CSR

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

Stock Code: 1766

Annual Report 2009

CHINA SOUTH LOCOMOTIVE & ROLLING STOCK CORPORATION LIMITED

Important Notice

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

(2) All Directors of the Company attended the 17th meeting of the first session of the Board.

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

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

Contents


New CSR
New Creation


CRH
和谐号

Results Highlights

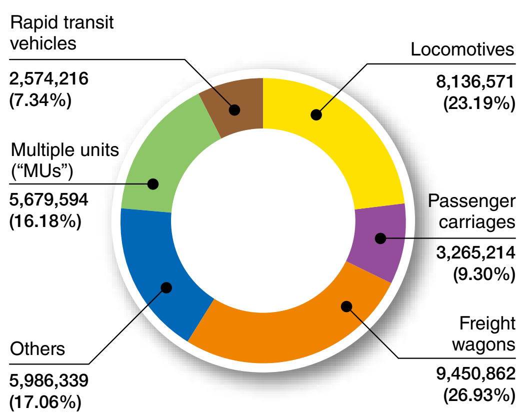
30.00%

During the year 2009, revenue of the Company increased by 30.00% to RMB45,621 million as compared with that of last year. Profit before tax increased by 24.34% as to RMB2,401 million as compared with that of last year. Profits attributable to shareholders of the Company increased by 21.24% to RMB1,678 million as compared with that of last year.

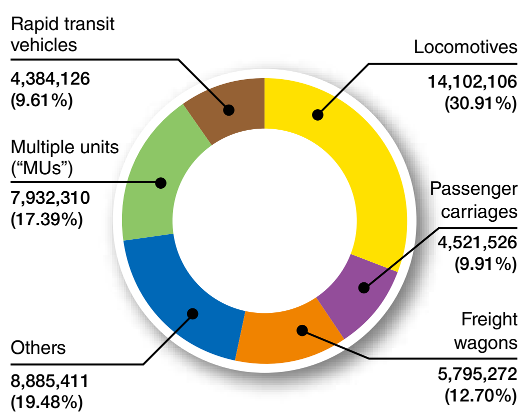
24.34%

21.24%

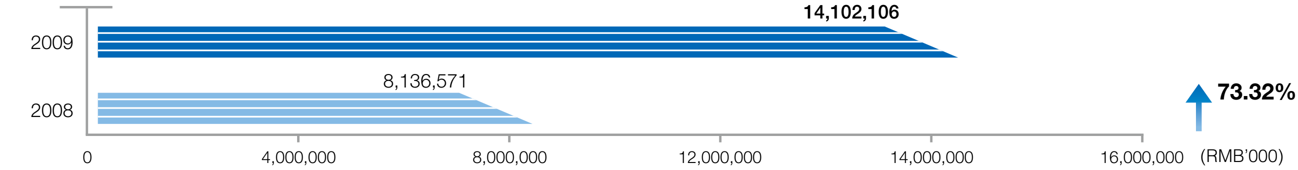
The % of business segment in 2008



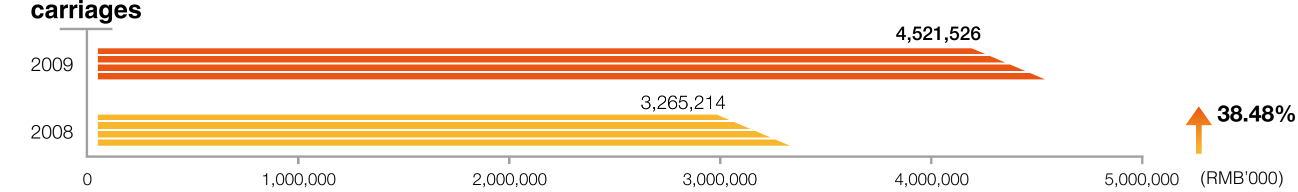
The % of business segment in 2009



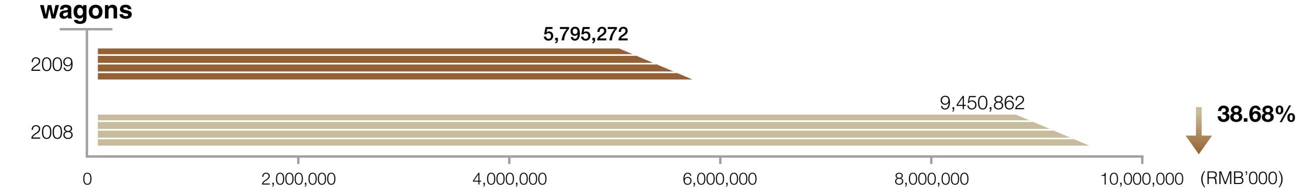
Locomotives



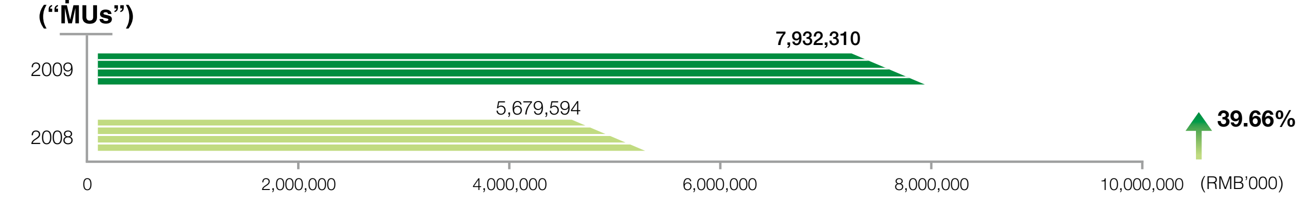
Passenger carriages



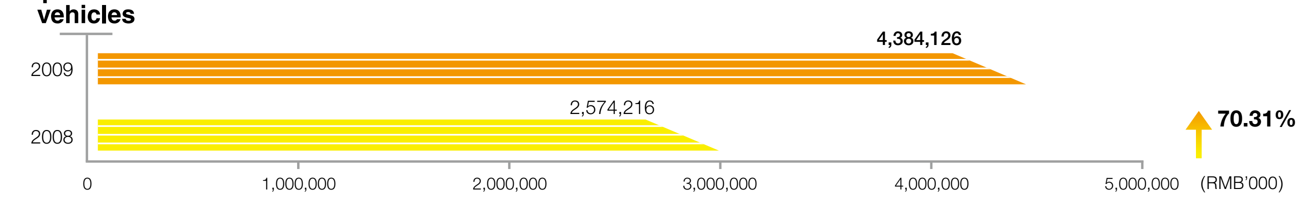
Freight wagons



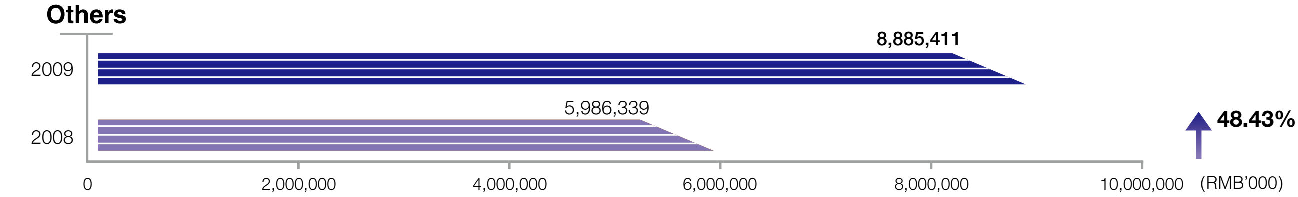
Multiple units ("MUs")



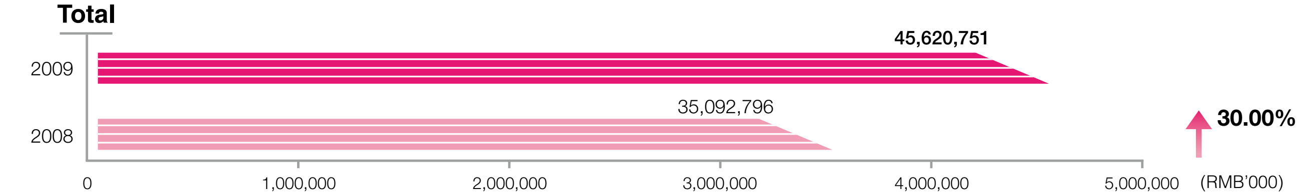
Rapid transit vehicles



Others



Total



The following table sets out the major financial indicators of the Company:

