminbi exchange rate against other major currencies. The PBOC Rate is to be set by reference to the Renminbi trading price against major currencies on the previous day on the inter-bank foreign exchange market. Generally, the foreign exchange earnings of all PRC enterprises, other than those allowed to be retained by foreign enterprises as recurrent exchange income or specifically exempted under the relevant regulations, are to be sold to designated banks. Retained foreign exchange earnings may need to be kept in foreign exchange bank accounts of designated banks. Foreign exchange capital must be deposited in foreign exchange bank accounts maintained at designated banks, and may generally be retained in such account.

At present, control of purchase of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign currency from designated banks if the application is supported by relevant documents. Furthermore, foreign investment enterprises that require foreign currency for dividend payments, such as profit distribution to foreign investors, may draw funds in their foreign exchange bank accounts kept with designated banks after paying due dividend taxes. Should such foreign currency be insufficient, foreign investment enterprises may purchase foreign currency from designated banks. While foreign exchange control on current account transactions has been relaxed, the drawdown of foreign currency loans by companies, the provision of foreign exchange guarantees, overseas investments and any other types of capital account transactions that involve the purchase of foreign exchange remain subject to the approval of the SAFE. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the POBC and subject to certain limits, freely determine the applicable exchange rate.

2. HONG KONG LAWS AND REGULATIONS

(a) Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, and is supplemented by the common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC seeking a listing of H Shares on the Hong Kong Stock Exchange, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a limited company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

(i) Corporate existence

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. The articles of association of a private company incorporated in Hong Kong is required by the Companies Ordinance to contain certain pre-emptive rights provisions. A public company does not contain such pre-emptive rights provisions in its articles of association.

Under the PRC Company Law, a joint stock limited company may be incorporated by either the promotion method or the subscription method. A company must have a minimum registered capital of RMB5 million, or higher as may otherwise be required by the laws and regulations. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue. A company is not bound to issue the entire amount of its authorized share capital. The authorized share capital of a Hong Kong company may be larger than its issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital. The registered capital of a joint stock limited company established by promoters is the amount of the total share capital subscribed by all promoters registered with the authority of company registration. The registered capital of a joint stock limited company established by fund-raising is the amount of the total paid-in capital registered with the authority of company registration. Any increase in the registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities.

Under the PRC Company Law and the PRC Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares ("domestic shares") in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal or natural persons, Qualified Foreign Institutional Investors and Qualified Foreign Strategic Investors. The overseas listed foreign shares ("H shares") issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, Qualified Domestic Institutional Investors of China, as well as investors from Hong Kong, Macau, Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and senior managers and transferred each year during their term of office shall not exceed 25% of the total shares they hold in the company. Moreover, the shares they hold in the company cannot be transferred within one year from the listing date of the shares, and within six months after the said personnel has left office. The company's articles of association may set other restrictive requirements on shareholdings and transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfer of shares under Hong Kong company law.

(iv) Financial assistance for acquisition of shares

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions provide for certain restrictions, similar to those under Hong Kong company law, on a company and its subsidiaries providing such financial assistance.

(v) Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix VIII to the Prospectus. Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

The Company (as required by the Hong Kong Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where (i) the Company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, not more than 20% of each of the issued overseas listed foreign invested shares and the issued domestic invested shares existing as of the date of the shareholders' special resolution; and (ii) the plan for the issue of domestic listed shares and overseas listed shares upon its establishment is implemented within 15 months following the date of approval by the CSRC. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

(vi) Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits, such as loans, to directors and guarantees in respect of directors' liability or prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix VIII to this Prospectus.

(vii) Supervisory committee

Under the PRC Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision of a supervisory committee. However, there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law stipulates that if directors and senior officers incur losses for the company due to violation of laws, administrative regulations or the articles of association, shareholders holding 1% or more shares of the company individually or collectively for a consecutive of 180 days or more may initiate proceedings in the people's court by giving a written request to the supervisory committee. If supervisors incur losses for the company due to violation of laws, administrative regulations or the articles of association in their office, the aforesaid shareholders may initiate proceedings in the people's court by giving a written request to the board of directors. If the supervisory committee, board of directors or the executive directors refuse the written request of proceedings from the shareholders, or do not initiate proceedings within 30 days upon receipt of request, or in case of emergency that will incur irrecoverable losses for the company if no actions are taken, the aforesaid shareholders are entitled to initiate proceedings in the people's court directly in their own names for the interest of the company. The Mandatory Provisions further provide remedies to the company against directors, supervisors and officers who breach their duties to the company. In addition, as a condition for the listing of H Shares on the Hong Kong Stock Exchange and in accordance with the Mandatory Provisions, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Hong Kong Stock Exchange is required to give an undertaking in favor of the company acting as agent for each of the shareholders. This allows minority shareholders to litigate against the directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of shareholders, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not give similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given not less than 20 days before the meeting, or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively. The notice period for an annual general meeting is 21 days.

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is no less than two members unless the articles of association of the company otherwise provide. For one-member companies, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by way of a public announcement, and the shareholders' general meeting may be held thereafter.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three quarters of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting, except in cases of proposed amendments to the articles of association, increase or reduction of share capital, merger, division or dissolution of a joint stock limited company or changes to the company status, which each requires two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) Financial disclosure

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexures 20 days before the general meeting of shareholders. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance in Hong Kong requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting.

A joint stock limited company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC accounting standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. The Company is required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously in the relevant stock exchanges.

(xiv) Information on directors and shareholders

The PRC Company Law gives the shareholders of a joint stock limited company the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) Receiving agent

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require the appointment of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29, Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such H shares.

(xvi) Corporate reorganization

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under PRC Company Law, such reorganizations shall be subject to the relevant approval under the PRC Company Law.

(xvii) Disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either HKIAC or CIETAC at the claimant's choice.

(xviii) Mandatory deductions

Under the PRC Company Law, after-tax profits of a joint stock limited company are subject to deductions of contributions to the company's statutory common reserve fund and discretionary common reserve fund, as approved by shareholders by way of resolution at a shareholders' meeting, before they can be distributed to its shareholders. There are prescribed percentages under the PRC Company Law for such deductions. There are no such requirements under Hong Kong law.

(xix) Remedies of a company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Hong Kong Listing Rules, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been set out in the Articles of Association.

(xx) Dividends

The articles of association of a company empower the company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC law, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty and due diligence duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) Closure of register of shareholders

The Companies Ordinance in Hong Kong requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a listed company provide, as required by the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(b) Hong Kong Listing Rules

The Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal additional requirements which apply to our Company:

(i) Compliance Advisor

A company seeking listing is required to appoint a compliance adviser acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results. The compliance adviser is to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to its two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such a report will normally be required to conform to either Hong Kong Financial Reporting Standards or IFRS.

(iii) Process agent

A PRC issuer is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public float

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("foreign shares") which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital. It also requires that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if we have an expected market capitalization at the time of listing of over HK$10 billion.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity, and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, we may repurchase our own H shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, we are required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong in October 2005 (the "Takeovers Code") and any similar PRC law of which the Directors are aware of, if any. Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the Company.

(vii) Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix VIII to this Prospectus.

(viii) Redeemable Shares

We must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

(ix) Pre-emptive rights

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the company's articles of association, prior to (i) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (ii) any major subsidiary of the company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required to the extent that the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC.

(x) Supervisors

We are required to adopt rules governing dealings by our Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

We are required to obtain the approval of our shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or our subsidiary: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires us to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments.

The remuneration committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and our shareholders as a whole and advise shareholders on how to vote.

(xi) Amendment to the Articles of Association

We are required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Hong Kong Listing Rules, the Mandatory Provisions and the PRC Company Law.

(xii) Documents for inspection

We are required to make available at a place in Hong Kong for inspection by the public and our shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of our Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between domestic shares (including A Shares) and H Shares);
- a copy of the latest annual return lodged with the State Administration for Industry and Commerce; and
- for shareholders only, copies of minutes of meetings of shareholders.

(xiii) Receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in share certificates

The Company is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of our share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company, and the Company, acting for itself and for each Director, Supervisor, manager and officer of the Company, agree with each shareholder of the Company, to refer all differences and claims arising from the Articles of Association or any rights or

obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his behalf with each Director, Supervisor, manager and officer of the Company whereby each such Director, Supervisor, manager and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

(xv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the PRC Company Law, Special Regulations and the Articles of Association.

(xvi) Contracts between our Company and our Directors, officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Takeovers Code and the Code on Share Repurchases issued by the Securities and Futures Commission of Hong Kong in October 2005 (the “Share Repurchases Code”) and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and the Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either CIETAC in accordance with its rules or HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;

- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvii) Subsequent listing

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(xviii) English translation

All notices or other documents required under the Hong Kong Listing Rules to be sent by the Company to the Hong Kong Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of our listing.

(c) Other Legal and Regulatory Provisions

Upon its listing, the provisions of the Securities and Futures Ordinance, the Takeovers Code, the Share Repurchases Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to the Company.

(d) Securities Arbitration Rules

The Articles of Association provides that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules. The Securities Arbitration Rules of HKIAC contains provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

PRC LEGAL MATTERS

Grandall Legal Group (Beijing), our legal adviser on PRC law, has sent to us a legal opinion dated 8 August 2008 which includes a statement to the effect that the description of PRC Laws and regulations as contained in this Appendix is a correct summary of the relevant PRC laws and regulations. This legal opinion is available for inspection as referred for in the section headed "Documents Delivered to the Registrar of Companies" and "Documents Available to Inspection" in Appendix X to this Prospectus.

Any person wishing to have detailed advice on PRC law and the laws of any jurisdiction is recommended to seek independent legal advice.

Immediately prior to the Global Offering, we announced the A Share Offering in the PRC and the A Share Prospectus is to be issued by us on or about 15 August 2008. The A Share Prospectus, which is issued in the Chinese language only, was prepared pursuant to the regulatory requirements of the PRC. However, you should rely only on the information contained in this Prospectus and the related application forms to make your investment decision in purchasing or trading in our H Shares.

OUR A SHARE OFFERING

We announced our A Share Offering on 28 July 2008. The A Share Offering comprises an offering of not more than 3,000,000,000 A Shares for subscription, with no over-allotment. Assuming 3,000,000,000 A Share will be issued, the A Shares offered represent 30% of our total share capital before the Global Offering (but as enlarged by the A Share Offering), or 25.86% of our total share capital after the Global Offering assuming that the Over-allotment Option is not exercised.

Our A Shares will be listed and traded on the Shanghai Stock Exchange and may only be held by legal or natural persons or other entities in the PRC and qualified foreign institutional investors in accordance with applicable PRC laws and regulations. Our A Shares and H Shares will rank *pari passu* with each other in all material respects other than the exceptions described in the section headed "Share Capital—Ranking". Dividends on our A Shares will be payable in Renminbi. Our A Shares and H Shares are generally neither interchangeable nor fungible. However, our A Shares may be converted into H Shares. See "Share Capital—Transfer of our domestic shares for listing and trading on the Hong Kong Stock Exchange" for details.

LISTING OF A SHARES

We have applied to, and obtained the approval of, the CSRC for the listing and trading of our A Shares on the Shanghai Stock Exchange. Our A Shares will be listed on the Shanghai Stock Exchange after A Share Offering.

PRICING OF A SHARE OFFERING

The offer price for our A Shares is expected to be not less than RMB2.10 per share and not more than RMB2.18 per share, and will be determined based on prevailing market conditions and domestic customary pricing consultation mechanisms. In accordance with a resolution passed at a shareholders' meeting, the offer price of our H Shares shall not be lower than that of our A Shares, taking into account the exchange rate difference between Hong Kong dollar and Renminbi.

USE OF PROCEEDS OF OUR A SHARE OFFERING

The total proceeds of our A Share Offering before deduction of underwriting commissions and other expenses amount to approximately RMB6,300 million and RMB6,540 million, based on the offer prices of RMB2.10 per A Share and RMB2.18 per A share, respectively. The rate of the underwriting commission for our A Share Offering is set out in the underwriting agreement between us and the underwriters of such offering and announced upon the determination of the offer price for our A Shares. Saved as disclosed in this Prospectus, proceeds from our A Share Offering will not be used for the same purposes or to fund the same projects as those for which proceeds from our H Share Offering will be used. The funds raised from our A Share Offering will be used for the purposes and approximately in the amounts set out below:

Approximately RMB3,229,390,000 will be used for the industrialization and domestic production of high-speed EMUs and high-powered locomotives

- Based on the existing technological platforms, we intend to upgrade the production facilities for the manufacture of MUs with maximum speed of 200 km/h and high-speed EMUs with maximum speed of 300 km/h and over, as well as for the manufacture of high-speed passenger carriages.
- We also intend to upgrade the production facilities for the manufacture of eight-axle high-powered AC electric locomotives, and enhance the research and production capability for the manufacture of six-axle AC electric locomotives. We also intend to construct new production facilities for the manufacture of high-powered electric locomotives.
- We also intend to increase research and testing facilities for the domestic production of diesel locomotives, and increase production capacity of high-powered diesel locomotives through the additions of related production facilities. We also intend to construct new production facilities for the manufacture of locomotives.
- New equipment and facilities are intended to be purchased for the production of key components for GE high-powered AC diesel locomotives. We also intend to increase and construct new facilities for the production of components for high-speed EMUs and high-powered locomotives. We also intend to enhance our capacities for the production of related components through the increase or construction of new facilities.

Approximately RMB975,230,000 will be used for the enhancements of the platforms for research, development and production of rapid transit vehicles

- We intend to increase the production capacity for the manufacture of rapid transit vehicles by increasing key equipment and the construction of a new production line at the plant of CSR Sifang Co., Ltd. The existing research and production facilities for rapid transit vehicles are intended to be upgraded and enhanced. A new production facility will be constructed to serve the manufacturing of stainless steel rapid transit vehicles. Construction of new production facilities and the enhancement of existing facilities for the manufacture of metro cars are intended to be undertaken.

Approximately RMB2,943,630,000 will be used for the enhancement of product quality, technology and informization

- We intend to construct a new research and development, production and refurbishment facility in Jiangxia Dahualing industrial zone for freight wagons.

- We also intend to adjust, supplement and enhance the freight wagon production facilities in Zhuzhou and Tongling operated by CSR Yangtze and facilities operated by CSR Meishan.
- We also intend to adjust the production and refurbishment facilities of CSR Puzhen for high-class passenger carriages.
- Investment will be made to enhance the enterprise informization including areas of information management, product design, enterprise management, production and manufacturing, corporate activities and corporate network.

Approximately RMB1,825,910,000 for the construction and development of know how in businesses using rolling stock related technologies

- We intend to construct a new production facility for the manufacture of superchargers for automobile near the headquarters of CSR Qishuyan.
- We also intend to construct new facilities for the manufacture of gearing transmission systems in the economic and technological development zone of Qishuyan.
- We propose to increase production facilities for rolling stock for the production and research and development of wind power generators and enhance the overall production system and testing facilities at the plant of CSR ZELRI.
- We intend to construct a new production facility in the economic and technological development zone of Zhuzhou for the manufacture of electric cars and facilities for the manufacture of certain key components.

EXPECTED TIMETABLE OF OUR A SHARE OFFERING

The key events of our A Share Offering are as follows:

Price consultation and marketing to institutional investors	29 July 2008 to 31 July 2008
Book building period for institutional investors	4 August 2008 to 5 August 2008
Public subscription period for PRC investors	5 August 2008
Announcement of the offer price of the A Shares	7 August 2008
Expected listing date of A Shares on the Shanghai Stock Exchange	A shares will be listed on the Shanghai Stock Exchange after the A Share Offering

SPONSORS AND UNDERWRITERS INVOLVED IN THE A SHARE OFFERING

- China International Capital Corporation Limited
- Industrial Securities Co., Ltd

PUBLIC ANNOUNCEMENTS AND INFORMATION IN RELATION TO OUR A SHARE OFFERING

There may have been prior to the publication of this Prospectus, and there may be subsequent to the date of this Prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the A Share Offering. Such press and other media coverage may include references to certain events or information disclosed by us in the PRC as part of the A Share Offering, including information relating to us and the A Share Offering. Such information and the A Share Prospectus are made in accordance with the regulatory requirements and market practices in the PRC, which are different from those applicable to the Global Offering and do not and will not form part of this Prospectus. You should rely solely on the information contained in this Prospectus and the related application forms in making your investment decision regarding our H Shares. See "Risk Factors—Risks relating to the Global Offering—We will have completed the A Share Offering prior to the H Share Offering. There are significant differences in the characteristics of the A Share and H Share markets, and in the information released by us in our A Share Offering and the Global Offering" and also "Risk Factors—Risks relating to the Global Offering—Investors should read the entire prospectus carefully and we strongly caution investors not to place day reliance on any information contained in press articles or other media relating to us and/or the Global Offering."