Currency: RMB

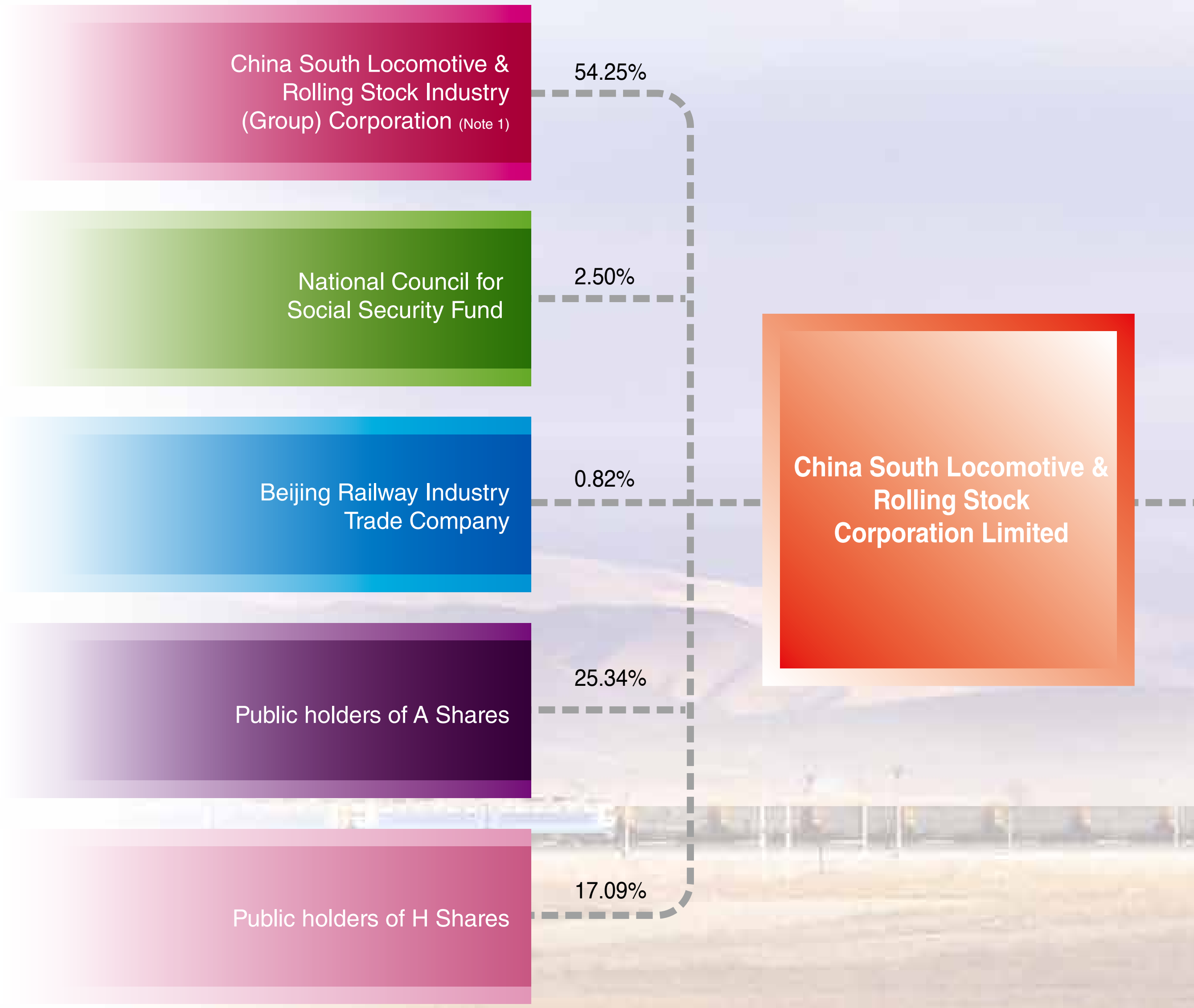
Item	**2009**	2008	Increase/Decrease %
Revenue *(RMB million)*	**45,621**	35,093	30.00
Profit after tax *(RMB million)*	**2,117**	1,686	25.56
Profit attributable to owners of the parent for the year *(RMB million)*	**1,678**	1,384	21.24
Basic earnings per share *(cent/share)*	**14.2**	15.7	

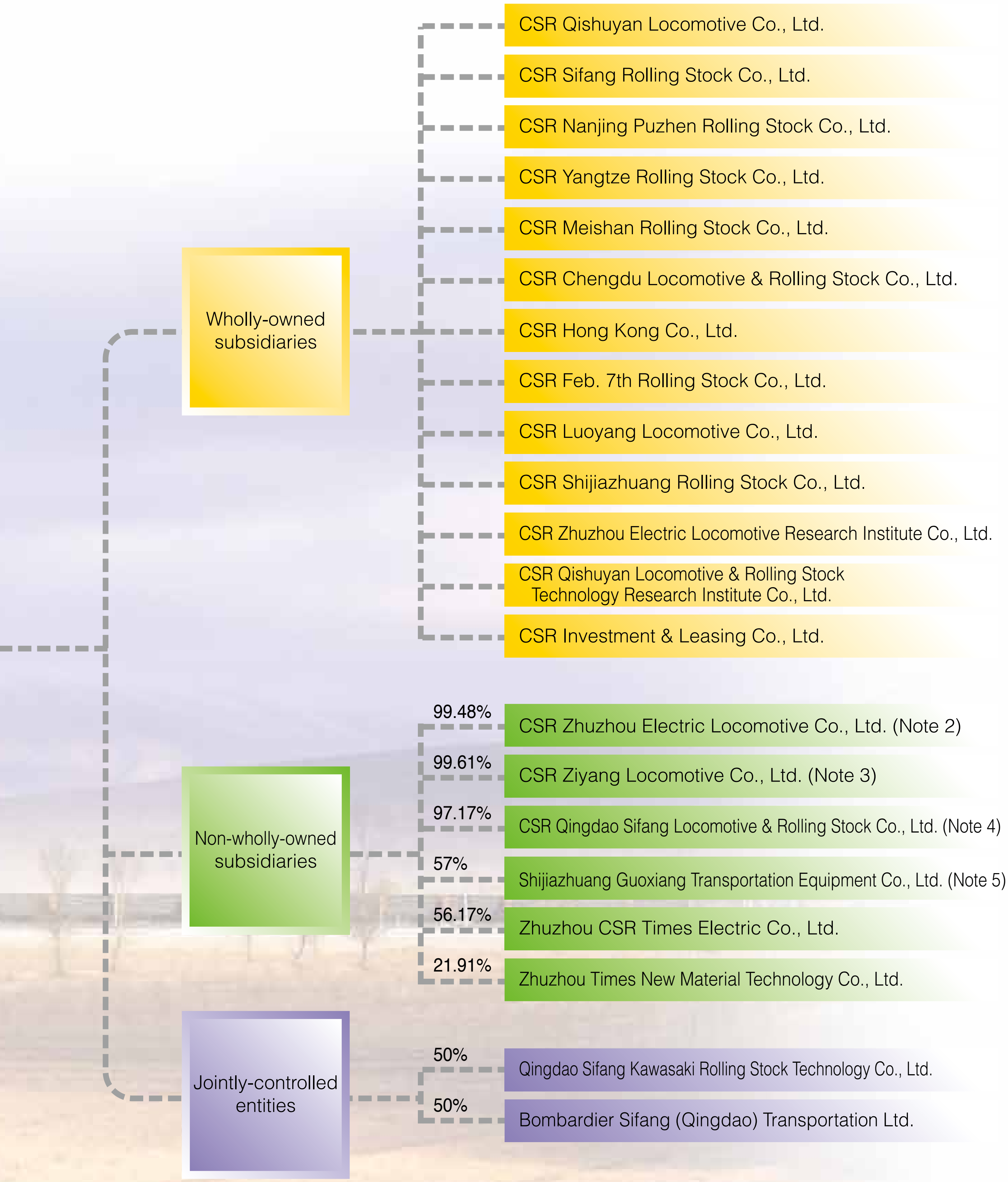
Item	**2009**	2008	Increase/Decrease %
Total assets *(RMB million)*	**55,238**	45,516	21.36
Total liabilities *(RMB million)*	**34,917**	26,874	29.93
Total equity *(RMB million)*	**20,321**	18,643	9.00
Attributable:			
Equity attributable to owners of the parent *(RMB million)*	**17,330**	16,021	8.17
Shareholders' interests per share *(RMB/share)*	**1.46**	1.35	

Cutting-edge
Production Technology

Corporate Structure Chart

As at 31 December 2009, the shareholding structure of the company and its principal subsidiaries and jointly-controlled entities are as follows:




Wholly-owned subsidiaries
CSR Qishuyan Locomotive Co., Ltd.
CSR Sifang Rolling Stock Co., Ltd.
CSR Nanjing Puzhen Rolling Stock Co., Ltd.
CSR Yangtze Rolling Stock Co., Ltd.
CSR Meishan Rolling Stock Co., Ltd.
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.
CSR Hong Kong Co., Ltd.
CSR Feb. 7th Rolling Stock Co., Ltd.
CSR Luoyang Locomotive Co., Ltd.
CSR Shijiazhuang Rolling Stock Co., Ltd.
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.
CSR Investment & Leasing Co., Ltd.
Non-wholly-owned subsidiaries
99.48%
CSR Zhuzhou Electric Locomotive Co., Ltd. (Note 2)
99.61%
CSR Ziyang Locomotive Co., Ltd. (Note 3)
97.17%
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. (Note 4)
57%
Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. (Note 5)
56.17%
Zhuzhou CSR Times Electric Co., Ltd.
21.91%
Zhuzhou Times New Material Technology Co., Ltd.
Jointly-controlled entities
50%
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.
50%
Bombardier Sifang (Qingdao) Transportation Ltd.

Note:

1 China South Locomotive & Rolling Stock Industry (Group) Corporation（中國南方機車車輛工業集團公司）, the controlling shareholder of the Company, changed its company name to CSR Group（中國南車集團公司）in March 2010.

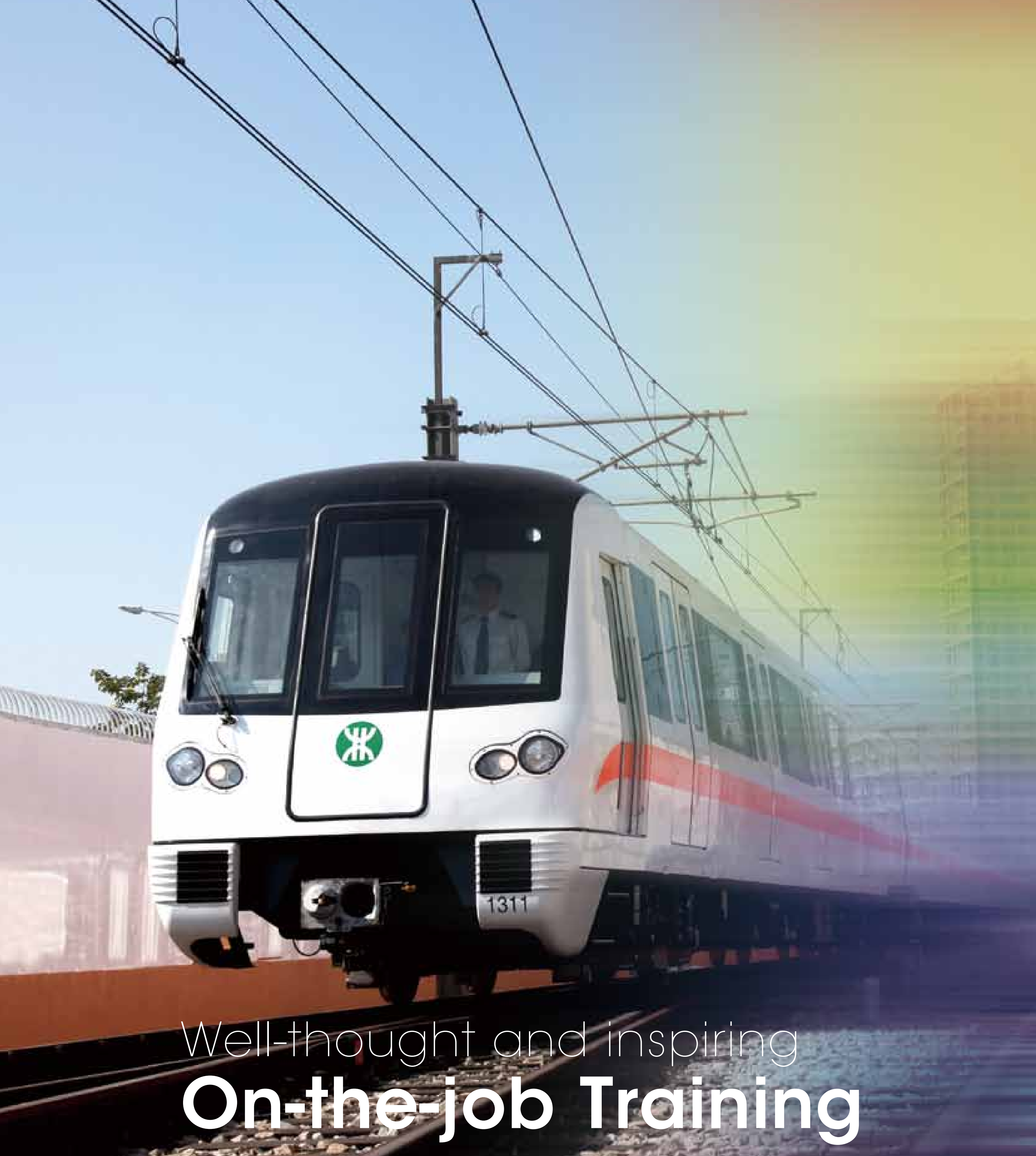
2. The Company increased its equity interests in CSR Zhuzhou Electric Locomotive Co., Ltd ("CSR Zhuzhou") from 86.84% to 92.38% through acquiring 5.54% interests in CSR Zhuzhou from CSR Investment & Leasing Co., Ltd and further increased its shareholding to 94.34% by unilateral capital increase of RMB500 million in CSR Zhuzhou; while the equity interests held by CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. ("CSR ZELRI") in CSR Zhuzhou decreased from 6.93% to 5.14%. Upon such change, The Company's actual shareholding in CSR Zhuzhou is 99.48%.

3 The Company increased its equity interests in CSR Ziyang Locomotive Co., Ltd ("CSR Ziyang") from 98.58% to 99.48% by acquiring 0.90% equity interests in CSR Ziyang from CSR Leasing and further increased its shareholding to 99.61% by unilateral capital increase of RMB200 million in CSR Ziyang.

4 Upon unilateral capital increase of RMB2,000 million, the Company increased its shareholding from 93.55% to 97.17%.

5 A shareholder from Taiwan made unilateral capital increase in Shijiazhang Guoxiang Company. Upon such capital increase, the Company's indirect shareholding in Shijiazhuang Guoxiang Company decreased from 60% to 57%.

Details of each of the subsidiaries and jointly-controlled entities of the Company as at 31 December 2009 were set out in notes 18 and 19 to the financial statements prepared in accordance with IFRS in the annual report.



Well-thought and inspiring

On-the-job Training

Chairman's Statement

In 2009, the world's economy rapidly dropped by 0.3% and leaving far-reaching and deepest impacts in a century. The year of 2009 was a depressing year. However, China managed to buck the trend and secured an economic growth of 8.7%. In 2009, CSR also achieved remarkable results in both sides of the smile curve [note].

The left side of the smile curve refers to the intellectual property rights. The 350km high speed MUs independently developed by CSR already commenced mass production. Experimental data illustrated that their properties, safety and comfort all reached the highest international standards in the field. The design, production and mass introduction to the market of our 7,200kW six-axles high-powered electric locomotives only took six months to complete, while our 9,600kW six-axles high-powered electric locomotives and 6,000HP high-powered diesel locomotives have smoothly passed their respective testing and verification and took the lead to kick start their mass production. Besides, various types of underground rapid transit vehicles specially designed for World Expo 2010 Shanghai and Guangzhou Asian Games have been delivered on time. The industry once again realized the efficiency and capability of CSR, and CSR's products have received high accolades from its customers. The right side of the curve refers to brand building. During the year, CSR was recognized as one of the "Well-known Brands in Asia" (亞洲知名品牌), and was recognized by Brand Finance as one of the "World's Top 500 Valuable Brands" (世界最具價值500品牌), with its brand value surged to nearly US$2 billion. The enhancement in the value of the CSR brand was seen not only in the advancement of technological innovation, but also in various areas such as market expansion, resources integration, continuous perfection, talent cultivation, where the Company has made substantial progress. All these have contributed to our favourable financial results for the year.

To put it simply, the market competition in 2009 could be described as "bloody and devastating". To some enterprises, each order may mean a piece of hope for that day's survival. As for CSR, active participation in global market's competition would mean survival and development for tomorrow. In 2009, CSR achieved a 30.00% increase in operating revenue over the previous year, along with a 21.24% increase in net profit attributable to shareholders of the Company, with both figures beating our expectations at the beginning of the year. With such a fruitful performance, I would like to extend my gratitude to our customers for their trust and support, and to our senior management and all staff for all the efforts they contributed to CSR. Further, I would like to thank shareholders for their understanding and confidence. Looking forward, the most pressing problem facing the senior management of CSR right now is how to sustain the rapid and steady growth of the Company in the future.

To our shareholders, I am pleased to highlight that CSR has nurtured over 10,000 young engineers and calibre management born in 60's, 70's and even 80's. In less than a decade, the projects undertaken by them have even outnumbered those undertaken by their predecessors in their entire life. Taking the best of the very essence of life and with the modern concept of liberalization in mind, they are set to become top-notch world-class experts in this arena in a few years time and hold the future of CSR.

The year 2010 is another year of comprehensive planning by CSR. Prior to the early 1980's, Welch, the former CEO of GE, advocated the management concept of "Being the first, the second in the market", and I deeply concur with such aggressive business philosophy of our Western counterparts. Amidst economic globalization, CSR should try to run its business with an organic mix of Western business and science philosophies and the humanistic spirit of China. Our strategic goal is to become the first, the second among our peers around the globe in the next three years. However, I hope that the "inclusion and harmony", the humanistic spirit could fully materialize, in market competitions.

Over the past century, railway transportation has been playing a less significant role on the global economic structure as other transportation means emerged and developed. As estimated by some economists, fossil energy will be exhausted by 2030 and new energy such as renewable energy will take up a significant market share. Railway transportation is the most possible means of transport for extensive application of new energy. We are at the doorstep of a low carbon era, which heralds a new round of historical development of railway transportation. The prime time for the development of century-old railway transport has arrived.