Below is a summary of the principal terms of our Articles of Association.

As the information contained below is in a summary form, it does not contain all the information that may be important to potential investors. As stated in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix X, a copy of the Articles of Association is available for inspection.

1. DIRECTORS AND OTHER SENIOR MANAGERS

A. Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Directors to allot and issue Shares.

To increase the share capital of the Company, the Board is responsible for formulating proposals for approval at the shareholders' general meeting by way of special resolution. It shall be approved by shareholders attending the shareholders' general meeting in person (including by proxy) and representing more than two-thirds of the total voting rights.

Resolutions concerning the increase of registered capital of the Company must be implemented after such resolution is passed in the shareholders' general meeting and shall be handled in accordance with the procedures provided for in relevant State laws and administrative regulations.

B. Power to Dispose of the Assets of the Company or any of its Subsidiaries

The Board is accountable to the shareholders' general meeting.

The Board shall not, without prior approval in the shareholders' general meeting, dispose or agree to dispose of, any fixed assets where the anticipated value of the assets to be disposed, together with the value of any fixed assets that has been disposed in the period of four months immediately preceding the proposed disposition, exceeds 33% of the value of the fixed assets as shown in the latest balance sheet reviewed at the shareholders' general meeting.

The validity of a disposition of fixed assets by the Company shall not be affected by the breach of the above paragraph.

For the purposes of the Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in assets but does not include that involving the provision of fixed assets as security.

The Board shall carry its duties in compliance with the laws, regulations, the Articles of Association and resolutions passed on the shareholders' general meetings.

C. Compensation or Payments for Loss of Office

The Company shall, with the prior approval of the shareholders' general meeting, enter into a contract in writing with each of the Directors or Supervisors wherein his or her emoluments are stipulated. The aforesaid emoluments include:

(i) emoluments in respect of his/her service as a Director, Supervisor or senior management of the Company;

(ii) emoluments in respect of his/her service as a Director, Supervisor or senior management of any subsidiary of the Company;

(iii) emoluments in respect of his/her service for providing other services to the management of the Company and any subsidiary of the Company; and

(iv) compensation for his/her loss of office, or consideration for or in connection with his/her retirement as a Director or Supervisor.

Except under the aforesaid contract, no proceedings may be brought by a Director or Supervisor against the Company for any benefits due to him/her in respect of the above matters.

The contracts concerning the emoluments between the Company and its Directors or Supervisors should provide that, in the event of an acquisition of the Company, the Directors and Supervisors shall, subject to the prior approval of the shareholders' general meeting, have the right to receive compensation or other payment in respect of their loss of office or retirement. An "acquisition of the Company" referred to in this paragraph means either:

(i) an offer made by any person to all shareholders; or

(ii) an offer made by any person with a view to making the offeror become a "controlling shareholder" within the meaning set out in the Articles of Association.

If the relevant Director or Supervisor does not comply with the above, any sum so received by him/her shall belong to those persons who have sold their Shares as a result of the acceptance of the offer. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and shall not be paid out of that sum.

D. Loans to Directors, Supervisors and Other Officers

The Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with the loan of, a Director, Supervisor, President or other senior management personnel of the Company or the Company's holding company or any of their respective associates. However, this provision does not apply to the following situations:

(i) the provision by the Company of a loan or a guarantee of loan to a subsidiary of the Company;

(ii) the provision by the Company of a loan, a guarantee of loan or any other payment to any of its Directors, Supervisors, President and other senior management personnel to pay for the expenditure incurred by him/her for the purposes of the Company or for the performing of his/her duties, in accordance with the employment contract approved at the shareholders' general meeting; and

(iii) the provision of the Company of a loan or a guarantee of loan to any of the relevant Directors, Supervisors, President and other senior management personnel or their respective associates, provided that the ordinary course of business of the Company includes the provision of loans or guarantees of loan, and the loans and guarantees of loans should be provided on normal commercial terms.

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

In additional a guarantee provided by the Company in breach of the above provisions shall be unenforceable against the Company, unless:

(i) at the time the loan was advanced to an associate of any of the Directors, Supervisors, President and other senior management personnel of the Company or the Company's holding company, the lender did not know the relevant circumstances; or

(ii) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the above purposes, a guarantee includes an assumption of an obligation or a provision of property by the guarantor to secure the performance of obligations by the obligor.

E. Financial Assistance for the Acquisition of Shares in the Company or any of its Subsidiaries

The Company and its subsidiaries shall not, by any means at any time, provide any kind of financial assistance in the form of a gift, advance, guarantee, compensation or loan to a person who is acquiring or is proposing to acquire our Shares for the purpose of such acquisition. The said acquirer of Shares includes any person who directly or indirectly incurs any obligations due to the acquisition of the Shares.

The Company and its subsidiaries shall not, by any means at any time, provide financial assistance to the said obligor for the purpose of reducing or discharging its obligations.

The following activities shall not be deemed to be prohibited activities:

(i) the provision of financial assistance by the Company where the financial assistance is given in good faith and in the interest of the Company, and the principal purpose of such act is not for the acquisition of Shares, or the provision of the financial assistance is an incidental part of the Company's project;

(ii) the lawful distribution of the Company's assets by way of dividend;

(iii) the allotment of bonus shares as dividends;

(iv) a reduction of registered capital, a repurchase of Shares or a reorganization of the shareholding structure of the Company effected in accordance with the Articles of Association;

(v) the lending of money by the Company in the ordinary course of its business (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of the distributable profits); and

(vi) the provision of money by the Company for contributions to staff and workers' share schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of the distributable profits).

For the above purposes:

(i) "financial assistance" includes (without limitation) the following meanings:

  (a) gift;

  (b) guarantee (including the assumption of liability by the guarantor or the provision of property by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation in respect of the Company's own default) or release or waiver of any rights;

  (c) provision of a loan or any other contract under which the obligations of the Company are to be fulfilled before the obligations of another party, or a change in the parties to, or the assignment of rights arising under, such loan or contract; or

  (d) any other form of financial assistance given by the Company when it is unable to repay its debts or has no net assets or when its net assets would thereby be reduced to a material extent.

(ii) "incurring an obligation" includes the incurring of obligations when there is a change of the obligor's financial position by way of entering into a contract or an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

F. Disclosure of Interests in Contracts with the Company or any of its Subsidiaries

Where a Director, Supervisor, President or other senior management personnel of the Company is in anyway, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (excluding the contracts of appointment between the Company and our Directors, Supervisors, Presidents and other senior management personnel), he/she shall declare the nature and extent of his/her interests to the Board at the earliest opportunity, whether or not the related matter is otherwise subject to the approval of the Board under normal circumstances.

Unless the interested Director, Supervisor, President or other senior management personnel has disclosed his/her interests in accordance with the Articles of Association while he/she is not counted in the quorum by the Board and refrains from voting on the meeting, in which the related transaction or arrangement is subject to approval, the contract, transaction or arrangement in which that Director, Supervisor, President or other senior management personnel is materially interested is voidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, President or other senior management personnel.

For these purposes, a Director, Supervisor, President or other senior management personnel of the Company is deemed to be interested in a contract, transaction or arrangement in which an associate of his/hers is interested.

Where a Director, Supervisor, President or other senior management personnel of the Company gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he/she is interested in contracts, transactions or arrangements of any description, which may subsequently be made by the Company, such notice shall be deemed for the purposes of this paragraph to be a sufficient declaration of his/her interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

G. Remuneration

The remuneration of Directors must be approved by the shareholders on the shareholders' general meeting, as referred to under the section headed "Compensation or Payments for Loss of Office" above.

H. Retirement, Appointment, and Removal

The term of office of the chairman and other members of the Board shall be three years starting from the date of appointment. A Director may be re-elected for consecutive terms.

Any person appointed by the Directors to fill a casual vacancy on, or as an addition to, the board shall hold office only until the next annual general meeting of the Company, and shall then be eligible for re-election.

Directors shall be elected and removed at the shareholders' general meeting. A Director is not required to hold Shares.

There is no provision in our Articles of Association which imposes any age limit for Directors beyond which retirement as a Director is mandatory.

The Company has established a Board of Directors. The Board shall consist of nine Directors, with one chairman and one vice-chairman. Among the five non-executive Directors, at least three shall be independent non-executive Directors.

A person may not serve as a Director, Supervisor, President or any other senior management personnel of the Company if he/she is either:

(i) a person without legal or with restricted legal capacity;

(ii) a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his political rights, in each case where no more than five years has elapsed since the date of the completion of implementation of such punishment or deprivation;

(iii) a person who is a former director, factory manager or president of a company or enterprise which has entered into insolvent liquidation and he/she is personally liable for the insolvency of such company or enterprise, where no more than three years has elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;

(iv) a person who is a former legal representative of a company or enterprise which had its business licence revoked and was ordered to be closed down due to a violation of the law and who incurred personal liability, where no more than three years has elapsed since the date of the revocation of the business licence;

(v) a person who has a relatively large amount of debts due and outstanding;

(vi) a person who is under criminal investigation or prosecution by judicial organization for violation of the criminal law which investigation or prosecution is not yet concluded;

(vii) a person who has been given a punishment of prohibition for participation in the securities market from the CSRC and the term of such punishment has not expired;

(viii) a person who is not eligible for enterprise leadership according to laws and administrative regulations;

(ix) a non-natural person; or

(x) a person convicted of the contravention of provisions of relevant securities regulations by a relevant government authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five years has elapsed since the date of the conviction.

The validity of an act of a Director, President or other senior management personnel on behalf of the Company is not, vis-a-vis a bona fide third party, affected by any irregularity in his/her office, election or any defect in his qualification.

I. Borrowing Powers

Subject to the applicable laws and regulations of the PRC, the Company has the power to raise and borrow money, which includes, without limitation, the issuance of debentures, the mortgage or pledging of part or the whole of titles or rights of use of the Company's properties and other rights permitted by PRC laws and administrative regulations and the exercise of the powers shall not damage or revoke rights of any class Shareholders. The Articles of Association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than: (i) provisions on the proposals for the issuance of debentures by the Company which the Board of Directors intend to formulate; and (ii) provisions which provide that the issuance of debentures must be approved by the shareholders' general meeting by way of a special resolution.

J. Duties

In addition to obligations imposed by laws, administrative regulations or required by listing rules of the stock exchanges on which our Shares are listed, each of the Company's Directors, Supervisors, President and other senior management personnel owes a responsibility to each shareholder, in the exercise of their duties and powers entrusted by the Company:

(i) not to cause the Company to exceed the scope of the business stipulated in its business licence;

(ii) to act honestly in the best interests of the Company;

(iii) not to expropriate in any guise the Company's property, including (without limitation) usurpation of opportunities advantageous to the Company; and

(iv) not to expropriate the individual rights of shareholders, including (without limitation) rights to distributions and voting rights, save as pursuant to a restructuring of the Company submitted to shareholders' general meeting for approval in accordance with the Articles of Association.

Each of the Company's Directors, Supervisors, President and other senior management personnel should exercise his powers and discharge of his duties with care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each of the Company's Directors, Supervisors, President and other senior management personnel shall exercise his powers or carry on his duties in accordance with the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations:

(i) to act honestly in the best interests of the Company;

(ii) to exercise powers within his/her terms of reference and not to exceed those powers;

(iii) to exercise the discretion vested in him/her personally and not to allow himself/herself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders' general meeting, not to delegate the exercise of his/her discretion to others;

(iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;

(v) except in accordance with the Articles of Association or with the informed consent of shareholders' general meeting, not to enter into any contract, transaction or arrangement with the Company;

(vi) without the informed consent of shareholders' general meeting, not to use, in any manner, the Company's property for his/her own benefit;

(vii) not to exploit his/her position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;

(viii) without the informed consent of shareholders' general meeting, not to accept commissions in connection with the Company's transactions;

(ix) to abide by the Articles of Association, faithfully execute his/her official duties and protect the Company's interests, and not to exploit his/her position and power in the Company to advance his own interests;

(x) not to compete with the Company in any form unless with the informed consent of shareholders' general meeting;

(xi) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his/her own name or other names for the deposit of the Company's assets and not to provide a guarantee with the Company's assets for debts of a shareholder of the Company or any other individual(s); and

(xii) unless otherwise permitted by informed shareholders' general meeting, to keep confidential information acquired by him/her in the course of and during his/her tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authority is permitted if:

  (a) disclosure is made under compulsion of law;

  (b) the interests of the public require disclosure; or

(c) the interests of the relevant Director, Supervisor, President or other senior management personnel require disclosure.

Each Director, Supervisor, President or other senior management personnel of the Company shall not cause the following persons or institutions ("associates") to do what he/she is prohibited from doing:

(i) the spouse or minor child of that Director, Supervisor, President or other senior management personnel;

(ii) a person acting in the capacity of trustee of that Director, Supervisor, President or other senior management personnel or any person referred to in paragraph (i) above;

(iii) a person acting in the capacity of partner of that Director, Supervisor, President or other senior management personnel or any person referred to in paragraphs (i) and (ii) above;

(iv) a company in which that Director, Supervisor, President or other senior management personnel, alone or jointly with one or more of the persons referred to in paragraphs (i), (ii) and (iii) above or other Directors, Supervisors, President and other senior management personnel have a de facto controlling interest; and

(v) the Directors, Supervisors, President and other senior management personnel of the controlled company referred to paragraph (iv) above.

The fiduciary duties of the Directors, Supervisors, President and other senior management personnel of the Company do not necessarily cease with the termination of their tenure. The duty of confidence in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, President or other senior management personnel of the Company is in breach of his duties to the Company, the Company has a right to:

(i) claim damages from the Director, Supervisor, President or other senior management personnel in compensation for losses sustained by the Company as a result of such breach;

(ii) rescind any contract or transaction entered into by the Company with the Director, Supervisor, President or other senior management personnel or with a third party (where such third party knows or should know that there is such a breach of duties by such Director, Supervisor, President or other senior management personnel);

(iii) demand an account of the profits made by the Director, Supervisor, President or other senior management personnel in breach of his duties;

(iv) recover any funds received by the Director, Supervisor, President or other senior management personnel that should have been received by the Company, including (without limitation) commissions; and

(v) demand payment of the interest earned or which may have been earned by the Director, Supervisor, President or other senior management personnel on the funds that should have been paid to the Company.

2. ALTERATIONS TO CONSTITUTIONAL DOCUMENTS

The Company may amend its Articles of Association in accordance with the requirements of law, administrative regulation and the Articles of Association. The Company shall amend the Articles of Association in case of one of the following conditions:

(i) the provisions of Articles of Association conflict with the revised Company Law or relevant laws and administrative regulations;

(ii) any changes of the Company do not accord with the provisions of Articles of Association; or

(iii) a shareholders' general meeting resolves to amend Articles of Association.

Amendments to the Articles of Association involving the contents of the Mandatory Provisions for H Share Listing shall become effective upon approvals by the approval department authorized by the State Council and the CSRC. In respect of the changes relating to the registered particulars of the Company, alteration of registration shall be made in accordance with law.

3. VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Rights conferred on any class of shareholders in the capacity of shareholders ("class rights") may not be varied or abrogated by the Company unless approved by a special resolution of shareholders' general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

(i) an increase or decrease in the number of Shares of such class, or an increase or decrease in the number of Shares of a class having voting or equity rights or privileges equal or superior to those of the Shares of such class;

(ii) an exchange of all or part of the Shares of such class into Shares of another class or an exchange or creation of a right of exchange of all or part of the Shares of another class into the Shares of such class;

(iii) a removal or reduction of rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;

(iv) a removal or reduction of a dividend preference or a liquidation preference on assets distribution attached to Shares of such class;

(v) an addition, a removal or reduction of conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to Shares of such class;

(vi) a removal or reduction of rights to receive payment payable by the Company in particular currencies attached to Shares of such class;

(vii) a creation of a new class of Shares having voting or equity rights or privileges equal or superior to those of the Shares of such class;

(viii) a restriction of the transfer or ownership of the Shares of such class or an addition to such restriction;

(ix) an issuance of rights to subscribe for, or convert into, Shares of such class or another class;

(x) an increase of the rights or privileges of Shares of another class;

(xi) a restructuring of the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and

(xii) a variation or abrogation of provisions in the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class meeting shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who are entitled to vote at class meetings.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered and the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company 20 days before the date of the class meeting.

If the number of Shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches one half or more of the voting Shares at the class meeting, the Company may hold the class meeting; if not, the Company shall within five days notify the shareholders of the class, again by public notice, of the matters to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after publication of such notice.

Notice of class meetings needs only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions of the Articles of Association relating to the manner of conducting any shareholders' general meeting shall apply to any meeting of a class of shareholders. Holders of Domestic Shares and H Shares are deemed to be shareholders of different classes.

The special procedures for voting at a meeting of a class of shareholders shall not apply in the following circumstances:

(i) where the Company issues, upon the approval by a special resolution of its shareholders' general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued Domestic Shares and H Shares; or

(ii) where the Company's plan to issue Domestic Shares and H Shares at the time of its establishment is carried out within 15 months from the date of approval of the CSRC; or

(iii) the conversion of the shares of the Company held by our promoters into foreign shares and the listing on overseas stock exchange are approved by the State Council or its authorized authorities.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is:

(i) in the case of a repurchase of Shares by offers to all shareholders pro rata or public dealing on a stock exchange, a "controlling shareholder" within the meaning of the Articles of Association;

(ii) in the case of a repurchase of Shares by an off-market contract, a holder of the Shares to which the proposed contract relates; and

(iii) in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

4. RESOLUTIONS—MAJORITY REQUIRED

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing one half or more of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

To adopt a special resolution, votes representing two-thirds or more of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

5. VOTING RIGHTS (GENERALLY, RIGHT TO POLL AND RIGHT TO DEMAND A POLL)

The ordinary shareholders of the Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A shareholder (including proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote.

At any general meeting of shareholders a resolution shall be decided on a show of hands unless it is required by the listing rules of the place of listing of the Company or by the following person that a poll is (before or after any vote by show of hands) demanded:

(i) by the chairman of the meeting;

(ii) by at least two shareholders entitled to vote present in person or by proxy; or

(iii) by one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting.

Unless a poll is so demanded, a declaration by the chairman that a resolution has on a show of hands been carried to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business, other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to one additional vote.

6. REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

The Board shall convene an annual shareholders' meeting once each year and within six months from the close of the preceding financial year.

7. ACCOUNTS AND AUDIT

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and PRC Accounting Standards formulated by the finance regulatory department of the State Council.

The Board shall place before the shareholders at every annual general meeting such financial reports to be prepared by the Company as are required by any laws, administrative regulations or directives promulgated by competent regional and central governmental authorities.

The Company's financial reports shall be made available for shareholders' inspection at the Company 20 days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports. The company shall dispatch to each holder of H Shares the aforesaid financial reports, by delivery or by prepaid mail, not later than 21 days before the date of every annual general meeting of shareholders in accordance with the address listed on the register of shareholders.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC Accounting Standards and Regulations, be prepared in accordance with either IFRS, or that of the overseas jurisdiction where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the notes to the financial statements. When the Company is to distribute its profits after tax, it is required to distribute dividends based on the lower of the Company's distributable reserves determined under the two accounting standards.

Any interim results or financial information published or disclosed by the Company must be prepared and presented in accordance with PRC Accounting Standards and Regulations, and also in accordance with either IFRS or that of the overseas jurisdiction where the Company's Shares are listed.

The Company shall publish its financial reports twice every fiscal year, that is, the interim financial report shall be published within 60 days after the expiration of the first 6 months of each fiscal year and the annual financial report shall be published within one hundred and twenty days after the expiration of each fiscal year.

8. NOTICE OF SHAREHOLDERS' GENERAL MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law. The Company shall not, without the prior approval of shareholders' general meeting, enter into any contract with any person other than a Director, Supervisor, President or other senior management personnel whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person unless under exceptional circumstances such as involving in a crisis.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board. Annual general meetings shall be convened once a year within six months from the end of the previous fiscal year.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months:

(i) when the number of Directors is less than the number of Directors required by the Company Law or two-thirds of the number of Directors specified in the Articles of Association;

(ii) when the unrecoverable losses of the Company amount to one-third of the total amount of its paid-up capital;

(iii) when shareholders individually or collectively holding 10% or more of the Company's issued and outstanding shares carrying voting rights request the convening of an extraordinary general meeting by written notice;

(iv) when deemed necessary by the Board;

(v) when suggested by the supervisory committee;

(vi) when consent of more than half of all independent directors of the Company is obtained; or

(vii) other conditions regulated by law, administrative regulations, department regulations, securities regulations of the stock exchange where our shares are listed or in the Articles of Association.

When the Company convenes a shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company 20 days before the date of the meeting.

When the Company convenes a shareholders' general meeting, shareholders solely or collectively holding 3% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place matters in the proposed motions on the agenda of the shareholders' general meeting.

Motions proposed to the shareholders' meeting for consideration shall not be amended. Otherwise, the changes will be deemed as a new motion and cannot be resolved in that shareholders' meetings.

The Company shall, based on the written replies received 20 days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by shareholders who intend to attend the meeting.

If the number of voting shares represented by the shareholders who intend to attend the meeting reaches one half or more of the Company's total voting shares, the Company may hold the meeting. If not, then the Company shall within five days notify the shareholders again by public notice of the matters to be considered, the place and the date for the meeting. The Company may hold the meeting after the publication of such notice.

A notice of meeting of shareholders shall be required to:

(i) be in writing;

(ii) specify the place, the date and the time of the meeting;

(iii) state the matters to be discussed at the meeting;

(iv) provide such information and explanations as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares, to reorganize the share capital or to restructure the Company in any other way, the terms and contracts (if any) of the proposed transaction must be provided in detail, and the cause and effect of such proposal must be properly explained;

(v) disclose the nature and extent of the material interests of any Director, Supervisor, President and other senior management personnel in any transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;

(vi) contain the full text of any special resolution proposed to be voted at the meeting;

(vii) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder;

(viii) specify the time and place for lodging proxy forms for the relevant meeting;

(ix) specify the record date for determination of shareholders entitled to attend the shareholders' general meeting; and

(x) specify the name and telephone number of the contact person of the meeting.

The notice of meeting and its supplementary notice shall fully and completely disclose the specific contents of all motions. For those items requiring the discussion of independent directors, the notice of meeting or the supplementary notice shall disclose both the opinions and the reasons of independent directors.

The period between the record date and the date for the meeting shall not be more than seven working days. No changes shall be made once the record date is confirmed.

Notice of shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to their addresses as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may be issued by way of public notice.

The public notice shall be published in one or more newspapers designated by the securities governing authority of the State Council within the interval between 45 days and 50 days before the date of the meeting. After the publication of such notice, the holders of domestic invested Shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the resolutions at that meeting.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

(i) work reports of the Board and the supervisory committee;

(ii) electing and replacing directors and deciding on matters concerning their remuneration;

(iii) electing and replacing Supervisors representing the shareholders and determining Supervisors' remuneration;

(iv) The operation directives and investment plans of the Company;

(v) annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of the Company;

(vi) plans formulated by the Board for the distribution of profits and for recovery of losses;

(vii) engagement or dismissal of accounting firms and determination of their remuneration or the means to determine their remuneration; and

(viii) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

(i) the increase or decrease of share capital and the issue of shares of any class, warrants and other similar securities;

(ii) the issue of debentures of the Company stocks and other securities;

(iii) the division, merger, dissolution, liquidation or change of the corporate form of the Company;

(iv) amendments to the Articles of Association;

(v) purchase or sale of material assets or provision of guarantee by the Company within a year, reaching an amount of 30% or more of our audited total assets value for the most recent period;

(vi) share option incentive plans; and

(vii) matters required by laws, administrative rules, securities regulations of place of listing or Articles of Association and any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

9. TRANSFER OF SHARES

All the fully paid-up H Shares which are listed in Hong Kong can be freely transferred, given as a gift, inherited or used as a pledge in accordance with the Articles of Association. Unless the following requirements are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal:

(i) a fee (for each instrument of transfer) of HK$2.50 or any higher fees as agreed by the Board has been paid to the Company for registration of any transfer or any other document which is related to or will affect ownership of or change of ownership of the shares, such fee or fees shall not exceed the maximum fees prescribed by the Hong Kong Stock Exchange from time to time in the Hong Kong Stock Exchange Listing Rules;

(ii) only H shares listed in Hong Kong are involved in the transfer documents;

(iii) stamp duty has been paid for the transfer document in accordance with the requirements of the law of Hong Kong;

(iv) the relevant share certificates and evidence proving the transfer rights of the transferee which may be reasonably required by the Board have been submitted;

(v) the number of the joint shareholders shall not exceed four should the shares be intended to be transferred to joint shareholders; and

(vi) the relevant shares are not subject to any lien of any company;

The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the jurisdiction where the register is maintained.

No changes in the shareholders' register due to the transfer of shares may be made within 30 days before the date of a shareholders' general meeting or within five days before the record date for the Company's distribution of dividends.

10. POWER OF OUR COMPANY TO PURCHASE ITS OWN SHARES

The Company may reduce its registered share capital in accordance with the Company Law, other relevant regulations and the procedures provided in the Articles of Association.

The Company may, with approval obtained according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued Shares under the following circumstances:

(i) reducing the Company's registered share capital;

(ii) merging with another company that holds Shares in the Company;

(iii) granting of share incentives to our staff;

(iv) a request by the shareholders to repurchase Shares due to their opposition to the resolutions of the merger or division of the Company passed at a shareholders' general meeting; or

(v) other circumstances permitted by laws and administrative regulations.

No dealing in the Shares shall be performed by the Company except in the above circumstances.

The Company may, with the approval of the relevant governing authority of the State, repurchase its Shares in one of the following ways:

(i) making a pro rata general offer of repurchase to all of its shareholders;

(ii) repurchase of Shares through public dealing on a stock exchange;

(iii) repurchase of Shares by an off-market agreement; or

(iv) other methods as approved by laws, administrative stipulations and regulatory bodies under the State Council.

Where the Company repurchases its Shares by an off-market agreement, the prior sanction of shareholders shall be obtained in accordance with the Articles of Association. The Company may release, vary or waive its rights under a contract so entered into by the Company with the prior approval of shareholders obtained in the same manner.

A contract to repurchase Shares includes (without limitation) an agreement to become obliged to repurchase or an acquisition of the right to repurchase Shares. The Company shall not assign the contracts to repurchase Shares and its rights under such contracts.

Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change of its registered share capital. The aggregate par value of those cancelled Shares shall be reduced from the amount of the Company's registered share capital.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

(i) where the Company repurchases Shares of the Company at par value, payment shall be made out of book surplus of the distributable profits of the Company or out of proceeds of a fresh issue of Shares made for that purpose;

(ii) where the Company repurchases Shares of the Company at a premium to its par value, payment up to the par value shall be made out of the book surplus of distributable profits of the Company or out of the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:

  (a) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus of the distributable profits of the Company; or

  (b) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus of distributable profits of the Company or out of the proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the Shares repurchased nor the current amount in the Company's share premium account (including the premiums on the fresh issue) or the amount in the capital reserve account, nor the current amount of the Company's paid-up capital;

(iii) payment by the Company in consideration of the following shall be made out of the Company's distributable profits:

  (a) acquisition of rights to repurchase Shares of the Company;

  (b) variation of any contract to repurchase Shares of the Company; and

  (c) release of any of the Company's obligations under any contract to repurchase Shares of the Company; and

(iv) after the Company's registered share capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value portion of the Shares repurchased shall be transferred to the Company's share premium account (or capital reserve fund).

11. POWER FOR ANY SUBSIDIARY OF OUR COMPANY TO OWN SHARES IN OUR COMPANY

There are no provisions in the Articles of Association preventing ownership of Shares in the Company by a subsidiary.

12. DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION

The Company may distribute dividends in the following manner:

(i) cash; or

(ii) stock.

Dividends or other payments declared by the Company to be payable to holders of Domestic Shares shall be declared and calculated in Renminbi, and paid in Renminbi. Those payable to holders of H Shares shall be declared and calculated in Renminbi, and paid in foreign currency.

The Company shall pay foreign currency to holders of H Shares in compliance with the regulations of foreign exchange control of the State.

The Company shall appoint receiving agents on behalf of holders of the H Shares to receive on behalf of such shareholders dividends declared and all other monies owing by the Company in respect of their H Shares.

The receiving agents appointed on behalf of holders of the H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

13. PROXIES

Any shareholder entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one or more other persons (whether a shareholder or not) as his/her proxy to attend and vote on his/hers behalf, and a proxy so appointed shall:

(i) have the same right as the shareholder to speak at the meeting;

(ii) have authority alone or jointly with others to demand a poll; and

(iii) have the right to vote by hand or on a poll, but the proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing signed by the shareholder or signed by the shareholder's agent duly authorized in writing, or if the shareholder is a legal entity, either sealed by the shareholder or signed by a director or agent duly authorized. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a notary certified copy of that power of attorney or other authority, shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution. If such instrument is signed by another person under a power of attorney or other authorization documents given by the appointer, such power of attorney or other authorization documents shall be notary certified and, together with the instrument appointing the voting proxy, be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting.

If the appointer is a legal entity, its legal representative or such person as is authorized by resolution of its board of directors or other governing body to act as its representative may attend at any meeting of shareholders of the Company as a representative of the appointer.

Any form issued to a shareholder by the Board for use by him/her for appointing a proxy to attend and vote at a meeting of the Company shall be such as to enable the shareholder according to his intention, to instruct the proxy to vote in favor of or against or to abstain from voting in respect of each resolution dealing with business to be transacted at the meeting.

Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting at which proxy is used.

14. CALLS ON SHARES AND FORFEITURE OF SHARES

There are no provisions in the Articles of Association relating to the making of calls on the Shares or for the forfeiture of the Shares.

15. RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER)

The ordinary shareholders of the Company shall enjoy the following rights:

(i) the right to dividends and other distributions in proportion to the number of Shares held;

(ii) the right to request, convene, preside over, attend or appoint a proxy to attend shareholders' general meetings and to vote thereat in accordance with laws and the Article of Association;

(iii) the right of supervisory management over the Company's business operations, and the rights to present proposals or to raise enquires;

(iv) the right to transfer, grant or pledge Shares in accordance with laws, administrative regulations and provisions of the Articles of Association;

(v) the right to obtain relevant information in accordance with the provisions of the Articles of Association, including:

  (a) the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy;

  (b) the right to inspect and copy, subject to payment of a reasonable charge:

    (A) all parts of the register of shareholders;

    (B) personal particulars of each of our Directors, Supervisors, and other senior management personnel as follows:

      (I) present name and alias and any former name and alias;

      (II) principal residential address;

      (III) nationality;

      (IV) primary and all other part-time occupations; and

      (V) identification document and its number;

    (C) reports on the state of the Company's share capital;

    (D) reports showing the number, aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by the Company since the end of the last accounting year and the aggregate amount incurred by the Company for this purpose;

    (E) minutes of shareholders' general meetings.

(vi) to inspect the register of shareholders, the debenture records of the Company, minutes of shareholders' general meetings, resolutions of the meetings of the Board, resolutions of the meetings of the supervisory committee and the financial accounting report;

(vii) in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the number of Shares held; and

(viii) to request for a repurchase of the Company when they are against the resolutions of the merger or division of the Company passed at the general meeting; and

(ix) other rights conferred by laws, administrative regulations and the Articles of Association.

Shareholders are entitled to copy the documents (A) – (E) stated in item (b) of paragraph (v) above upon payment of reasonable fee. The shareholders shall give prior written notice to the Company should they need to copy the relevant documents, and to provide written documents certifying the class and number of Shares held by them. The Company shall provide the copies of documents as required by the shareholders upon verification of the shareholders' identity.

The Company shall not use any powers to freeze or harm the aforementioned rights of the shareholders through any means only owing to the non-disclosure of the shareholders to the Company in respect of their direct or indirect interests in the our Shares.