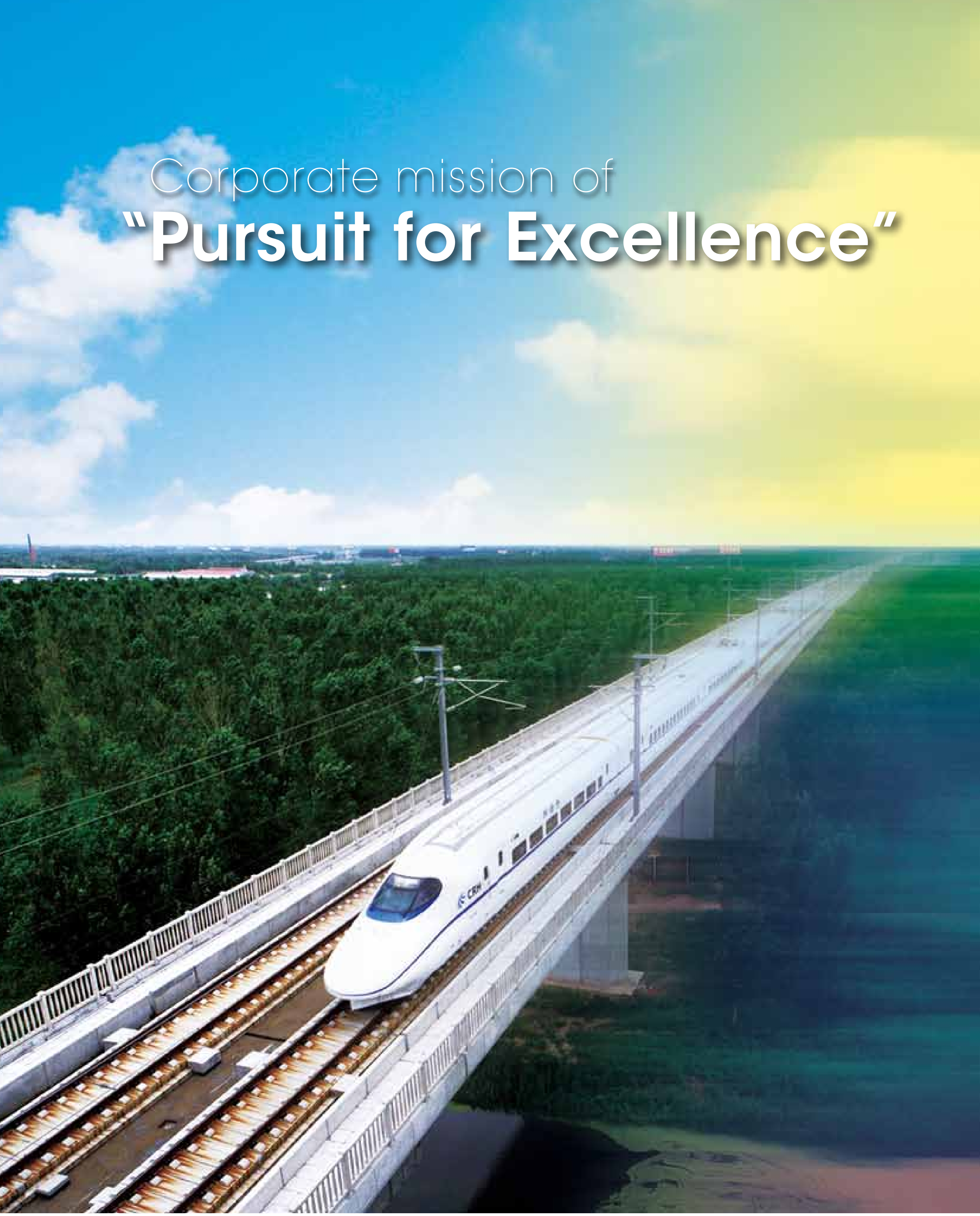
(Note) The "smile curve" concept was put forward by Stan Shih from Taiwan's Acer in 1990s, where an "open mouth" parabola is used to describe the added value of products in areas of research and development, production, and sales and marketing. To increase the contribution in both sides of the curve which represent intellectual property rights and brand building serves as an important business mode for enterprises to enhance their value.

Zhao Xiaogang
Chairman

April 2010

	2009	2008	2007	2006	2005
		Year ended 31 December			
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
REVENUE	**45,620,751**	35,092,796	26,803,519	23,046,994	19,784,502
Cost of sales	**38,453,741**	29,278,774	22,785,003	19,803,184	17,094,755
Gross profit	**7,167,010**	5,814,022	4,018,516	3,243,810	2,689,747
Other income and gains	**695,961**	525,131	430,140	173,766	174,316
Selling and distribution costs	**1,132,661**	787,350	641,067	453,034	348,034
Administrative expenses	**4,263,779**	3,382,117	2,633,676	1,953,283	1,728,427
Other expenses, net	**144,179**	(13,102)	103,823	30,431	28,158
Finance costs	**264,758**	430,630	314,448	294,875	190,202
Share of profits and losses of associates and jointly-controlled entities	**343,743**	178,374	192,318	26,171	24,724
PROFIT BEFORE TAX	**2,401,337**	1,930,532	947,960	712,124	593,966
Tax	**285,155**	244,929	73,235	70,437	99,210
PROFIT FOR THE YEAR	**2,116,182**	1,685,603	874,725	641,687	494,756
Attributable to:					
Owners of the parent	**1,678,153**	1,384,240	613,031	544,758	407,116
Minority interests	**438,029**	301,363	261,694	96,929	87,640
	2,116,182	1,685,603	874,725	641,687	494,756
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**55,238,315**	45,516,251	32,690,918	26,344,367	22,416,525
TOTAL LIABILITIES	**34,917,164**	26,873,674	26,309,991	20,960,032	19,296,950
TOTAL MINORITY INTERESTS	**2,990,983**	2,621,449	2,069,906	1,923,192	520,648

Corporate mission of "Pursuit for Excellence"



(I) CHANGES IN SHARE CAPITAL

1. Changes in share capital

During the reporting period ("Reporting Period"), there was no change in the total number of shares and share capital structure. As at 31 December 2009, the share capital structure of the Company was as follows:

Unit: Share

			Quantity	Percentage (%)
I.	Shares subject to trading moratorium			
	1.	State-owned and state-owned legal person shares	6,816,000,000	57.57
	2.	Other domestic shares	—	—
	Total shares subject to trading moratorium		6,816,000,000	57.57
II.	Shares not subject to trading moratorium			
	1.	Ordinary shares denominated in RMB	3,000,000,000	25.34
	2.	Domestic listed foreign shares	—	—
	3.	Overseas listed foreign shares	2,024,000,000	17.09
	4.	Others	—	—
	Total shares not subject to trading moratorium		5,024,000,000	42.43
III.	Total number of shares		11,840,000,000	100

2. Changes in share capital subject to trading moratorium

As at 31 December 2009, the changes in shares subject to trading moratorium were as follows:

Unit: Share

Name of Shareholders	Number of shares subject to trading moratorium at the beginning of year	Number of shares with trading moratorium released in the year	Number of additional shares subject to trading moratorium in the year	Number of shares subject to trading moratorium at the end of year	Reason for trading moratorium	Expiry date of trading moratorium
China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG") *Note (1)*	6,718,628,571	295,714,286 *Note(2)*	—	6,422,914,285	Promoter shareholder undertook that its A shares would be subject to moratorium period of 36 months from the date of A shares listing	18 August 2011
Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶) *Note(3)*	—	—	295,714,286 *Note(2)*	295,714,286	"Implementation Measures on the Transfer of Certain State-owned Shares in Domestic Stock Market for Replenishing Social Security Fund" (《境內證券市場轉持部分國有股充實全國社會保障基金實施辦法》)	18 August 2014
Corporate investors of H shares	267,576,000	267,576,000 *Note(4)*	—	—	H shares shall be subject to a moratorium period of 6 months from the date of H share listing	23 February 2009

Notes:

(1) China South Locomotive & Rolling Stock Industry (Group) Corporation（中國南方機車車輛工業集團公司）changed its company name to CSR Group（中國南車集團公司）in March 2010.

(2) According to Implementation Measures on the Transfer of Certain State-owned Shares in Domestic Stock Market for Replenishing Social Security Fund, which was promulgated in 2009, the holders of the State-owned shares of the Company transferred such number of state-owned shares as equivalent to 10% of shares actually issued and listed or 295,714,286 A Shares in the IPO to the National Council for Social Security Fund (“NSSF”).

(3) “Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)” is the name registered by NSSF in our register of members.

(4) The 6-month moratorium period for a total of 267,576,000 H shares held by three institutional investors, namely China Life Insurance Company Limited, GE Capital Equity Investments Ltd and Mirae Asset Global Investments (Hong Kong) Limited, expired on 23 February 2009.

(II) ISSUE AND LISTING OF SECURITIES

1. Issue of securities during last three years

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

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

Unit: Share

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

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

2. Changes in total shares and share capital structure

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

3. Existing internal employee shares

The Company had no internal employee shares as at the end of the Reporting Period.

(III) PARTICULARS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

1. Total number of shareholders

As at the end of the Reporting Period, the Company had 249,321 shareholders in total, including 245,963 holders of A Shares and 3,358 holders of H Shares.