16. QUORUM FOR MEETINGS AND SEPARATE CLASS MEETINGS

Should the Company convene a shareholders' general meeting, it shall dispatch a written notification to the shareholders 45 days before the date of the meeting to notify all the registered shareholders whose names are listed on the register of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who intend to attend the shareholders' general meeting shall send a written attendance reply to the Company 20 days before the meeting is held.

The Company may convene a shareholders' general meeting where the number of voting Shares represented by those shareholders from whom the Company has received 20 days before the meeting notices of intention to attend the meeting reaches one half or more of the Company's voting Shares; or, if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the shareholders' general meeting.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions of the Articles of Association relating to the manner of conducting any shareholders' general meeting shall apply to any meeting of a class of shareholders.

17. RIGHTS OF THE MINORITIES IN RELATION TO FRAUD OR OPPRESSION

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which Shares of the Company are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of the Company:

(i) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;

(ii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including (without limitation) opportunities beneficial to the Company; or

(iii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual interests of other shareholders, including (without limitation) rights to distributions and voting rights save pursuant to a restructuring submitted to shareholders for approval in accordance with the Articles of Association.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

(i) he alone, or acting in concert with others, has the power to elect half or more of the Board of Directors;

(ii) he alone, or acting in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;

(iii) he alone, or acting in concert with others, holds 30% or more of the issued and outstanding Shares of the Company; or

(iv) he alone, or acting in concert with others, in any other manner controls the Company in fact.

See also the Section headed "Variation of Rights of Existing Shares or Classes of Shares" above.

18. PROCEDURES ON LIQUIDATION

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

(i) any dissolution events as stipulated by the Article of Association occur;

(ii) a resolution for dissolution is passed by a shareholders' general meeting;

(iii) dissolution is necessary due to a merger or division of the Company;

(iv) the Company is legally declared bankrupt due to its failure to repay debts due; or

(v) the business licence of the Company is revoked, the Company is ordered to close down or is closed down in accordance with laws; or

(vi) the people's court orders its dissolution according to Article 183 of Company Law.

Should the Company dissolve due to reasons stipulated in the aforesaid paragraphs (i), (ii), (v) and (vi), it shall set up a liquidation committee to begin liquidation within 15 days after the occurrence of the dissolution event. The liquidation committee shall comprise members determined by the resolutions of the shareholder's general meeting.

Should the Company dissolve due to reason stipulated in the aforesaid paragraph (iv), the people's court shall organize, in accordance with the relevant law, a liquidation committee comprising shareholders, members from the relevant authority and professionals to carry out liquidation.

Should the Company dissolve due to reason stipulated in the aforesaid paragraph (v), the relevant authority shall organize a liquidation committee comprising shareholders, members from the relevant authority and professionals to carry out the liquidation.

Where the Board determines to liquidate the Company due to causes other than the declaration of insolvency, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders' general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

19. OTHER PROVISIONS MATERIAL TO OUR COMPANY AND OUR SHAREHOLDERS

A. General Provisions

The Company is a joint stock limited company in perpetual existence.

The Articles of Association constitute a legally binding document regulating the Company's organization and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se from the effective date of the Articles of Association.

The Company may invest in other enterprises such as companies with limited liabilities and joint stock companies. The Company's liabilities to an investee company shall be limited to the amount of its capital contribution or value of its subscribed shares to such investee company.

The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the laws and regulations, having obtained the approval of the shareholder's general meeting , increase its registered capital.

The Company may increase its capital in the following ways:

(i) open offer of Shares;

(ii) non-open offer of Shares;

(iii) issue and allot new shares to its existing shareholders;

(iv) place new shares to its existing shareholders;

(v) transfer of capital reserve fund into capital; or

(vi) any other way permitted by law, administrative regulations and securities authority of the State Council.

Unless otherwise provided by law or administrative regulation, Shares in the Company are freely transferable and are not subject to any lien.

When the Company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets.

The Company shall notify its creditors within 10 days of the date of the Company's resolution for a reduction of share capital and shall publish a notice at least three times in a newspaper within 30 days of the date of such resolution. A creditor has the right within 30 days of receiving the notice from the Company or, in the case of a creditor who does not receive the notice, within 90 days of the date of the first public notice, to demand the Company to repay its debts or provide a corresponding guarantee for such debt.

The Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of the Company shall assume the following obligations:

(i) to abide by the laws, administrative regulations and the Articles of Association;

(ii) to pay subscription funds according to the number of shares subscribed for and the method of subscription;

(iii) not to return the Shares unless under a circumstance prescribed by the laws and regulations;

(iv) not to abuse the rights of shareholders to harm the benefits of the Company or other shareholders; not to abuse the independent position of the Company as a legal person and their limited liability as a shareholder to harm the benefits of the creditors of the Company; the shareholders of the Company shall make indemnification in accordance with laws should they abuse the rights of shareholders and cause harm and loss of the Company or other shareholders. The shareholders of the Company shall undertake joint liability with the Company for the debts of the Company should they abuse the independent position of the Company as a legal person and their limited liability as a shareholder to leave debts unpaid and cause material harm to the benefits of the creditors of the Company; and

(v) other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant Shares on subscription.

B. Secretary of the Board

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. His/her primary responsibilities include:

(i) to ensure that the Company's documents and records are complete;

(ii) to ensure the lawful preparation and submission by the Company of reports and documents as required by the relevant authorities;

(iii) to ensure that the register of shareholders is properly maintained, and to ensure that persons who are entitled to obtain the Company's records and documents can timely obtain the relevant records and documents; and

(iv) to exercise other duties and obligations imposed by law or by the supervisory authorities of the listing of the Company, and/or such duties and obligations as specified in the Articles of Association.

C. Supervisory Committee

The Company shall have a supervisory committee.

The supervisory committee shall be composed of three Supervisors. One of the members of the supervisory committee shall act as the chairman. The term of office of Supervisors shall be three years, renewable upon re-election and reappointment.

The supervisory committee has one chairman. The election or removal of the chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee. The chairman shall convene and preside over meetings of the supervisory committee. Should the chairman be unable to or fail to carry out his duties, a Supervisor shall be appointed by more than half of the Supervisors to convene and preside over the meetings of the supervisory committee.

The Directors, President and other senior management personnel, including chief financial officer, shall not act concurrently as Supervisors.

The supervisory committee shall hold at least one meeting every six months, which is to be convened by the chairman. The supervisory committee shall notify all supervisors 10 days before the date of the meeting.

The supervisory committee shall comprise two representatives of shareholders and one representative of staff and workers of the Company.

The representatives of shareholders shall be elected and removed by shareholders' general meeting; the representative of workers and staff of the Company shall be elected and removed by the workers and staff of the Company in the workers and staff representative meeting, workers and staff meeting or through other democratic election.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following powers in accordance with law:

(i) to examine the Company's financial situation;

(ii) to supervise the Directors, President and other senior management personnel of the Company to avoid violation of the applicable laws, regulations, the Articles of Association in performing their respective duties;

(iii) to demand rectification as necessary from a Director, President and other senior management personnel of the Board when the acts of such person are harmful to the Company's interests;

(iv) to propose to remove the Directors, President and other senior management personnel for violation of the applicable laws, regulations, the Articles of Association or the resolutions of the shareholders' general meeting;

(v) to verify the financial information, such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the shareholders' general meetings and, should any queries arise, to engage, in the name of the Company, qualified accounting and auditing firms for a re-rectification of aforesaid information;

(vi) to propose to convene an extraordinary shareholders' general meeting and to convene and preside over the shareholders' general meeting when the Board of the Company fails to perform the duties of convening and presiding over the shareholders' general meeting as stipulated in the Company Law;

(vii) to represent the Company in communication with the Directors;

(viii) to make proposals to the shareholders' general meeting;

(ix) to institute proceedings against the Directors, President and other senior management personnel according the stipulations in Article 152 of the Company Law;

(x) to undergo investigation should abnormality arise in the operation of the Company and, if necessary, to engage professional institutions such as an accounting firm or law firm to assist its investigation, any reasonable fee to be borne by the Company; and

(xi) to exercise other powers specified in the laws, administrative regulations, rules or the Articles of Association and those conferred by the shareholder's general meeting.

D. President of the Company

The Company shall have one President and several Vice Presidents, who shall be appointed and dismissed by the Board.

Our President shall be accountable to the Board and exercise the following powers:

(i) to be in charge of the Company's operation and management and to organize the implementation of the resolutions of the Board, and to report their work to the Board;

(ii) to organize the implementation of the Company's annual business plan and investment plan;

(iii) to draft plans for the establishment of the internal organizational structure and branch organization of the Company;

(iv) to draft the Company's basic management system;

(v) to formulate basic rules and regulations for the Company;

(vi) to propose the appointment or dismissal of senior management personnel such as our Vice President and chief financial officer;

(vii) appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;

(viii) to approve, amongst other things, material investment, material business action, external guarantee, high risk investment, material sale or purchase of assets, material liability, and employee dismissal schemes of the wholly-owned subsidiaries or subsidiaries which are under the Company's control with accounts included in its consolidated statement within the scope authorized by the Board;

(ix) to approve the annual financial budget and final report of the wholly-owned subsidiaries or subsidiaries which are under the Company's control with accounts included in its consolidated statement within the scope authorized by the Board, and to supervise and inspect the implementation progress of such annual financial budget;

(x) to formulate the salary, welfare and awards policy and proposal;

(xi) to propose to convene the extraordinary meeting of the Board; and

(xii) to exercise other powers conferred by the Articles of Association and the Board.

Our President shall be present at meetings of the Board. However, the President shall have no voting rights at the meetings unless he is also a director.

Our President, in performing his/her functions and powers, shall act honestly and diligently and in accordance with laws, administrative regulations and the Articles of Association.

E. Board

The Board is responsible to the shareholders' general meeting and exercises the following powers:

(i) to be responsible for convening shareholders' general meetings and to report on its work to the shareholders' general meeting;

(ii) to implement the resolutions of the shareholders' general meetings;

(iii) to decide on the Company's business plans and investment plans;

(iv) to formulate the Company's annual financial budget and final report;

(v) to formulate the Company's profit distribution plan and loss recovery plan;

(vi) to formulate proposals for the increases or decreases of the Company's registered capital and the issue of corporate debentures or other securities and listing;

(vii) to formulate the plans for major acquisitions, acquisition of Shares or merger, division, dissolution and change of form of the Company;

(viii) to appoint or remove the Company's President and secretary of the Board, based on the recommendations of the President, to appoint or remove other senior management personnel such as Vice President and chief financial officer and, to decide on their remuneration and award matters;

(ix) to formulate the Company's basic management system;

(x) to formulate proposals for any amendment to the Articles of Association;

(xi) to approve the annual financial budget and final report of subsidiaries wholly owned by the Company and subsidiaries under its control;

(xii) to decide on the establishment of the Company's internal management structure and the establishment or abolishment of the company branch organization;

(xiii) to decide on the establishment of the specific committee of the Board and to consider and approve the resolutions proposed by each specific committee of the Board;

(xiv) to formulate the control system of connected transactions and make a specific report to the shareholder's general meeting based on the implementation of the system and the details of the connected transactions;

(xv) to manage information disclosure of the Company;

(xvi) to propose to the shareholders' general meetings the appointment or change of the accounting firm to conduct auditing for the Company;

(xvii) to exercise the powers as stipulated in Article 164 of the Articles of Association;

(xviii) to handle the working report of the President and inspect the work of the President;

(xix) to formulate the proposal of the share option incentive scheme;

(xx) to consider and approve the external guarantee matter outside the scope of the shareholders' general meeting as stipulated in Article 71 of the Articles of Association;

(xxi) to elect the chairman of the Company; and

(xxii) to perform other duties conferred by the laws, administrative regulations, department regulations or the Articles of Association.

Except for the Board's resolutions in respect of the matters specified in the above paragraphs (vi), (vii), (x) and (xx), which shall be passed by two-thirds or more of the Directors, the Board resolutions in respect of all other matters may be passed by at least half of the Directors.

Meetings of the Board comprise regular meetings of the Board and extraordinary meetings of the Board. Should the Board convene any meeting, it shall notify the Supervisors to attend the meeting. Regular meetings of the Board shall be held at least two times a year and convened by the chairman of the Board. Notice of the meeting shall be served on all of the Directors and Supervisors 14 days before the date of the meeting.

Should any of the following occurs, the chairman of the Board shall convene and hold an extraordinary meeting of the Board within 10 days after the receipt of the proposal:

(i) when shareholders representing more than one-tenth of the voting rights so propose;

(ii) when more than one-third of the Directors so propose;

(iii) when more than half of the independent Directors so propose;

(iv) when the supervisory committee so proposes; or

(v) in case of emergency and where three or more Directors, or the President of the Company so propose.

Meetings of the Board shall be held only if one half or more of the Directors are present.

Each Director shall have one vote. Resolutions proposed by the Board shall be passed by more than half of the Directors. Where the number of votes cast for and against a resolution is equal, the chairman of the Board shall have the deciding vote.

F. Accountants

Appointment of an accounting firm

The Company shall appoint an independent accounting firm which is qualified under the relevant regulations of the PRC to audit the Company's annual financial statements and review the Company's other financial reports. The first accounting firm of the Company shall be appointed by the shareholders' inaugural general meeting before the first annual general meeting, and the tenure of the accounting firm will expire when the first annual general meeting concludes. The Board shall execute the above mentioned power, in case the shareholders' inaugural general meeting fails to do so.

The accounting firm appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which the appointment is made until the conclusion of the next annual meeting of shareholders.

Before the convening of the shareholders' general meeting, the Board may fill any casual vacancy in the office of the accounting firm, but while any such vacancy continues, the surviving or continuing firm, if any, may act.

The shareholders' general meeting may, by ordinary resolution, remove an accounting firm before the expiration of its office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of the accounting firm or the manner in which such firm is to be remunerated shall be determined by the shareholders' general meeting. The remuneration of an accounting firm appointed by the Board shall be determined by the Board.

Change and removal of an accounting firm

The Company's appointment of, removal of and non-reappointment of an accounting firm shall be resolved at shareholders' general meetings and shall be submitted to the CSRC for filing purposes.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of an accounting firm, which is not an incumbent firm, to fill a casual vacancy in the office of the accounting firm, reappointment of a retiring accounting firm which was appointed by the Board to fill a casual vacancy, or removal of the accounting firm before the expiration of its term of office, the following provisions shall apply:

(i) before notice of meeting is given to the shareholders, a copy of the appointment or resignation proposal shall be sent to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post (leaving including for these purposes leaving by removal, resignation and retirement).

(ii) if the firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late):

  (a) in any notice of the resolution given to shareholders, state the fact of the representations having been made;

  (b) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.

(iii) If the accounting firm's representations are not sent in accordance with paragraph (ii), the relevant firm may require that the representations be read out at the shareholders' general meeting and may lodge further complaints.

(iv) An accounting firm which is leaving its post shall be entitled to attend:

  (a) the shareholders' general meeting at which its term of office would otherwise have expired;

  (b) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal;

  (c) any shareholders' general meeting convened on its resignation;

An accounting firm which is leaving its post shall be entitled to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accounting firm of the Company.

Resignation of an accounting firm

Where the Company removes or does not reappoint the accounting firm, it shall notify the accounting firm in advance and the accounting firm is entitled to attend the shareholder's general meeting to present its opinion. In the case of the resignation of the accounting firm, it shall make clear to the shareholders' general meeting whether there has been any impropriety on the part of the Company.

Any accounting firm may resign its office by depositing at the Company's legal residence a resignation notice which shall become effective on the date of such deposit or such later date as may be stipulated in such notice. Such notice shall include the following:

(i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or

(ii) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph above, the Company shall within 14 days after receiving of such notice send a copy of the notice to the relevant governing authority. If the notice contains a statement under paragraph (ii) of the preceding paragraph, a copy of such statement shall be placed at the Company's residence for shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every holder of H Shares at the address registered in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstances which should be brought to the notice of the shareholders or creditors of the Company, the accounting firm may require the Board to convene a shareholders' extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

G. Dispute Resolution

Whenever any disputes or claims arise between holders of the overseas listed foreign shares and the Company, holders of the overseas listed foreign shares and the Company's Directors, Supervisors, President or other senior management personnel, or holders of the overseas listed foreign shares and holders of Domestic Shares, based on the Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or the Company's shareholder, Director, Supervisor, President or other senior management personnel. Disputes in relation to the identification of shareholders and disputes in relation to the share register may not be referred to arbitration.

A claimant may elect arbitration at either CIETAC in accordance with its rules or HKIAC in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of HKIAC.

If any disputes or claims of rights are subject to arbitration, the Laws of Peoples' Republic of China shall apply, save as otherwise provided in laws and administrative regulations.

The award of an arbitration body shall be final and conclusive and binding on all parties.

FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

The Company was incorporated in the PRC as a joint stock limited company on 28 December 2007 by CSRG and BRIT as its promoters in accordance with the provisions under the PRC Company Law. The Company obtained a business licence (Registration number 1000001004141) issued by the State Administration for Industry and Commerce of the PRC on 28 December 2007.

The Company has established a place of business in Hong Kong at Unit H, 41/F, Office Tower, Convention Plaza, No. 1 Harbour Road, Hong Kong, and was registered on 21 April 2008 with the Hong Kong Companies Registry as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance. Mr. Wong Kai Yan, Thomas has been appointed as the agent to accept on behalf of the Company service of process and any notices required to be served on the Company in Hong Kong.

As the Company was established in the PRC, we operate subject to the relevant laws and regulations of the PRC and to our constitution which comprises our Articles of Association. Certain relevant aspects of the relevant laws and regulations of the PRC, and a summary of certain relevant provisions of the Articles of Association are set out in Appendices VI and VIII to this Prospectus, respectively.

2. Changes in the Registered Capital of the Company

As of the date of establishment of the Company, its initial registered capital was RMB7,000,000,000 divided into 7,000 million Domestic Shares of nominal value of RMB1.00 each, all of which were credited as fully paid up and were held by the Company's promoters as follows:

Name of Promoters	Number of Domestic Shares	Percentage of Shareholding in the Share Capital of the Company
CSRG	6,900,000,000	98.57%
BRIT	100,000,000	1.43%

BRIT is a wholly-owned subsidiary of CSRG.

The Company will issue not more than 3,000,000,000 A Shares of RMB1.00 each pursuant to the A Share Offering and all the A Shares will be listed on the Shanghai Stock Exchange, upon completion of the A Share Offering.

Assuming 3,000,000,000 A Shares are issued upon completion the A Share Offering but before the Global Offering, the share capital of the Company will be RMB10,000,000,000 comprising 10,000,000,000 Shares as follows:

Shareholders	**Nature**	**Number of Shares**	**Approximate Percentage of issued share capital (%)**
CSRG together with BRIT	A Shares	6,816,000,000	68.16%
CSRG together with BRIT[1]	Domestic Shares (not publicly tradeable)	184,000,000	1.84%
Public holders of A Shares	A Shares	3,000,000,000	30.00%
Total		10,000,000,000	100.00%

Note:

(1) 184,000,000 Domestic Shares will be reserved for conversion into H Shares to be held by NSSF. If the Global Offering does not proceed, such 184,000,000 Domestic Shares will become A Shares and be held by CSRG and BRIT.

Assuming 3,000,000,000 A Shares are issued upon completion of the A Share Offering and immediately after completion of the Global Offering but without taking into account the exercise of the Over-allotment Option, the share capital of the Company will be RMB11,600,000,000 comprising the following Shares:

Shareholders	**Nature**	**Number of Shares**	**Approximate Percentage of issued share capital (%)**
CSRG together with BRIT	A Shares	6,816,000,000	58.76%
CSRG together with BRIT[1]	Domestic Shares (not publicly tradeable)	24,000,000	0.21%
Public holders of A Shares	A Shares	3,000,000,000	25.86%
H Shares issued and converted pursuant to the Global Offering	H Shares	1,760,000,000	15.17%
Total		11,600,000,000	100.00%

Note:

(1) 24,000,000 Domestic Shares will be reserved for disposal by CSRG and BRIT (by converting such Domestic Shares into H Shares) and be held by NSSF upon the exercise of the Over-allotment Option in full. If the Over-allotment Option is not exercised or partly exercised, such 24,000,000 Domestic Shares or any part thereof will become A Shares and be held by CSRG and BRIT.

Assuming 3,000,000,000 A Shares are issued upon completion of the A Share Offering and immediately after completion of the Global Offering and assuming the Over-allotment Option is exercised in full, the share capital of the Company will be RMB11,840,000,000 comprising the following Shares:

Shareholders	Nature	Number of Shares	Approximate Percentage of issued share capital (%)
CSRG together with BRIT	A Shares	6,816,000,000	57.57%
Public holders of A Shares	A Shares	3,000,000,000	25.34%
H Shares issued and converted pursuant to the Global Offering	H Shares	2,024,000,000	17.09%
Total		11,840,000,000	100.00%

Save as disclosed in this Prospectus, there has been no alteration in the registered capital of the Company since the date of its establishment.

3. Resolutions of the Company's Shareholders passed at the Company's extraordinary general meeting on 28 December 2007

An extraordinary general meeting of the Company was held on 28 December 2007 at which, among other things, the following resolutions of the Shareholders were passed:

(a) the proposal regarding an application by the Company for the conversion of our Company into an overseas subscription company and issuance of H Shares and listing of the H Shares on the Hong Kong Stock Exchange, including, among others, conditional upon, (i) the Listing Committee of the Hong Kong Stock Exchange granting approval for the listing of, and permission to deal in, the H Shares to be issued and converted as mentioned herein, and (ii) the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of such agreements or otherwise, the following matters were approved:

  (i) the issue by the Company of the H Shares and the listing of the H Shares on the Hong Kong Stock Exchange;

  (ii) the granting of the Over-allotment Option;

  (iii) the corresponding increase in the share capital of the Company upon completion of the Global Offering; and

  (iv) the Board was authorized to issue additional A Shares and/or H Shares within a period of 12 months from the date of the resolution on 28 December 2007 provided that the number of A Shares and/or H Shares to be issued shall not exceed 20% of the number of A Shares and H Shares separately then in issue.

(b) the Articles of Association, the rules of procedures for shareholders' meetings and the rules of procedures for Board meetings have been adopted, which shall only become effective on the Listing Date and the Board has been authorized to amend the Articles of Association in accordance with any comments from the Hong Kong Stock Exchange and relevant government authorities of the PRC; and

(c) the Board was authorized, among other things, to do any acts and things relating to the issuance and listing of the H Shares on the Hong Kong Stock Exchange.

4. Our Restructuring

In preparation for the A Share Offering and the Global Offering, we underwent the Restructuring, details of which are set out in “Restructuring”. As confirmed by Grandall Legal Group (Beijing), our legal advisers as to PRC law, our Restructuring complies with all applicable PRC laws and regulations, and all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Restructuring have been obtained. These approvals include:

(1) On 22 November 2007, the State Administration for Industry and Commerce issued an approval document ((Guo) Deng Ji Nei Ming Yu He Zi [2007] 1424) to pre-approve the use of “China South Locomotive & Rolling Stock Corporation Limited” as the name of the joint stock limited company;

(2) On 23 November 2007, SASAC issued an approval document (Guo Zi Gai Ge [2007] 1289) to approve in principle the proposal relating to CSRG’s restructuring and the issuance and listing of the Company’s A Shares and H Shares on the Shanghai Stock Exchange and the Hong Kong Stock Exchange respectively;

(3) Huayuan Real Estate Appraising Co., Ltd. appraised the land use rights which were to be injected into our Company as of 30 June 2007 and issued an appraisal report (Hua Yuan [2007] Gu Zi 108) on 14 December 2007. The MLR approved the appraisal report by its approval document (Guo Tu Zi Han [2007] 996) on 28 December 2007;

(4) On 26 December 2007, the SASAC issued an approval document (Guo Zi Gai Ge [2007] 1588) to approve the establishment of the Company as a joint stock limited company;

(5) On 27 December 2007, CSRG convened an inaugural meeting of the Company for the establishment of the Company and the adoption of our initial Articles of Association was approved;

(6) On 28 December 2007, a business licence was issued by the State Administration for Industry and Commerce, whereupon we were formally established as a joint stock limited company;

(7) China United Assets Appraisal Co., Ltd. appraised the assets of CSRG which were to be injected into our Company as of 30 June 2007 and issued an appraisal report (Zhong Lian Ping Bao Zi [2007] 788) on 29 December 2007. The SASAC approved the appraisal report by its approval document (Guo Zi Chan Quan[2008]26) on 10 January 2008;

(8) On 24 January 2008, SASAC issued an approval document (Guo Zi Chan Quan [2008]) 54) approving the management of CSRG’s State-owned equity interests in us;

(9) On 10 March 2008, SASAC issued an approval (Guo Zi Chan Quan [2008] 237) approving the transfer of shares by CSRG to NSSF according to the policy of the PRC on reduction of State-owned shares;

(10) On 24 March 2008, SASAC issued an approval document (Guo Zi Gai Ge [2008] 295) for the conversion of our Company into an “overseas subscription company”;

(11) On 3 July 2008, CSRC issued an approval (Zheng Jian Xu Ke [2008] 883) with regard to the issue and the listing of the H Shares of the Company on the Hong Kong Stock Exchange; and

(12) On 18 July 2008, CSRC issued an approval document (Zheng Jian Xu Ke [2008] 961) approving the issue of A Shares.

FURTHER INFORMATION ABOUT OUR COMPANY

1. Our Principal Subsidiaries

Our principal subsidiaries (for the purposes of the Hong Kong Listing Rules) as of the date of this Prospectus include all entities set out under Note 4 to the Accountants' Report as included in Appendix I to this Prospectus.

In connection with our Restructuring, some of our wholly-owned subsidiaries were transformed from state-owned enterprises to limited liability companies which are regulated by the PRC Company Law. The share capital of each of these subsidiaries has been re-valued upon its re-registration as a limited liability company as required by PRC laws. All the share capital of these reformed subsidiaries has been fully paid-up.

The following sets out the changes in the share capital of our principal subsidiaries within the two years immediately preceding the date of this document:

(1) CSR Feb. 7th Rolling Stock Co., Ltd.

The registered capital of CSR Feb., 7th Rolling Stock Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB1,000,000 to RMB50,000,000 on 3 December 2007 and was further increased to RMB197,671,068 on 25 January 2008.

(2) CSR Ziyang Locomotive Co., Ltd.

The registered capital of CSR Ziyang Locomotive Co., Ltd., one of our subsidiaries, was decreased from RMB713,220,907 to RMB562,420,607 on 30 November 2007 and was increased to RMB662,420,607 on 17 January 2008.

(3) CSR Sifang Rolling Stock Co., Ltd.

The registered capital of CSR Sifang Rolling Stock Co., Ltd., one of our wholly-owned subsidiaries, was decreased from RMB284,450,000 to RMB215,322,900 on 21 November 2007 and was further decreased to RMB212,095,500 on 18 January 2008.

(4) CSR Yangtze Rolling Stock Co., Ltd.

The registered capital of CSR Yangtze Rolling Stock Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB200,000,000 to RMB436,960,080 on 23 November 2007.

(5) CSR Zhuzhou Electric Locomotive Co., Ltd.

The registered capital of CSR Zhuzhou Electric Locomotive Co., Ltd., one of our subsidiaries, was increased from RMB793,320,100 to RMB794,020,700 on 11 January 2007, and it was reduced to RMB613,025,800 on 7 April 2008.

(6) CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.

The registered capital of CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB403,860,000 to RMB2,000,000,000 on 15 January 2008.

(7) CSR Qishuyan Locomotive Co., Ltd.

The registered capital of CSR Qishuyan Locomotive Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB1,000,000 to RMB369,065,636.28 on 25 January 2008.

(8) CSR Nanjing Puzhen Rolling Stock Co., Ltd.

The registered capital of CSR Nanjing Puzhen Rolling Stock Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB1,000,000 to RMB77,020,200 on 14 January 2008.

(9) CSR Meishan Rolling Stock Co., Ltd.

The registered capital of CSR Meishan Rolling Stock Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB1,000,000 to RMB103,281,100 on 14 November 2007.

(10) CSR Chengdu Locomotive & Rolling Stock Co., Ltd.

The registered capital of CSR Chengdu Locomotive & Rolling Stock Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB1,000,000 to RMB234,591,900 on 20 October 2007.

(11) CSR Luoyang Locomotive Co., Ltd.

The registered capital of CSR Luoyang Locomotive Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB1,000,000 to RMB26,356,400 on 20 October 2007.

(12) CSR Xiangfan Locomotive Co., Ltd.

The registered capital of CSR Xiangfan Locomotive Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB1,000,000 to RMB1,332,600 on 16 November 2007.

(13) CSR Shijiazhuang Rolling Stock Co., Ltd.

The registered capital of CSR Shijiazhuang Rolling Stock Co., Ltd., one of our wholly-owned subsidiaries, was increased from RMB1,000,000 to RMB78,394,000 on 23 January 2008.

Save as disclosed in this Prospectus, there has been no alteration in the share capital of any of our principal subsidiaries within the two years immediately preceding the date of this Prospectus.

2. Sino-foreign Joint Ventures

Information regarding the Sino-foreign equity joint ventures in which we are interested is set out below:

(1) Siemens Traction Equipment Ltd., Zhuzhou (株洲西門子牽引設備有限公司) ("Zhuzhou Siemens")

Parties and equity interest:	Siemens Ltd., China (西門子（中國）有限公司) (51%), CSR Zhuzhou (32%) and CSR ZELRI (17%)
Term of joint venture:	30 years
Date of establishment:	28 November 1998
Scope of business:	The design, development and manufacture of AC locomotives and other AC railway vehicles and their key components; the sale of the company's own products; the provision of related after-sales services
Nature:	Sino-foreign equity joint venture
Total investment amount:	RMB343,420,000
Registered share capital:	RMB128,989,000

All transfers of registered share capital in Zhuzhou Siemens are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Zhuzhou Siemens. The entitlements of the joint venture partners in profits, dividends and other distributions of Zhuzhou Siemens are in proportion to their capital contribution ratio. The board of Zhuzhou Siemens consists of five members, of which two directors (including the Chairman) are to be appointed by CSR Zhuzhou and CSR ZELRI while the other three directors (including the Vice Chairman) are to be appointed by Siemens Ltd., China under the joint venture contract and Zhuzhou Siemens' articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their respective capital contribution ratio.

(2) Beijing Fenghuashi Machinery Co., Ltd. (北京豐華實機械有限公司) ("Beijing FHS")

Parties and equity interest:	CSR Feb. 7th (64.178%), CSR Shijiazhuang (5%), Asset Concentration Limited (BVI 融慧投資有限公司) (25.822%) and Beijing Qianshimin Consulting Centre (北京仟世名信息咨詢中心) (5%)
Term of joint venture:	20 years
Date of establishment:	30 July 2001
Scope of business:	the production of freight wagon Bogies, cross brace devices and accessories, combined type brake beams, ceramic lined steel pipes and structural components, the provision of relevant technical support and after-sales services, the sale of own products
Nature:	Sino-foreign equity joint venture
Total investment amount:	RMB16,000,000
Registered share capital:	RMB16,000,000

All transfers of registered share capital in Beijing FHS are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Beijing FHS. The entitlements of the joint venture partners in profits, dividends and other distributions of Beijing FHS are in proportion to their capital contribution ratio. CSR Feb. 7th has the right to nominate four directors while each of CSR Shijiazhuang, Asset Concentration Limited, and Beijing Qianshimin

Consulting Centre（北京仟世名信息咨詢中心）has the rights to nominate one director to the board of Beijing FHS under the joint venture contract and Beijing FHS’s articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to its capital contribution ratio.