2. Shareholdings of the top 10 shareholders, top 10 holders of shares not subject to trading moratorium and the top 10 holders of shares subject to trading moratorium

SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS

Unit: Share

Name of Shareholders	Nature of shareholder	Percentage of shareholding (%)	Number of shares held	Change during the Reporting Period	Number of shares subject to trading moratorium	Number of shares pledged or frozen
CSRG	State-owned legal person	54.25	6,422,914,285	(295,714,286)	6,422,914,285	Nil
HKSCC NOMINEES LIMITED	Overseas legal person	17.04	2,017,161,900	677,900		Unknown
Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)	—	2.50	295,714,286	295,714,286	295,714,286	Unknown
BRIT	State-owned legal person	0.82	97,371,429	0	97,371,429	4,285,714
China Construction Bank — Great Wall Brand Selective Stock Investment Fund (中國建設銀行 — 長城品牌優選股票型證券投資基金)	Other	0.55	65,083,532	65,083,532		Unknown

Name of Shareholders	Nature of shareholder	Percentage of shareholding (%)	Number of shares held	Change during the Reporting Period	Number of shares subject to trading moratorium	Number of shares pledged or frozen
Industrial and Commercial Bank of China — South Excellent Performance Growth Stock Investment Fund (中國工商銀行一南方績優成長股票型證券投資基金)	Other	0.53	62,412,005	(114,163,871)		Unknown
China Construction Bank — ABN AMRO TEDA Great Value Stock Investment Fund (中國建設銀行一泰達荷銀市值優選股票型證券投資基金)	Other	0.40	46,992,436	46,992,436		Unknown
Donghai Securities Company Limited	Other	0.37	43,671,140	43,671,140		Unknown
Industrial and Commercial Bank of China — South Longyuan Industrial Subject Stock Investment Fund (中國工商銀行一南方隆元產業主題股票型證券投資基金)	Other	0.33	39,646,912	39,146,912		Unknown
China Resources Shenzhen International Investment Trust Co., Ltd. — Chongyang Phase III Stock Investment Collective Fund Trust Program (華潤深國投信託有限公司一重陽3期證券投資集合資金信託計劃)	Other	0.33	38,667,298	38,667,298		Unknown

Notes:

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

(2) BRIT is a wholly-owned subsidiary of CSRG.

(3) Industrial and Commercial Bank of China-South Excellent Performance Growth Stock Investment Fund and Industrial and Commercial Bank of China -South Longyuan Industry Topic Stock Investment Fund are funds managed by Southern Fund Management Co., Ltd.. Apart from the above, the Company is not aware of any connections among the aforesaid shareholders.

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

SHAREHOLDERS OF THE TOP 10 HOLDERS OF SHARES NOT SUBJECT TO TRADING MORATORIUM

Unit: Share

Name of Shareholders	Number of shares not subject to trading moratorium held	Type of share
HKSCC NOMINEES LIMITED	2,017,161,900	Overseas listed foreign shares
China Construction Bank — Great Wall Brand Selective Stock Investment Fund (中國建設銀行 — 長城品牌優選股票型證券投資基金)	65,083,532	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China — South Excellent Performance Growth Stock Investment Fund (中國工商銀行 — 南方績優成長股票型證券投資基金)	62,412,005	Ordinary shares denominated in RMB
China Construction Bank — ABN AMRO TEDA Great Value Stock Investment Fund (中國建設銀行 — 泰達荷銀市值優選股票型證券投資基金)	46,992,436	Ordinary shares denominated in RMB
Donghai Securities Company Limited	43,671,140	Ordinary shares denominated in RMB

Name of Shareholders	Number of shares not subject to trading moratorium held	Type of share
Industrial and Commercial Bank of China — China South Longyuan Industrial Subject Stock Investment Fund	39,646,912	Ordinary shares denominated in RMB
China Resources Shenzhen International Investment Trust Co., Ltd.—Chongyang Phase III Stock Investment Collective Fund Trust Program (華潤深國投信託有限公司 — 重陽3期證券投資集合資金信託計劃)	38,667,298	Ordinary shares denominated in RMB
Bank of China — ABN AMRO TEDA Selective Industry Stock Investment Fund (中國銀行 — 泰達荷銀行業精選證券投資基金)	36,999,937	Ordinary shares denominated in RMB
Shanghai International Trust Co., Ltd. — T-0204	36,081,764	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China — SSE 50 Trading Index Stock Investment Open-ended Fund (中國工商銀行 — 上證50交易型開放式指數證券投資基金)	34,250,664	Ordinary shares denominated in RMB
Connections or parties acting in concert among the aforesaid shareholders	1. Industrial and Commercial Bank of China — South Excellent Performance Topic Stock Investment Fund and Industrial and Commercial Bank of China — South Longyuan Industrial Subject Stock Investment Fund are funds managed by Southern Fund Management Co., Ltd.. 2. China Construction Bank -ABN AMRO TEDA Great Value Stock Investment Fund and Industrial and Bank of China - ABN AMRO TEDA Selective Industry Stock Investment Fund are funds managed by ABN AMRO TEDA Fund Management Co., Ltd.. 3. Apart from the above, the Company is not aware of any connections among the aforesaid shareholders.	

SHAREHOLDINGS OF THE TOP 10 HOLDERS OF SHARES SUBJECT TO TRADING MORATORIUM AND TERMS OF THE TRADING MORATORIUM

Unit: Share

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

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

As at 31 December 2009, none of the Directors, Supervisors and Senior Management of the Company had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Hong Kong Listing Rules.

As at 31 December 2009, none of the Directors, Supervisors and Senior Management or their spouses or children under the age of 18 was granted any equity securities or warrants of the Company.

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

As at 31 December 2009, the persons set out in the table below had an interest or short position in the Company's shares as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Capacity	H Share or A Share	Nature of Interest	Number of H Shares or A Shares held	Percentage of H share or A share in the total issued H shares or total issued A shares *(%)*	Percentage of total share capital of the Company *(%)*
CSRG *(Note 1)*	Beneficial owner	A Shares	Long position	6,520,285,714	66.43	55.07
Mirae Asset Global Investments (Hong Kong) Limited	Investment Manager	H Shares	Long position	143,078,000	7.07	1.21
GE Asset Management Incorporated	Investment Manager	H Shares	Long position	161,868,535	8.00	1.37
National Council for Social Security Fund *(Note 2)*	Beneficial owner	H Shares	Long position	184,000,000	9.09	1.55

Notes:

1. CSRG holds 97,371,429 A shares of the Company through its wholly-owned subsidiary, BRIT.

2. The Company issued a total of 1.84 billion overseas listed foreign invested shares (H Shares) (after the exercise of over-allotment option in full). In accordance with the relevant provisions of reduction of state-owned shares, the Company's shareholders of State-owned legal person shares, namely CSRG and BRIT, transferred such number of state-owned legal person shares as equivalent to 10% of the total H Shares offered at the H Share offering, or 184 million shares, to the NSSF. Such State-owned shares were converted into H Shares on a 1:1 basis.

3. Information disclosed hereby is based on the information available on the website of the Stock Exchange at www.hkex.com.hk.

Save as disclosed above, as far as the Company's Directors are aware, as at 31 December 2009, no other person had interests and/or short positions in the shares or underlying shares (as the case may be) of the Company which were required to be recorded in the register pursuant to section 336 of Part XV of the SFO, or was otherwise a substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company.

(V) PARTICULARS OF CONTROLLING SHAREHOLDERS AND THE ULTIMATE CONTROLLER

(1) Corporate controlling shareholder

Unit: RMB0'000

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

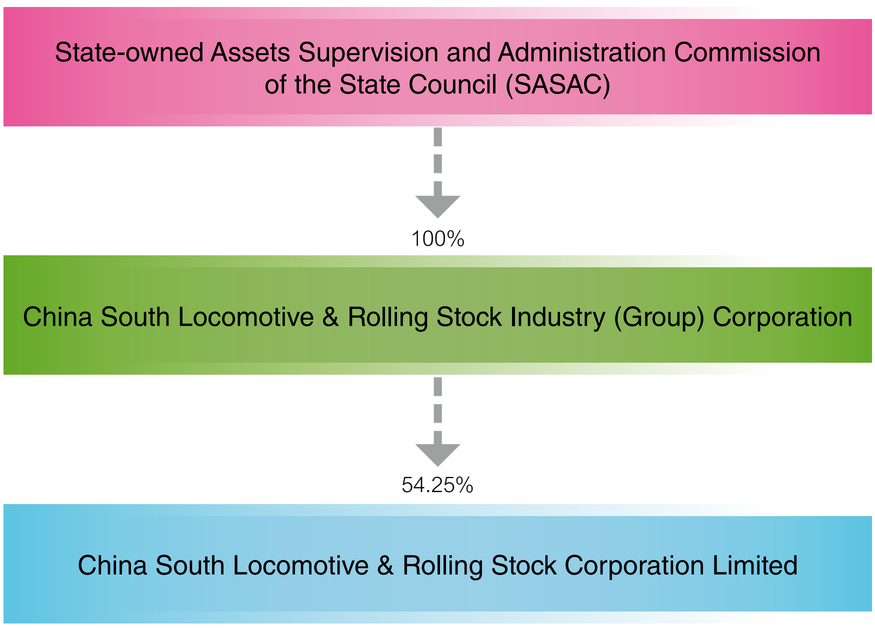
(2) Particulars of corporate ultimate controller

Name of ultimate controlling shareholder: State-owned Assets Supervision and Administration Commission of the State Council.

(3) Changes in controlling shareholder and the ultimate controller

There were no changes in the controlling shareholder and the ultimate controller of the Company during the Reporting Period.