(3) Beijing Longchangtai Engineering Machinery Co., Ltd. （北京隆長泰工程有限公司）(“Beijing Longchangtai”)

Parties and equity interest:	CSR Feb. 7th (50%), Beijing Longtie Economic and Technology Consulting Co.（北京隆鐵經濟技術咨詢公司）(5%) and Hong Kong Dongyang Co. Ltd.（香港東陽有限公司）(45%)
Term of joint venture:	20 years
Date of establishment:	6 July 1994
Scope of business:	the production of locomotive accessories, bearing auxiliaries, metal stampings and related mechanical and electric products; the sale of own products
Nature:	Sino-foreign equity joint venture
Total investment amount:	RMB14,000,000
Registered share capital:	RMB10,000,000

All transfers of registered share capital in Beijing Longchangtai are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Beijing Longchangtai. The entitlements of the joint venture partners in profits, dividends and other distributions of Beijing Longchangtai are in proportion to their capital contribution ratio. CSR Feb. 7th, Beijing Longtie Economic and Technology Consulting Co.（北京隆鐵經濟技術咨詢公司）and Hong Kong Dongyang Co. Ltd.（香港東陽有限公司）have the rights to nominate five directors, one director and three directors respectively to the board of Beijing Longchangtai under the joint venture contract and Beijing Longchangtai’s articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(4) Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. （石家莊國祥運輸設備有限公司）(“Shijiazhuang Guoxiang”)

Parties and equity interest:	CSR Shijiazhuang (60%) and King Machinery (Taiwan) Co., Limited (臺灣國祥股份有限公司（香港）) (40%)
Term of joint venture:	50 years
Date of establishment:	25 July 2003
Scope of business:	the design, production and repair of specific equipment and components used by railway vehicles such as heating equipment, transport equipment, electronic instruments, refrigeration, air-conditioning and ventilation equipment; the sale of the company’s own products
Nature:	Sino-foreign equity joint venture
Total investment amount:	US$25,000,000
Registered share capital:	US$10,000,000

All transfers of registered share capital in Shijiazhuang Guoxiang are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Shijiazhuang Guoxiang. The entitlements of the joint venture partners in profits, dividends and other distributions of Shijiazhuang Guoxiang are in the proportion to their capital contribution ratio. CSR

Shijiazhuang and King Machinery (Taiwan) Co., Limited, an independent third party, have the rights to nominate four directors and four directors respectively to the board of Shijiazhuang Guoxiang under the joint venture contract and its articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(5) Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd. (青島四方川崎車輛技術有限公司) ("Qingdao Sifang Kawasaki")

Parties and equity interest:	CSR Sifang Co., Ltd. (39%), Kawasaki Heavy Industries Ltd. (日本川崎重工業株式會社) (39%), ITOCHU Corporation (日本伊藤忠商事株式會社) (11%), and the Company (11%)
Term of joint venture:	10 years
Date of establishment:	4 April 2005
Scope of business:	the development, design, technical support of railway and urban mass transit vehicles and related import/export services (excluding distribution business); the above business shall be operated with valid permits if such permits are required
Nature:	Sino-foreign equity joint venture
Total investment amount:	US$1,400,000
Registered share capital:	US$1,400,000

All transfers of registered share capital in Qingdao Sifang Kawasaki are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Qingdao Sifang Kawasaki. The entitlements of the joint venture partners in profits, dividends and other distributions of Qingdao Sifang Kawasaki are in proportion to their capital contribution ratio. CSR Sifang Co., Ltd., Kawasaki Heavy Industries Ltd., ITOCHU Corporation and the Company have the rights to nominate two directors, three directors, one director and one director respectively to the board of Qiangdao Sifang Kawasaki under the joint venture contract and Qiangdao Sifang Kawasaki's articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(6) Bombardier Sifang (Qingdao) Transportation Ltd. (青島四方龐巴迪鐵路運輸設備有限公司) ("Bombardier Sifang")

Parties and equity interest:	CSR Sifang Ltd. (50%) and Bombardier Holding (Mauritius) Ltd. (龐巴迪控股(毛里求斯)有限公司) (50%)
Term of joint venture:	50 years
Date of establishment:	27 November 1998
Scope of business:	the design, production of high-end passenger carriages, the bodies of passenger carriages, EMUs, luxurious double-deck passenger carriages, high-speed passenger carriages and urban mass transit vehicles, etc.; the sale of joint venture's own products; the provision of related after-sales services
Nature:	Sino-foreign equity joint venture
Total investment amount:	US$72,390,000
Registered share capital:	US$44,120,000

All transfers of registered share capital in Bombardier Sifang are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of

Bombardier Sifang. The entitlements of the joint venture partners in profits, dividends and other distributions of Bombardier Sifang are in proportion to their capital contribution ratio. Each of CSR Sifang Ltd. and Bombardier Holding (Mauritius) Ltd. has the rights to nominate four directors to the board of Bombardier Sifang under the joint venture contract and its articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(7) Nanjing SP Puzhen Rail Transport Co., Ltd.
(南京南車浦鎮城軌車輛有限責任公司) (“Nanjing Puzhen”)

Parties and equity interest:	CSR Puzhen (42.5%), Midas Holdings Limited (新加坡麥達斯控股有限公司) (32.5%), New Leap 新力搏交通裝備投資租賃有限公司 (10%), Nanjing New and High Tech Development Zone General Company (南京高新技術開發總公司) (10%), and Pukou State-owned Capital Operation (Holding) Co., Ltd. (南京市浦口區國有資產投資經營有限公司) (5%)
Term of joint venture:	50 years
Date of establishment:	18 October 2006
Scope of business:	the research and development, manufacture and sale of rapid transit vehicles and metro cars, Bogies and related accessories. (Such business shall be operated with valid permits if such permits are required)
Nature:	Sino-foreign equity joint venture
Total investment amount:	RMB407,630,000
Registered share capital:	RMB340,000,000

All transfers of registered share capital in Nanjing Puzhen are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Nanjing Puzhen. The entitlements of the joint venture partners in profits, dividends and other distributions of Nanjing Puzhen are in the proportion to their capital contribution ratio. CSR Puzhen, Midas Holdings Limited, New Leap, which is our wholly-owned subsidiary, and Nanjing New and High Tech Development Zone General Company have the rights to nominate three directors, two directors, one director and one director respectively to the board of Nanjing Puzhen under the joint venture contract and its articles of association. Of the seven directors, four are nominated by the Company (through CSR Puzhen and New Leap), which has the majority representation in the board of Nanjing Puzhen.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(8) Zhuzhou ABC Rail Products Co., Ltd.
(株洲斯威鐵路產品有限公司) (“Zhuzhou ABC”)

Parties and equity interest:	CSR Yangtze (60%) and ABC Rail Products China Investment Corporation (美國ABC鐵路產品中國投資公司) (40%)
Term of joint venture:	30 years
Date of establishment:	25 September 2001
Scope of business:	the design, process, manufacturing, purchase, assemble and sale of S. M Bogies, Bogie components and other casting steel and related railway products, in domestic and international markets, and the provision of after-sales services for the above products; sub-license exclusively to third parties in the PRC and related units.
Nature:	Sino-foreign equity joint venture
Total investment amount:	RMB152,292,000
Registered share capital:	RMB108,522,500

All transfers of registered share capital in Zhuzhou ABC are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Zhuzhou ABC. The entitlements of the joint venture partners in profits, dividends and other distributions of Zhuzhou ABC are in proportion to their capital contribution ratio. CSR Yangtze and ABC Rail Products China Investment Corporation have the rights to nominate four directors and three directors respectively to the board of Zhuzhou ABC under the joint venture contract and its articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(9) Zhuzhou Shiling Transportation Equipment Company Limited （株洲時菱交通設備有限公司）(“Zhuzhou Shiling”)

Parties and equity interest:	CSR Times Electric (50%), Mitsubishi Electric Corporation （三菱電機株式會社） (40%) and Mitsubishi Electric (China) Co., Ltd. （三菱電機中國有限公司） (10%)
Term of joint venture:	20 years
Date of establishment:	8 April 2005
Scope of business:	the design, develop, manufacture, sale and after-sales services of electric components and mechanic components used by mass transit vehicles
Nature:	Sino-foreign equity joint venture
Total investment amount:	US$23,000,000
Registered share capital:	US$14,000,000

All transfers of registered share capital in Zhuzhou Shiling are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Zhuzhou Shiling. The entitlements of the joint venture partners in profits, dividends and other distributions of Zhuzhou Shiling are in proportion to their capital contribution ratio. CSR Times Electric has the rights to nominate four and Mitsubishi Electric Corporation and Mitsubishi Electric (China) Co., Ltd has the rights to jointly nominate four directors to the board of Zhuzhou Shiling under the joint venture contract and its articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(10) Changzhou Riman Turbo-charging Precision Casting Co., Ltd. （常州瑞盟增壓器精密鑄造有限公司）(“Changzhou Riman”)

Parties and equity interest:	CSR Qishuyan Institute （戚墅堰所） (40%), Mana Precision Casting Co., Ltd. （日本瑪納精密鑄工株式會社） (40%) and Changzhou Jinteng Mechanical Manufacturing Company Ltd. （常州今騰機電製造有限公司） (20%)
Term of joint venture:	20 years
Date of establishment:	14 September 2006
Scope of business:	the research and development, production and servicing of vehicle power engine inlet charger die casts and other sophisticated die cast products. (Such business shall be operated after the specific permits have been approved if specific national permits are required)
Nature:	Sino-foreign equity joint venture
Total investment amount:	RMB40,000,000
Registered share capital:	RMB30,000,000

All transfers of registered share capital in Changzhou Riman are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Changzhou Riman. The entitlements of the joint venture partners in profits, dividends and other distributions of Changzhou Riman are in proportion to their capital contribution ratio. Each of CSR Qishuyan Institute and Mana Precision Casting Co., Ltd. has the rights to nominate two directors while Changzhou Jinteng Mechanical Manufacturing Company Ltd. (常州今騰機電製造有限公司) has the right to nominate one director to the board of Changzhou Riman under the joint venture contract and its articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(11) Changzhou Ruiyang Transmission Technology Co., Ltd. (常州朗銳東洋傳動技術有限公司) ("Changzhou Ruiyang")

Parties and equity interest:	CSR Qishuyan Institute (50%) and Toyo Denki Seizo K.K. (日本東洋電機製造株式會社) (50%)
Term of joint venture:	30 years
Date of establishment:	22 August 2006
Scope of business:	the development, production, manufacture, sale and servicing of gear transmission systems and other related products of urban mass transit vehicles; the sale of its own products (Businesses involving special approval can be operated only after obtaining special approval).
Nature:	Sino-foreign equity joint venture
Total investment amount:	RMB10,000,000
Registered share capital:	RMB10,000,000

All transfers of registered share capital in Changzhou Ruiyang are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Changzhou Ruiyang. The entitlements of the joint venture partners in profits, dividends and other distributions of Changzhou Ruiyang are in proportion to their capital contribution ratio. Each of CSR Qishuyan Institute and Toyo Denki Seizo K.K. (日本東洋電機製造株式會社) has the rights to nominate three directors respectively to the board of Changzhou Ruiyang under the joint venture contract and its articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

(12) Nanjing Puzhen NTN Railway Bearing Co., Ltd (“Puzhen NTN”)

Parties and equity interest:	CSR Puzhen (60%) and NTN (China) Investment Corporation (恩梯恩(中國)投資有限公司) (40%)
Term of joint venture:	25 years
Date of establishment:	24 December 2007
Scope of business:	the design and manufacture of major components for locomotives (during the preparation period for the establishment of Puzhen NTN); the development, manufacture (during the preparation period for the establishment of Puzhen NTN) and sale of the fine bearing and relevant components for railway high-speed passenger carriages (the above manufacturing projects are restricted to establishment purpose, no operation is allowed during the preparation period for the establishment of Puzhen NTN.) (For the foregoing scope of business which involves administrative approval, no business can be conducted unless prior approval is obtained.)
Nature:	Sino-foreign equity joint venture
Total investment amount:	US$11,000,000
Registered share capital:	US$6,600,000

All transfers of registered share capital in Puzhen NTN are subject to pre-emptive rights of the joint venture partners set out in the joint venture contract and the articles of association of Puzhen NTN. The entitlements of the joint venture partners in profits, dividends and other distributions of Puzhen NTN are in proportion to their capital contribution ratio. Each of CSR Puzhen and NTN (China) Investment Corporation (恩梯恩(中國)投資有限公司) has the rights to nominate three and two directors respectively to the board of Puzhen NTN under the joint venture contract and its articles of association.

Upon expiry of the term of the joint venture, the joint venture partners shall be entitled to the distributable current assets in proportion to their capital contribution ratio.

FURTHER INFORMATION ABOUT OUR BUSINESS

1. Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of our business) within the two years immediately preceding the date of this Prospectus which are or may be material:

(a) a Restructuring Agreement entered into between the Company and CSRG on 7 January 2008 in respect of the Restructuring, further details of which are set out in “Restructuring”;

(b) a trademark transfer agreement dated 28 December 2007 between the Company and CSRG, as amended by a supplementary agreement dated 15 July 2008 between the same parties in respect of the transfer of trademarks by CSRG to the Company pursuant to the Restructuring for a nominal fee of RMB1.0, further details of which are set out in “Business—Intellectual Properties”;

(c) an Asset Transfer Agreement dated 30 December 2007 entered into between the Company and CSRG for the transfer of assets by CSRG to the Company pursuant to the Restructuring, further details of which are set out in “Restructuring”;

(d) a Non-Competition Agreement dated 10 January 2008 between the Company and CSRG, as amended by a supplementary agreement dated 15 July 2008 between the same parties, pursuant to which CSRG agreed not to compete with us in our core business and granted us options and pre-emptive rights to acquire certain competing businesses or assets of the Retained Operations from CSRG, further details of which are set out in "Relationship with CSRG—Non-Competition Agreement";

(e) a corporate investor agreement dated 1 August 2008 entered into between China Life Insurance Company Limited ("China Life"), the Company and the Joint Global Coordinators, pursuant to which China Life agreed to subscribe for our H Shares in the amount of US$30 million;

(f) a corporate investor agreement dated 1 August 2008 entered into between GE Capital Equity Investments Ltd ("GE Capital"), the Company and the Joint Global Coordinators, pursuant to which GE Capital agreed to subscribe for our H Shares in the amount of US$30 million;

(g) a corporate investor agreement dated 1 August 2008 entered into between Mirae Asset Global Investments (Hong Kong) Limited ("Mirae Asset"), the Company and the Joint Global Coordinators, pursuant to which Mirae Asset agreed to subscribe for our H Shares in the amount of US$30 million; and

(h) a Hong Kong Underwriting Agreement dated 7 August 2008 relating to the Hong Kong Public Offering entered into among the Company, the Hong Kong Underwriters and the Joint Global Coordinators, further details of which are set out in "Underwriting—Hong Kong Underwriting Agreement".