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



Note: China South Locomotive & Rolling Stock Industry (Group) Corporation (中國南方機車車輛工業集團公司) changed its company name to CSR Group (中國南車集團公司) in March 2010.

(5) Other corporate shareholders with over 10% shareholdings

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

(VI) SUFFICIENT PUBLIC FLOAT

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

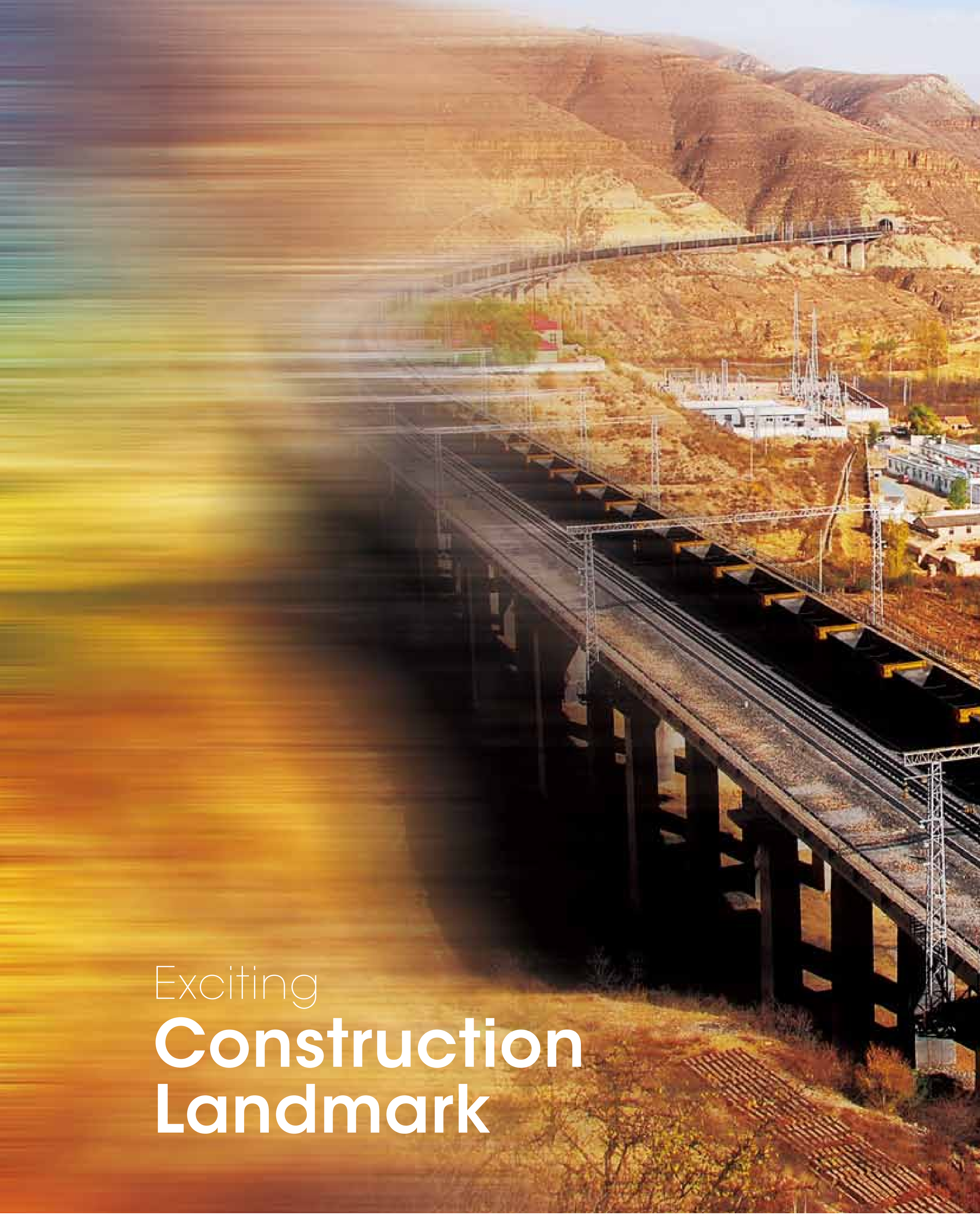
(VII) PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

(VIII) ISSUANCE OF SHARES BY SUBSIDIARIES

In 2009, Dynex Power Inc, a non-wholly owned subsidiary indirectly held by the Company, issued 40,195,714 rights to its shareholders pursuant to its rights issue. Each right entitles the holder to subscribe for one common share of Dynex Power Inc. at a price of CAD0.56. The rights issue was completed in December 2009 and Dynex Power Inc. raised gross proceeds of CAD22,509,600 and net proceeds (after deduction of relevant issuing expenses) of approximately CAD22,009,600. Zhuzhou CSR Times Electric Co., Ltd. ("CSR Times Electric"), a non-wholly owned subsidiary of the Company, is the substantial shareholder of Dynex Power Inc.. and holds 75% equity interests in Dynex Power Inc.. CSR Times Electric subscribed for 75% of all the common shares subscribed for as part of the rights offering. The net proceeds of the rights offering will be used by Dynex Power Inc. to repay a bank loan and complete an expansion project related to silicon production facilities.

In June 2009, Zhuzhou Times New Material Technology Co., Ltd. ("Times New Materials"), a non-wholly owned subsidiary of the Company, proposed to issue and place not more than 60,000,000 A shares to its shareholder. CSR ZELRI, and not more than nine other qualified investors by way of a non-public offering and placement. CSR ZELRI agreed to subscribe for not less than 40% of the new A shares to be issued by Times New Materials. According to the relevant PRC laws, the subscription price shall not be less than RMB13.55 per share. The board of directors of Times New Materials was authorized by the shareholders general meeting to finalize the issue scale and the subscription price according to the proposed proceeds and the subscription applications by the target subscribers. Upon completion of the non-public issue of shares, the total proceeds are expected to be not more than RMB800.39 million, which will be used to finance several production projects of Times New Materials. As at the last practicable date prior to the printing of this annual report, the non-public issuance has not been completed.



Exciting
Construction Landmark

Board Introduction

1 **Zhao Xiaogang**

Chairman, Executive Director

2 **Zheng Changhong**

Vice Chairman, Executive Director, President

3 **Tang Kelin**

Executive Director, Vice President

4 **Liu Hualong**

Executive Director

5 **Zhao Jibin**

Independent non-executive Director

6 **Yang Yuzhong**

Independent non-executive Director

7 **Chen Yongkuan**

Independent non-executive Director

8 **Dai Deming**

Independent non-executive Director

9 **Tsoi, David**

Independent non-executive Director


9
6
4
7
2
1

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Unit: RMB0'000

Name	Position	Gender	Age	Term of office	Number of shares held at the begging of the year	Number of shares held at the end of the year	Whether receiving remuneration from the Company	Remuneration received from the Company during the Reporting Period	Welfare including basic pension insurance	Total amount before tax	Whether receiving remuneration and allowance from shareholders or other associates
Zhao Xiaogang	Chairman Executive Director	M	58	From 27 December 2007 to 26 December 2010	–	–	Yes	60.1	5.7	65.8	No
Zheng Changhong	Vice Chairman Executive Director President	M	54	From 27 December 2007 to 26 December 2010	–	–	Yes	60.1	5.7	65.8	No
Tang Kelin	Executive Director Vice President	M	57	From 27 December 2007 to 26 December 2010	–	–	Yes	51.1	5.7	56.8	No
Liu Hualong	Executive Director	M	47	From 27 December 2007 to 26 December 2010	–	–	Yes	51.1	5.7	56.8	No
Zhao Jibin	Independent Non-executive Director	M	57	From 27 December 2007 to 26 December 2010	–	–	Yes			17.3	No
Yang Yuzhong	Independent Non-executive Director	M	65	From 27 December 2007 to 26 December 2010	–	–	Yes			18.8	No
Chen Yongkuan	Independent Non-executive Director	M	63	From 27 December 2007 to 26 December 2010	–	–	Yes			17.0	No
Dai Deming	Independent Non-executive Director	M	47	From 27 December 2007 to 26 December 2010	–	–	Yes			18.2	No
Tsoi, David	Independent Non-executive Director	M	62	From 3 March 2008 to 26 December 2010	–	–	Yes			18.2	No

Name	Position	Gender	Age	Term of office	Number of shares held at the begging of the year	Number of shares held at the end of the year	Whether receiving remuneration from the Company	Remuneration received from the Company during the Reporting Period	Welfare including basic pension insurance	Total amount before tax	Whether receiving remuneration and allowance from shareholders or other associates
Wang Yan	Chairman of the Supervisory Committee	M	54	From 27 December 2007 to 26 December 2010	–	–	No				Yes
Li Jianguo	Supervisor	M	59	From 27 December 2007 to 26 December 2010	–	–	Yes	31.4	5.7	37.1	No
Qian Yi	Employee Representative Supervisor	M	60	From 27 December 2007 to 21 December 2009	–	–	Yes	26.2	3.7	29.9	No
Qiu Wei	Employee Representative Supervisor	M	50	From 22 December 2009 to 26 December 2010	–	–	Yes	30.4	5.7	36.1	No
Zhang Jun	Vice President	M	54	From 27 December 2007 to 26 December 2010	–	–	Yes	51.1	5.7	56.8	No
Fu Jianguo	Vice President	M	46	From 27 December 2007 to 26 December 2010	–	–	Yes	51.1	5.7	56.8	No
Zhan Yanjing	Vice President Chief Financial Officer	F	46	From 27 December 2007 to 26 December 2010	–	–	Yes	51.1	5.7	56.8	No
Shao Renqiang	Secretary to the Board	M	45	From 27 December 2007 to 26 December 2010	–	–	Yes	34.1	4.9	39.0	No

* During the Reporting Period, no Directors or Supervisors of the Company waived or agreed to waive the remuneration arrangement.

Major Working experiences of Directors, Supervisors and Senior Management in the last 5 years

DIRECTORS

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

Zheng Changhong, was Deputy General Manager of CSRG from September 2000 to May 2004, and Party Secretary and Deputy General Manager of CSRG from May 2004 to December 2007. Since December 2007, he has served as the vice-chairman, an executive Director, President and Deputy Party Secretary of the Company, and CSRG's Party Secretary. He is also a part-time professor of Lanzhou University.

Tang Kelin, was Deputy General Manager of CSRG from September 2000 to December 2007. Since November 2004, he has served as a standing member of the Party Committee of CSRG. He served as the chief engineer of CSRG from December 2006 to October 2007 and Chairman of CSR Yangtze Rolling Stock Co., Ltd. ("CSR Yangtze") from August 2006 to October 2008. He has been an executive Director, vice president and a standing member of the Party Committee of the Company since December 2007.

Liu Hualong, served as Chairman, General Manager and Deputy Party Secretary of CNRG Qiqihar Railway Rolling Stock (Group) Co. Ltd from May 2003 to May 2004, and then Deputy General Manager of CSRG from May 2004 to December 2007. Since November 2004, he has been a standing member of the Party Committee of CSRG. Since December 2007, he has been an executive Director, Deputy Party Secretary, and the secretary of the Disciplinary Committee of the Company and also Deputy Party Secretary, the Secretary of the Disciplinary Committee, and Chairman of the Labor Union of CSRG.

Zhao Jibin, has been Chairman and Party Secretary of China Tietong Communications Corporation since October 2003. He has been an independent non-executive Director of the Company since December 2007. He has served as Deputy General Manager and a member of the Party Group of China Mobile Communications Corporation since May 2008.

Yang Yuzhong, served as Standing Deputy General Manager of China Aviation Industry Corporation I, the head of China Aviation Research Institute, Chairman of AVIC I Commercial Aircraft Co., Ltd. from July 1997 to July 2006. He has been a consultant of China Aviation Industry Corporation since August 2006. He was an independent director of China National Materials Company Limited from June 2007 to December 2009. He has been an independent non-executive Director of the Company since December 2007 and an external Director of China Materials Group Corp., Ltd. since December 2009.

Chen Yongkuan, served as Party Secretary and Vice President of China Harbour Construction (Group) Company from October 1998 to August 2005, as the Party secretary and the Vice Chairman of China Communications Construction Group Company Ltd. from August 2005 to July 2006, as Vice Chairman of China Communications Construction Group Company Ltd. and China Communications Construction Company Ltd. from July 2006 to December 2007, as Chairman of the board of directors of Zhenhua (Singapore) Engineering Pte. Ltd, from May 2003 to December 2009. He has been an independent non-executive Director of the Company since December 2007, and also an independent director of Metallurgical Corporation of China Ltd. since November 2008.

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

Tsoi, David, was a director of Alliott Tsoi Ha CPA Limited from 1998 to 2004. He has been a director and general manager of Alliott, Tsoi CPA Limited since October 2001 and an independent non-executive director of Melco LottVentures Limited since September 2004. He had been the chairman of the Asia-Pacific region of Alliot Group and an independent non-executive director of Wafer Systems Limited. Mr. Tsoi has been an Independent Non-executive Director of the Company since March 2008 and an independent non-executive director of Enviro Energy International Holdings Limited since July 2008.

SUPERVISORS

Wang Yan, served as the head of the Finance Department and a director of the Accounting Information Division of CSRG from December 2000 to May 2004. He has been the chairman of the Supervisory Committee of CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. ("CSR Sifang") since July 2002. Mr. Wang acted as the deputy chief accountant and the head of the Finance Department of CSRG from May 2004 to March 2007. He has been a supervisor of CSR Ziyang Locomotive Co., Ltd ("CSR Ziyang") since May 2006. From March 2007 to December 2007, he was an assistant to the General Manager, and the head of the Directors' and Supervisors' Office of CSRG. He has served as the Chairman of the Company's Supervisory Committee since December 2007, and he is also an assistant to CSRG's General Manager.

Li Jianguo, was the deputy secretary of CSRG's Disciplinary Committee from December 2000 to March 2007, a director of CSRG's Monitoring Office from April 2001 to July 2004, and a deputy chief economist of CSRG from March 2007 to December 2007; a 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 September 2009. He has been a supervisor of the Company since December 2007. Since January 2008, he has also served as a deputy chief economist, and the head of the Audit and Risk Department of the Company.

Qian Yi, served as Vice Chairman of the CSRG's labor union from December 2000 to August 2009. From January 2008 to August 2009, he was the deputy director of the Labor Union Working Committee of the Company. He was an employee representative supervisor of the Company from December 2007 to December 2009. He resigned as employee representative supervisor in December 2009 as he reached the age of retirement in August 2009.

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

SENIOR MANAGEMENT

Zheng Changhong, please refer to the above for his biography.

Tang Kelin, please refer to the above for his biography.

Zhang Jun, served as Chairman of the board of directors and Party Secretary of CSR Sifang from July 2002 to May 2004; Deputy Party Secretary and Secretary of CSRG's Disciplinary Committee from May 2004 to December 2007; and Chairman of CSRG's labor union from August 2004 to December 2007. He has been a vice president and a standing member of the Party Committee of the Company since December 2007. He is also a standing member of the Party Committee of CSRG.

Fu Jianguo, was a head and a deputy party secretary of CSR Shijiazhuang Rolling Stock Works of CSRG from September 2000 to May 2004; a deputy general manager of CSRG from May 2004 to December 2007. He has been a standing member of the Party Committee of CSRG since November 2004 and a vice president and a standing member of the Party Committee of the Company since December 2007.

Zhan Yanjing, was an assistant to the General Manager and a manager of the Finance Department, a manager of the Financial Planning Department, and then an assistant to the general manager of Beiqi Foton Motor Co., Ltd. from May 2003 to April 2005. She served as the chief accountant of CSRG from April 2005 to December 2007. She has been a standing member of the Party Committee of CSRG since May 2006 and a vice president, the chief financial officer and a standing member of the Party Committee of the Company since December 2007.

Shao Renqiang, was a director and the chief accountant of CSR Sifang from July 2002 to August 2004; a director, a deputy general manager and the chief accountant of CSR Sifang from August 2004 to November 2007; and the head of CSRG's Audit Department and a director of CSR Sifang from November 2007 to January 2008. Since December 2007, he has been the secretary of the Board of the Company and a director of CSR Sifang.

(II) POSITIONS HELD IN SHAREHOLDERS AND OTHER ENTITIES

Positions held in shareholders

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

Positions held in other entities

Name	Name of other entities	Position held	Commencement of term of office	Expiration of term of office	Whether receiving remuneration or allowance
Zhao Jibin	China Tietong Communications Corporation	Chairman, Party Secretary	October 2003	—	Yes
	China Mobile Communications Corporation	Deputy General Manager, Party Member	May 2008	—	Yes
Yang Yuzhong	China Aviation Industry Corporation	Consultant	August 2006	—	Yes
	China National Materials Company Limited (listed in Hong Kong)	Independent Director	July 2007	December 2009	Yes
	China Materials External Group Corp., Ltd.	Director	December 2009	—	Yes
Chen Yongkuan	Zhenhua (Singapore) Engineering Pte. Ltd.	Chairman of the Board	May 2003	December 2009	Yes
	Metallurgical Corporation of China Ltd. (listed in Shanghai and Hong Kong)	Independent Director	November 2008	—	Yes
Dai Deming	Renmin University of China	Director of the Accounting Department of the School of Business	October 2001	—	Yes
	China Construction Bank Corporation (listed in Shanghai and Hong Kong)	External Supervisor	June 2007	—	Yes
	Beijing Northking Technology Co., Ltd.	Independent Director	December 2007	—	Yes

Name	Name of other entities	Position held	Commencement of term of office	Expiration of term of office	Whether receiving remuneration or allowance
Tsoi, David	Alliott, Tsoi CPA Limited	Director and General Manager	October 2001	—	Yes
	Melco LottVentures Limited (listed in Hong Kong)	Independent Non-executive Director	September 2004	—	Yes
	Enviro Energy International Holdings Limited (listed in Hong Kong)	Independent non-executive Director	July 2008	—	Yes
Wang Yan	CSR Sifang	Chairman of the Supervisory Committee	July 2002	—	No
	CSR Ziyang	Supervisor	May 2006	—	No
Li Jianguo	SASAC	Part time Supervisor (employee representative supervisor) of stated-owned enterprise	September 2007	September 2009	No
	CSR Sifang Ltd.	Chairman of the Supervisory Committee	March 2007	—	No
Shao Renqiang	CSR Sifang	Director	July 2002	—	No

(III) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

The Remuneration and Evaluation Committee of the Board submits proposals to the Board in respect of the remuneration policies and structure for Directors and members of the Senior Management and the remuneration of Independent Non-executive Directors of the Company. The Board decides the remuneration, incentives and punishment matters for members of the operation management. The general meeting of Shareholders decides matters relating to the remuneration for Directors and Supervisors who are not employee representatives.