2. Intellectual Property Rights

Registered Trademarks

As of the Latest Practicable Date, we are the registered owner of the following trademarks which we consider are or may be material to our business activities:

No.	Trademark	Class	Products or services covered	Place of Registration	Valid Period	Registered Owner	Registration Number
1	南车	9	Note 3	PRC	2003.6.14 — 2013.6.13	The Company	3145484
2	南车	40	Note 13	PRC	2004.4.14 — 2014.4.13	The Company	3258551
3	南车	42	Note 15	PRC	2004.3.7 — 2014.3.6	The Company	3258558
4	南车	41	Note 14	PRC	2003.10.7 — 2013.10.6	The Company	3258560
5	南车	7	Note 2	PRC	2004.4.21 — 2014.4.20	The Company	3258565
6	南车	12	Note 6	PRC	2003.10.7 — 2013.10.6	The Company	3258567
7	南车	37	Note 11	PRC	2004.4.28 — 2014.4.27	The Company	3258569
8	南车	39	Note 12	PRC	2004.2.28 — 2014.2.27	The Company	3258574
9	南车	35	Note 10	PRC	2004.4.14 — 2014.4.13	The Company	3258572
10	南车	11	Note 5	PRC	2004.11.14 — 2014.11.13	The Company	3258577
11	南车	7, 9, 11, 12, 35, 37, 39, 40, 41, 42, 43	Notes 2, 3, 5, 6, 10, 11, 12, 13, 14, 15, 16	Hong Kong	2007.4.17 — 2017.4.16	The Company	300852778
12	CSR	9	Note 3	PRC	2003.9.28 — 2013.9.27	The Company	3258552
13	CSR	7	Note 2	PRC	2004.7.7 — 2014.7.6	The Company	3258554
14	CSR	42	Note 15	PRC	2004.3.7 — 2014.3.6	The Company	3258557

No.	Trademark	Class	Products or services covered	Place of Registration	Valid Period	Registered Owner	Registration Number
15	CSR	41	Note 14	PRC	2003.10.7 — 2013.10.6	The Company	3258559
16	CSR	12	Note 6	PRC	2003.10.7 — 2013.10.6	The Company	3258566
17	CSR	37	Note 11	PRC	2004.7.14 — 2014.7.13	The Company	3258568
18	CSR	40	Note 13	PRC	2004.4.14 — 2014.4.13	The Company	3258570
19	CSR	35	Note 10	PRC	2004.4.14 — 2014.4.13	The Company	3258571
20	CSR	39	Note 12	PRC	2004.5.7 — 2014.5.6	The Company	3258573
21	CSR	11	Note 5	PRC	2004.3.21 — 2014.3.20	The Company	3258576
22		9	Note 3	PRC	2005.06.21 — 2015.06.20	CSR ZELRI	751715
23	南车时代	7, 9, 11, 12, 32, 35, 37, 39, 40, 41, 42, 43	Notes 2, 3, 5, 6, 9, 10, 11, 12, 13, 14, 15, 16	Hong Kong	2007.04.17 — 2017.04.16	The Company	300852750
24	TEG	7, 9, 11, 12, 35	Notes 2, 3, 5, 6, 10	Hong Kong	2006.7.6 — 2016.7.5	CSR ZELRI	300675108
25	TEG	7, 9, 11, 12, 35	Notes 2, 3, 5, 6, 10	Hong Kong	2006.7.17 — 2016.7.16	CSR ZELRI	300681462
26	TEG	9	Note 3	PRC	2005.10.07 — 2015.10.06	CSR ZELRI	3785446
27	TEG	9	Note 3	PRC	2002.11.14 — 2012.11.13	CSR ZELRI	2017014
28	TEG	11	Note 5	PRC	2006.04.14 — 2016.04.13	CSR ZELRI	3785444
29	TEG	12	Note 6	PRC	2002.06.28 — 2012.6.27	CSR ZELRI	1798693

No.	Trademark	Class	Products or services covered	Place of Registration	Valid Period	Registered Owner	Registration Number
30	TEG	12	Note 6	PRC	2005.09.28 — 2015.09.27	CSR ZELRI	3784738
31	TEG	37	Note 11	PRC	2006.05.28 — 2016.5.27	CSR ZELRI	3784713
32	TEG	40	Note 13	PRC	2005.12.21 — 2015.12.20	CSR ZELRI	3784710
33	TEG	7	Note 2	PRC	2005.12.07 — 2015.12.06	CSR ZELRI	3785498
34	TEG	9	Note 3	PRC	2002.11.14 — 2012.11.13	CSR ZELRI	2017013
35	TEG	9	Note 3	PRC	2005.10.07 — 2015.10.06	CSR ZELRI	3785496
36	TEG	10	Note 4	PRC	2005.03.14 — 2015.03.13	CSR ZELRI	3785495
37	TEG	11	Note 5	PRC	2006.04.14 — 2016.04.13	CSR ZELRI	3785494
38	TEG	12	Note 6	PRC	2002.06.28 — 2012.06.27	CSR ZELRI	1798692
39	TEG	12	Note 6	PRC	2005.12.07 — 2015.12.06	CSR ZELRI	3785493
40	TEG	37	Note 11	PRC	2006.02.21 — 2016.02.20	CSR ZELRI	3785480
41	ETG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888279
42	EGT	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888262
43	ETEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888261
44	FTEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888091
45	ITEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888092
46	LTEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888288

No.	Trademark	Class	Products or services covered	Place of Registration	Valid Period	Registered Owner	Registration Number
47	IEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888289
48	LEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888271
49	JEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888272
50	ZEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888273
51	TBG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888274
52	TIG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888275
53	TFG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888276
54	TTG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888280
55	TZG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888281
56	TEE	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888283
57	TEO	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888284
58	TEQ	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888285
59	CTEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888090
60	TEG	9	Note 3	PRC	2006.05.07 — 2016.05.06	CSR ZELRI	3888278
61		9	Note 3	PRC	2005.11.14 — 2015.11.13	CSR ZELRI	790711
62		9	Note 3	PRC	2003.03.14 — 2013.03.13	CSR ZELRI	2016606
63		17	Note 7	PRC	2002.06.28 — 2012.06.27	CSR ZELRI	1795003

No.	Trademark	Class	Products or services covered	Place of Registration	Valid Period	Registered Owner	Registration Number
64	时代新材	7	Note 2	PRC	2004.05.28 — 2014.05.27	Zhuzhou Times New Material Technology Co., Ltd	3316597
65	时代新材	17	Note 7	PRC	2004.11.28 — 2014.11.27	Zhuzhou Times New Material Technology Co.	3316596
66		7	Note 2	PRC	2005.10.21 — 2015.10.20	Zhuzhou Times New Material Technology Co.	784458
67		17	Note 7	PRC	2005.12.21 — 2015.12.20	Zhuzhou Times New Material Technology Co.	801351
68		7	Note 2	PRC	2002.12.21 — 2012.12.20	Sichuan Brake Science and Technology Co. Ltd.	1912363
69	迈驰	7	Note 2	PRC	2002.12.21 — 2012.12.20	Sichuan Brake Science and Technology Co. Ltd.	1912365
70	MRS	7	Note 2	PRC	2002.12.21 — 2012.12.20	Sichuan Brake Science and Technology Co. Ltd.	1912367
71		12	Note 6	PRC	2001.03.28 — 2011.03.27	Bombardier Sifang (Qingdao) Transportation Ltd.	1547598
72	CSR	7, 11, 12, 35, 39, 40, 41, 43	Notes 2, 5, 6, 10, 12, 13, 14, 16	Hong Kong	2007.04.17 — 2017.04.16	The Company	300852787AB
73	CSR	9, 37, 42	Notes 3, 11, 15	Hong Kong	2007.04.17 — 2017.04.16	The Company	300852787AA

Notes:

(1) CLASS 6: Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores.

(2) CLASS 7: Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs.

(3) CLASS 9: Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signaling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment and computers; fire-extinguishing apparatus.

(4) CLASS 10: Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials.

(5) CLASS 11: Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.

(6) CLASS 12: Vehicles; apparatus for locomotion by land, air or water.

(7) CLASS 17: Rubber, gutta-percha, gum, asbestos, mica and goods made from these materials and not included in other classes; plastics in extruded form for use in manufacture; packing, stopping and insulating materials; flexible pipes, not of metal.

(8) CLASS 19: Building materials (non-metallic); non-metallic rigid pipes for building; asphalt, pitch and bitumen; non-metallic transportable buildings; monuments, not of metal.

(9) CLASS 32: Beers; mineral and aerated waters and other non-alcoholic drinks; fruit drinks and fruit juices; syrups and other preparations for making beverages.

(10) CLASS 35: Advertising; business management; business administration; office functions.

(11) CLASS 37: Building construction; repair; installation services.

(12) CLASS 39: Transport; packaging and storage of goods; travel arrangement.

(13) CLASS 40: Treatment of materials.

(14) CLASS 41: Education; providing of training; entertainment; sporting and cultural activities.

(15) CLASS 42: Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software; legal services.

(16) CLASS 43: Services for providing food and drink; temporary accommodation.

Patents

As part of Restructuring, CSRG has transferred a series of registered patents to us. As of the Latest Practicable Date, the following are patents that we have been granted in PRC and which we consider is or may be material to our business activities:

No.	Patent	Patent Owner	Type	Patent No.	Date of Grant
1	Car frame of special high speed container flat wagon	CSR Feb. 7th	Utility Model	ZL200620133844.4	19 September 2007
2	Hydraulic draft gear	CSR Feb. 7th	Utility Model	ZL200620134178.6	10 October 2007
3	body of three-deck special flat wagon for transport cars	CSR Feb. 7th	Utility Model	ZL200620158697.6	12 December 2007
4	High power diesel engine for Main-line diesel locomotive	CSR Qishuyan	Utility Model	ZL200420080582.0	18 January 2006
5	Supercharged diesel engine for plateau diesel locomotive	CSR Qishuyan	Utility Model	ZL200420080584.X	28 September 2005

No.	Patent	Patent Owner	Type	Patent No.	Date of Grant
6	Low axle weight and High power AC freight diesel locomotive	CSR Qishuyan	Invention Patent	ZL200510038748.1	30 November 2005
7	Box structure of transmission-gear box for power dispersion type train power vehicle	CSR Qishuyan Institute	Utility Model	ZL03221252.6	21 April 2004
8	Spring clay buffer	CSR Qishuyan Institute	Utility Model	ZL200520071937.4	12 July 2006
9	Built-in supersonic inspection combined probe for hollow car-axle	CSR Qishuyan Institute	Utility Model	ZL200520077033.2	29 November 2006
10	Joint type tracting buffer connecting device of railway traffic vehicle	CSR Qishuyan Institute	Utility Model	ZL200620068913.8	21 March 2007
11	The primary suspension bogie for railway wagon	CSR Yangtze	Invention Patent	ZL01128571.0	30 January 2002
12	A railway wagon	CSR Yangtze	Invention Patent	ZL200510031477.7	09 January 2008
13	The derailment automatic brake system of railway wagon	CSR Yangtze	Utility Model	ZL200420034883.X	02 February 2005
14	The long-stroke rubber elastic side bearing for railway wagon	CSR Yangtze	Utility Model	ZL200620147250.9	12 December 2007
15	The articulated eight-axle railway wagon	CSR Yangtze	Utility Model	ZL200620147119.2	19 December 2007
16	DC/DC converter	Hunan CSR Times Electric Vehicle Co. Ltd. (湖南南車時代電動汽車股份有限公司)	Invention Patent	ZL02139907.7	24 August 2005
17	Gate driving control unit for high-power thuristor with gate capable of being shut off	CSR ZELRI	Invention Patent	ZL99115376.6	25 February 2004

No.	Patent	Patent Owner	Type	Patent No.	Date of Grant
18	Automatic stretching technology and equipment for shaping frame-type windings of stator	CSR ZELRI	Invention Patent	ZL00113680.1	17 August 2005
19	Insulating enamel paint resisting electric arc	CSR ZELRI	Invention Patent	ZL00126659.4	22 September 2004
20	Method for metering special temperature value	CSR ZELRI	Invention Patent	ZL02139856.9	09 February 2005
21	Three-D low-sensitive bus-bar line and manufacturing method thereof	CSR ZELRI	Invention Patent	ZL200410047021.5	24 October 2007
22	Electromagnetic converting element of DC/DC converter	Hunan CSR Times Electric Vehicle Co. Ltd. (湖南南車時代電動汽車股份有限公司)	Utility Model	ZL02283254.8	17 December 2003
23	Electric drive electric-electronic power inverter high-voltage control cabinet	Hunan CSR Times Electric Vehicle Co. Ltd. (湖南南車時代電動汽車股份有限公司)	Utility Model	ZL200520052255.9	29 November 2006
24	Electric sight-seeing vehicle	Hunan CSR Times Electric Vehicle Co. Ltd. (湖南南車時代電動汽車股份有限公司)	Utility Model	ZL200520052936.5	07 February 2007
25	GPS positioning apparatus for railway locomotive	CSR ZELRI	Utility Model	ZL200520051479.8	29 November 2006
26	Water-cooling device for stator of driving motor	Hunan CSR Times Electric Vehicle Co. Ltd. (湖南南車時代電動汽車股份有限公司)	Utility Model	ZL200520052748.2	30 May 2007
27	Train operation accident sate recorder	CSR ZELRI	Utility Model	ZL01249635.9	24 July 2002

No.	Patent	Patent Owner	Type	Patent No.	Date of Grant
28	Compositive Test Bench for Curve Track Simulation	CSR Zhuzhou	Invention Patent	ZL200410047019.8	17 October 2007
29	Under-voltage Protection Device for Control Power Supply for Electric Locomotive	CSR Zhuzhou	Utility Model	ZL200520050808.7	25 October 2006
30	Distributed Auxiliary Power Supply System for Locomotive	CSR Zhuzhou	Utility Model	ZL200620052315.1	24 October 2007
31	Locomotive Bogie Traction Device	CSR Zhuzhou	Utility Model	ZL200620052942.5	21 November 2007
32	Method for preventing idling and sliding of wheel of track motor car	CSR Times Electric	Invention Patent	ZL200510032371.9	26 December 2007
33	An IDD device for electric locomotive	CSR Times Electric	Utility Model	ZL200620050872.X	11 April 2007
34	Multiple bus vehicle communication control module based on TCN	CSR Times Electric	Utility Model	ZL200620051460.8	11 July 2007
35	Microcomputer control system of diesel locomotive	CSR ZELRI	Invention Patent	ZL03124531.5	28 February 2007
36	Control circuit for control power supply	CSR ZELRI	Invention Patent	ZL200310110627.4	04 July 2007
37	A universal integrated and modularized IGBT traction converter module	CSR ZELRI	Invention Patent	ZL200310110626.X	18 October 2006
38	Mounting box for electric vehicle control panel	Zhuzhou Time Group Co., Ltd. （株洲時代集團公司）	Utility Model	ZL200420035980.0	25 May 2005
39	Process for preparing in-situ graft modified rubber by using general rubber preparing device and its modifier	Zhuzhou Times New Material Technology Co., Ltd.	Invention Patent	ZL200510031273.3	17 January 2007

No.	Patent	Patent Owner	Type	Patent No.	Date of Grant
40	Electromagnetic heating method and heater for 5L sulfurizing machine	Zhuzhou Times New Material Technology Co., Ltd.	Invention Patent	ZL01114495.5	05 July 2006
41	Weaving shuttle made of nanotechnology nylon and plastics and its making method	Zhuzhou Times New Material Technology Co., Ltd.	Invention Patent	ZL01114483.1	05 October 2005
42	Novel weighing valve for regulating braking force magnitude for railroad rolling stock	Zhuzhou Times New Material Technology Co., Ltd.	Invention Patent	ZL031246222.2	05 December 2007
43	Abrasion-free non-linear-damping combined vibration-damp locating spring	Zhuzhou Times New Material Technology Co., Ltd.	Utility Model	ZL02224228.7	30 April 2003
44	Elastic component creep tester	Zhuzhou Times New Material Technology Co., Ltd.	Utility Model	ZL03248571.9	11 August 2004
45	Node cover counter arc rubber spring for rail vehicle bogie	Zhuzhou Times New Material Technology Co., Ltd.	Utility Model	ZL200520050262.5	19 July 2006
46	Abrasion-free maintenance-free anti-sidewind torsion bar device for track vehicle	Zhuzhou Times New Material Technology Co., Ltd.	Utility Model	ZL02224230.9	30 April 2003
47	Large composition large damping high elastic coupling	Zhuzhou Times New Material Technology Co., Ltd.	Utility Model	ZL02224227.9	14 January 2004
48	high-powered diesel locomotive	CSR Ziyang	Utility Model	ZL200620036600.4	21 September 2007
49	automatic control device of shunting locomotive	CSR Ziyang	Utility Model	ZL200620036150.9	17 October 2007

According to PRC laws, a granted invention has a validity period of 20 years from the date of its application and a granted utility model has a validity of 10 years from the date of its application.

Applications for the registration of the above patents under our Company’s name have been submitted to the State Intellectual Property Office of PRC.

FURTHER INFORMATION ABOUT THE DIRECTORS AND SUPERVISORS

1. Directors' and Supervisors' Service Contracts

Each of the executive Directors and Supervisors has entered into a service agreement with the Company. Principal particulars of these agreements are summarized below.

(a) Each service agreement is for an initial term of three years commencing on 28 December 2007 (subject to termination in certain circumstances as stipulated in the relevant agreement). Under each agreement, either party may terminate the agreement at any time by giving to the other not less than one month's prior written notice.

(b) Under the current arrangements, the aggregate remuneration payable to the Directors shall be approved by shareholders' meeting from time to time. In addition, each of the executive Directors is entitled to social and welfare benefits provided under the relevant PRC laws and regulations (including, but not limited to, housing, food and childcare subsidy).

(c) Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary or management bonus payable to him.

2. Directors' and Supervisors' Remuneration

The aggregate amounts of remuneration paid and benefits in kind granted to the Directors and the Supervisors in respect of the financial years ended 31 December 2005, 2006, 2007 and the three months ended 31 March 2008 were approximately RMB2.2 million, RMB2.4 million, RMB2.8 million and RMB1.2 million, respectively. Save as disclosed under Note 9 to the Accountants' Report as included in Appendix I to this Prospectus, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of the three financial years ended 31 December 2007.

Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind receivable by the Directors (including five independent non-executive Directors) and Supervisors, in respect of the year ending 31 December 2008 are estimated to be approximately RMB2.58 million (including RMB0.58 million received by the independent non-executive Directors) and RMB1.02 million, respectively.

DISCLOSURE OF INTERESTS

1. Directors' and Supervisors' Interests and Short Positions

As disclosed in "Substantial Shareholder", none of the Directors and Supervisors is a legal or beneficial owner of any of the Shares.

Immediately following completion of the Global Offering, none of the Directors and Supervisors will have any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or (ii) will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Hong Kong Listing Rules, in each case once the H Shares are listed on the Hong Kong Stock Exchange. For this purpose, the relevant regulatory provisions as mentioned above shall be deemed to apply to the Supervisors to the same extent as they apply to the Directors.

2. Substantial Shareholder

Immediately following completion of the Global Offering, so far as the Directors are aware (and taking no account of H Shares which may be taken up pursuant to the Global Offering and H Shares which may be issued pursuant to the exercise of the Over-allotment Option), the persons who will have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Company are set out in "Substantial Shareholder" of this Prospectus.

Save as disclosed herein, but not taking into account any H Shares which may be taken up under the Global Offering, the Directors are not aware of any legal person or individual (not being a Director or chief executive of the Company) who will, immediately following the completion of the Global Offering, have any interest or short position in the Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company.

Member of our Company	Person with 10% or more interest (other than us)	Percentage of that person's interest
Beijing Fenghuashi Machinery Co., Ltd. (北京豐華實機械有限公司)	Asset Concentration Limited (BVI 融慧投資有限公司)	25.82%
Beijing Longchangti Engineering Machinery Co., Ltd. (北京隆長泰工程機械有限公司)	Hong Kong Dongyang Co. Ltd (香港東陽有限公司)	45%
Beijing Longxuan Rubber & Plastics Co., Ltd. (北京隆軒橡塑有限公司)	Hong Kong Lixuan Investment Co., Ltd. (香港利軒投資有限公司)	25%
Beijing He Luoxing Tech. & Trade Co., Ltd. (北京河洛星科貿有限責任公司)	Luoyang Zhao Yuan Supplies Co., Ltd. (洛陽市兆元物資有限責任公司)	20%
Nanjing SP Puzhen Rail Transport Co., Ltd. (南京浦鎮海泰制動設備有限公司)	Jiangsu Pengyuan Electronics Co., Ltd. (江蘇鵬遠電子有限公司)	29%
Nanjing Puzhen Haitai EMU Co., Ltd. (南京浦鎮海泰制動設備有限公司)	Changzhou Duowei Electric Appliance Co., Ltd. (常州市多維電器有限公司)	20%
Nanjing SP Puzhen Rail Transport Co., Ltd. (南京南車浦鎮城軌車輛有限責任公司)	Midas Holdings Limited (新加坡麥達斯控股有限公司)	32.5%

Member of our Company	Person with 10% or more interest (other than us)	Percentage of that person's interest
Changzhou Leadrun Casting Co., Ltd. (常州朗銳鑄造有限公司)	Changzhou Hutang Collective Assets Management Company (常州市武進湖塘集體資產經營公司)	40%
Ningbo Jiangbei Gofront Herong Electric Co., Ltd. (寧波市江北九方和榮電氣有限公司	Ningbo Jiangbei Asset Management Co., Ltd. (寧波市江北區資產經營公司)	27%
Zhuzhou ABC Rail Products Co., Ltd. (株洲斯威鐵路產品有限公司)	ABC Rail Products China Investment Corporation (美國ABC鐵路產品中國投資公司)	40%
Ziyang Chenfeng Electric Co., Ltd. (資陽晨風電氣有限公司)	Xi'an Kaitian Railway Traction Electric Apparatus Co., Ltd. (西安開天鐵路牽引電器有限公司)	44%
Qingdao Sifang Railway Electrical Equipment Co., Ltd. (青島四方鐵路電氣設備有限公司)	Yongji Motor Works Industry Company (永濟電機廠工業公司)	35%
Zhuzhou Times Excellent Automobile Electronic Technique Co., Ltd. (株洲時代卓越汽車電子技術有限公司)	Zhuzhou Zhouyue Hi-tech Development Co., Ltd. (株洲卓越高科技實業有限公司)	39%
Hunan CSR Times Electric Vehicle Co., Ltd. (湖南南車時代電動汽車股份有限公司)	Hunan Hi-tech Venture Capital Co., Ltd. (湖南湘投高科技創業投資有限公司)	20%
Nanjing SP Puzhen Rail Transport Co., Ltd. (南京南車浦鎮城軌車輛有限責任公司)	Nanjing New and High Tech Development Zone General Company (南京高新技術經濟開發總公司)	10%
Qingdao Sifang Railway Components Co., Ltd. (青島四方鐵路配件有限公司)	Beijing Pioneer-Tech Co., Ltd. (北京先河技術發展公司)	10%
Ziyang Sunfull Precision Mechanism Co., Ltd. (資陽晨風精密機械有限責任公司)	Sichuan Locomotive Industry Co., Ltd. (四川火車頭實業有限公司)	13.33%
Ziyang Sunfull Precision Mechanism Co., Ltd. (資陽晨風精密機械有限責任公司)	Changzhou Qishuyan Vehicle Accessory Factory Co., Ltd. (常州市戚墅堰車輛附件廠有限公司)	10%
Jiangsu Leadrun Maoda Casting Co., Ltd. (江蘇朗銳茂達鑄造有限公司)	Jiangyin Maoda Casting Co., Ltd. (江陰市茂達鑄造有限公司)	49%
Nanjing Puzhen NTN Railway Bearing Co., Ltd. (南京浦鎮恩梯恩鐵路軸承有限公司)	NTN (China) Investment Corporation (恩梯恩(中國)投資有限公司)	40%
Beijing Tianyu Huaxing Aviation Technology Co., Ltd. (北京天宇華星航空科技有限公司)	Luo Guofang (羅國芳)	16.8%
Zhuzhou Times Huatong Electric Technology Co., Ltd. (株洲時代華通電動技術有限公司)	Chen Quanshi (陳全世)	10%

3. Disclaimers

Save as disclosed in this Prospectus:

(a) none of the Directors or Supervisors is interested in promotion of the Company, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to, our Company, or are proposed to be acquired or disposed of by or leased to our Company;

(b) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to our business;

(c) none of the Directors or Supervisors is a director or employee of CSRG, being a company which is expected to have an interest in the Shares falling to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Hong Kong Stock Exchange; and

(d) as of the Latest Practicable Date, none of the Directors, Supervisors, their respective associates or the controlling shareholder of the Company, CSRG, had any interest in any of our top five suppliers and top five customers in respect of each of our business segments.

OTHER INFORMATION

1. Estate Duty and Tax Indemnity

The Directors have been advised by Grandall Legal Group (Beijing), the legal advisers of our Company as to PRC law, that currently there is no PRC law imposing liability for estate duty and that no material liability for estate duty under PRC law is likely to be imposed on our Company.

Pursuant to the Restructuring Agreement, CSRG has given indemnities in connection with or arising from, among others, (i) all taxes payable in respect of the transferred assets on or before the effective date of the Restructuring; and (ii) all taxes not provided for by any tax provisions in the audited financial reports that are payable in respect of the transferred assets arising prior to 28 December 2007, the date of establishment of the Company.

2. Litigation

Save as disclosed in "Business—Legal Proceedings", as of the Latest Practicable Date, our Company was not involved in any other litigation of material importance, and no litigation or claim of material importance was known to the Directors to be pending or threatened against our Company that would have an effect on our Company's results of operations or financial condition.

3. No Material Adverse Change

The Directors confirm that there has been no material adverse change in our Company's financial or trading position since 31 March 2008.

4. Preliminary Expenses

The estimated preliminary expenses incurred or proposed to be incurred are approximately RMB3 million and are payable by the Company.

5. Promoters

As mentioned above, CSRG and BRIT are the promoters of the Company. Save for the A Share Offering and as disclosed in this Prospectus, no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this Prospectus, or is proposed to be paid, allotted or given, to CSRG and/or BRIT as the promoters in connection with the Global Offering or the related transactions described in this Prospectus.

6. Joint Sponsors

Each of the Joint Sponsors, namely, China International Capital Corporation (Hong Kong) Limited and Macquarie Capital Securities Limited, is independent from our Company pursuant to Rule 3A.07 of the Hong Kong Listing Rules.

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Offer Shares, including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

7. Joint Compliance Advisers

The Company has agreed to appoint China International Capital Corporation (Hong Kong) Limited and Macquarie Capital Securities Limited to be the Joint Compliance Advisers upon listing in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The Company expects to enter into a compliance advisers' agreement with the Joint Compliance Advisers prior to the Listing Date, the material terms of which are as follows:

(a) the Company will appoint China International Capital Corporation (Hong Kong) Limited and Macquarie Capital Securities Limited as the Joint Compliance Advisers for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the date of listing of the H Shares on the Hong Kong Stock Exchange and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of the financial results for the first full financial year of our Company commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(b) the Joint Compliance Advisers will provide us with certain services, including providing us with proper guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines;

(c) the Joint Compliance Advisers will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines;

(d) the Joint Compliance Advisers will act as one of the additional channels of communication of our Company with the Hong Kong Stock Exchange;

(e) The Company will agree to indemnify the Joint Compliance Advisers for certain actions against and losses incurred by the Joint Compliance Advisers arising out of or in connection with the performance by the Joint Compliance Advisers of their duties under the agreement, or any material breach by the Company of the provisions of the agreement, provided that the indemnity will not apply to any action or loss which is finally judicially determined to have been caused by the willful default, fraud or gross negligence on the part of the Joint Compliance Advisers; and

(f) The Company may terminate the appointment of a Joint Compliance Adviser if the relevant Joint Compliance Adviser's work is of an unacceptable standard or if there is a material dispute over fees payable to the Joint Compliance Adviser (which cannot be resolved within 30 days); any one of the Joint Compliance Advisers will have the right to terminate its appointment if the Company committed a breach of the agreement, or by service of one month's written notice to the Company.

8. Experts

The qualifications of the experts who have given opinions in this Prospectus are as follows:

Name	Qualification
China International Capital Corporation (Hong Kong) Limited . . .	Licensed under the Securities and Futures Ordinance for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) as defined under the Securities and Futures Ordinance
Macquarie Capital Securities Limited . .	Licensed under the Securities and Futures Ordinance for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) as defined under the Securities and Futures Ordinance
Grandall Legal Group (Beijing)	Registered law firm in the PRC
Ernst & Young	Certified Public Accountants
Jones Lang LaSalle Sallmanns Limited	Chartered Surveyors and Valuer

Save as disclosed in this Prospectus or in connection with the Underwriting Agreements, none of these experts has any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

Save as disclosed in this Prospectus, none of the experts named above is interested in the promotion of the Company, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to, the Company, or are proposed to be acquired or disposed of by or leased to the Company.

The Joint Sponsors, Grandall Legal Group (Beijing) (as the legal advisers of our Company as to PRC law), Ernst & Young (as the independent reporting accountants of our Company), Jones Lang LaSalle Sallmanns Limited (as the independent property valuer of our Company) have given and have not withdrawn their respective written consent to the issue of this Prospectus with the inclusion of their respective report(s), valuation certificate(s), letter(s) and/or opinion(s) and summaries of opinions (as the case may be) and the references to their names included herein, all in the form and context in which they respectively appear.

9. Exemptions From The Companies Ordinance Provisions And The Parallel Rules Under The Hong Kong Listing Rules

The Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance with:

(a) Rules 5.01, 5.06(1), 5.06(2) and 5.06(3) of the Hong Kong Listing Rules, which require the particulars of each property to be disclosed in a valuation report on an individual basis;

(b) Rule 19A.27(4) of the Hong Kong Listing Rules relating to preparation of a certified English translation of a valuation report; and

(c) paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules relating to the inclusion of a full valuation report in the Prospectus in respect of the properties legally and beneficially owned by us.

Apart from applying for a waiver from the Hong Kong Stock Exchange, the Company has also applied for an exemption from the SFC from strict compliance with paragraph 34(2) of the Third Schedule to the Companies Ordinance relating to the disclosure of certain particulars of our properties in the valuation report. Both applications are made on the grounds that it would not be practical and would be unduly burdensome for us to include a fully-compliant valuation report in this Prospectus and the inclusion of such detailed information would be irrelevant to potential investors as we are not a property company and would not be material to a potential investor's investment decision. The SFC has granted us an exemption pursuant to section 342A of the Companies Ordinance.

The Hong Kong Stock Exchange has also granted the Company a waiver in respect of the preparation of an English translation of the valuation report since it would be unduly burdensome to prepare an English translation of the report, as substantially all of the properties are located in the PRC and consequently the underlying valuation and title information is in Chinese.

The exemption has been granted by the SFC under section 342A of the Companies Ordinance and the waiver has been granted by the Hong Kong Stock Exchange from Rules 5.01, 5.06(1), 5.06(2), 5.06(3) and 19A.27(4) and paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules, subject to the following conditions:

- a full valuation report in the Chinese language complying with all the applicable requirements of the Hong Kong Listing Rules and paragraph 34(2) of the Third Schedule to the Companies Ordinance will be made available for inspection in accordance with Appendix X to this Prospectus;
- the valuer's letter and the valuer's certificate containing a summary valuation of all of our property interests, including particulars of occupancy, market values and the title status thereof, based on the full valuation report, will be included in both the Chinese and English versions of this Prospectus in the form set out in Appendix IV to this Prospectus; and
- this Prospectus must set out particulars of this exemption.

10. Miscellaneous

Save as disclosed in this Prospectus:

(a) save for A Share Offering and within the two years immediately preceding the date of this Prospectus, the Company has not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of the Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;

(c) the Company has not issued any founder or management or deferred shares;

(d) the Company has no outstanding convertible debt securities or debentures;

(e) within the two years immediately preceding the date of this Prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale or any capital of the Company;

(f) there is no arrangement under which future dividends are waived or agreed to be waived;

(g) there have been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months; and

(h) other than the A Shares of the Company which will be listed on the Shanghai Stock Exchange, no part of the equity or debt securities of the Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought.

The Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and does not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

Binding Effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

Bilingual Prospectus

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Prospectus and delivered to the Registrar of Companies in Hong Kong for registration were copies of the Application Forms, the written consents referred to in Appendix IX to this Prospectus, the statement of adjustments prepared by Ernst & Young, and copies of the material contracts referred to under "Further information about our business—1. Material Contracts" in Appendix IX to this Prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Baker & McKenzie at 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours up to the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountants' report prepared by Ernst & Young, the text of which is set out in Appendix I to this Prospectus, together with the related statement of adjustments;

(c) the report on unaudited pro forma financial information prepared by Ernst & Young, the text of which is set out in Appendix II to this Prospectus;

(d) the audited accounts of our Company for each of the years ended 31 December 2005, 2006 and 2007, and the audited accounts of the Company for the three-month period ended 31 March 2008;

(e) the letters relating to the profit forecast of our Company, the texts of which are set out in Appendix III to this Prospectus;

(f) the letter dated 8 August 2008, summary of values and valuation certificates relating to our property interests prepared by Jones Lang LaSalle Sallmanns Limited, the text of which are set out in Appendix IV to this Prospectus and the full property valuation report of Jones Lang LaSalle Sallmanns Limited in Chinese referred to therein;

(g) the PRC Company Law, the Special Regulations and the Mandatory Provisions (in Chinese) together with unofficial English translation thereof;

(h) the material contracts referred to under "Further information about our business—1. Material Contracts" in Appendix IX to this Prospectus;

(i) the written consents referred to in Appendix IX to this Prospectus;

(j) the PRC legal opinion dated 8 August 2008 issued by Grandall Legal Group (Beijing), the legal advisors to the Company on PRC law, confirming that in their opinion, the summary of relevant PRC laws and principal regulatory provisions set out in Appendix VI to this Prospectus is a correct summary of the relevant PRC laws and regulatory provisions; and

(k) the service contracts between our Directors and the Company relating to the terms of appointment of the Directors referred to under "Further information about the Directors and Supervisors—1. Directors' and Supervisors' Service Contracts" in Appendix IX to this Prospectus.

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