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

The remunerations of Directors, Supervisors and Senior Management are determined according to the Articles of Association of China South Locomotive & Rolling Stock Corporation Limited ("Articles of Association") and relevant regulatory provisions of the Company.

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

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

(IV) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

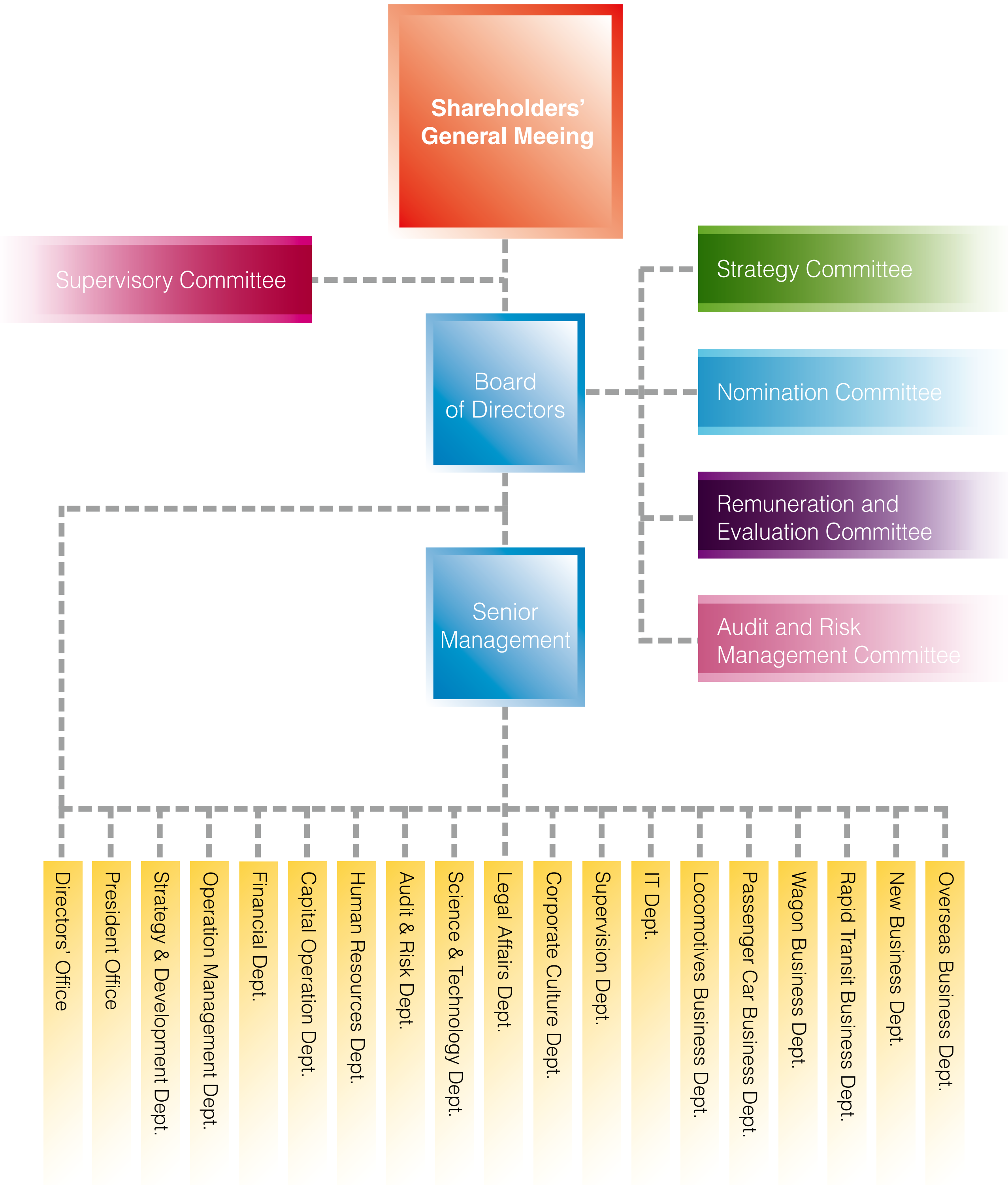
During the Reporting Period, details of Directors and Supervisor who resigned and Senior Management who was dismissed are as follows:

Name	Position held	Change	Reason for change
Qian Yi	Employee Representative Supervisor	Resignation	Retirement
Qiu Wei	Employee Representative Supervisor	Appointment	Additional election

Management Introduction

Business Philosophy of
"Speed for Success"


和谐


Shareholders' General Meeing
Supervisory Committee
Board of Directors
Strategy Committee
Nomination Committee
Remuneration and Evaluation Committee
Audit and Risk Management Committee
Senior Management
Directors' Office
President Office
Strategy & Development Dept.
Operation Management Dept.
Financial Dept.
Capital Operation Dept.
Human Resources Dept.
Audit & Risk Dept.
Science & Technology Dept.
Legal Affairs Dept.
Corporate Culture Dept.
Supervision Dept.
IT Dept.
Locomotives Business Dept.
Passenger Car Business Dept.
Wagon Business Dept.
Rapid Transit Business Dept.
New Business Dept.
Overseas Business Dept.

(I) CORPORATE GOVERNANCE

The Company proactively fosters the core value of "be grateful, the interest of the shareholders is supreme; customer first, the demand of the customers is always the motivation of our improvement; people oriented, every employee shares the success with CSR" and advocates the corporate spirits of "credit, dedication, innovation and excellence". It has established a sound corporate governance structure and created favourable environment for corporate governance.

During the Reporting Period, the Company strictly complied with the laws and regulations as well as the requirements of regulatory documents for listing in the PRC and Hong Kong, improved its corporate governance structure. The Company's corporate governance meets the requirements of regulatory documents applicable to listed companies in the PRC and Hong Kong.

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

(II) SHAREHOLDERS AND GENERAL MEETINGS

1. Shareholders and general meetings

In accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, and other laws, regulations and regulatory documents in the PRC as well as the relevant laws, regulations and regulatory documents in Hong Kong, the Company formulated the Articles of Association and Rules of Procedure of Shareholders' General Meetings to further regulate the convening, review and voting procedures of the general meetings and the special voting procedures of class meetings. The Company attached great importance to the management of investor relations and has established comprehensive channels for effective communication with shareholders to ensure all shareholders, especially minority shareholders, could fully exercise their rights.

2. Relationship between the controlling shareholder and the Company

The Company is independent from its controlling shareholder in terms of personnel, assets, finance, organisation and business; the Board, Supervisory Committee and internal departments all operate independently, particulars of which are as follows:

Independence in businesses	The Company is independent from its controlling shareholder in its business and has full power to make decisions and to operate independently.
Independence in personnel	All staff members are employed independently by the Company. The Company formulates its remuneration systems and pays remuneration independently. None of the members of the Senior Management of the Company holds any administrative management position in CSRG, the controlling shareholder of the Company, or receives remuneration from CSRG and other companies controlled by it.
Independence in assets	The Company has independent and complete assets necessary for its productions and operations, including land and properties, machinery and equipment, trademarks and other intellectual property rights as well as electronic information equipment, which are completely independent of CSRG.
Independence in organizations	The Company establishes shareholders' general meetings, the Board and management team for operations, which will make decisions for the Company's operations within their respective spheres of authorities and such organizational structures operate completely independent of the controlling shareholder. The Company has established an organizational structure consisting of various departments with clear division of responsibilities. The Company has also established an internal control system to promote the effective operations of the Company's businesses.
Independence in finance	The Company establishes a financial department with adequate financial and accounting staff in charge of financial checking and auditing of the Company's accounts. The Company has established an independent accounting system, financial accounting management system and accounting policies. It has independent accounting books, opens separate bank accounts and pays taxes independently according to the applicable laws.

3. Shareholders' general meetings

(1) ANNUAL GENERAL MEETING

On 15 June 2009, the Company convened the 2008 annual general meeting. The announcement on the results of the annual general meeting was published on the websites of Hong Kong Stock Exchange and Shanghai Stock Exchange on 15 June 2009.

(2) EXTRAORDINARY GENERAL MEETING

On 7 August 2009, the Company convened the first extraordinary general meeting of 2009. The announcement on the results of the extraordinary general meeting was published on the websites of Hong Kong Stock Exchange and Shanghai Stock Exchange on 7 August 2009.

(III) DIRECTORS AND THE BOARD

1. Directors and the Board

Directors were elected and the Board was established in strict compliance with the provision of regulatory documents on corporate governance of listed companies and the Articles of Association. The number of the Directors and composition of the Board fully comply with the laws, regulations and the Articles of Association. Through directing and monitoring the Company's operations, all Directors as a whole are responsible for advancing various matters' relating to the development and operation of the Company. The Board comprises nine Directors, including five independent non-executive Directors. Members of the Board possess necessary knowledge, ability and quality for their duties.

The biographical details of Directors and connections between them are detailed in the section headed "Biographic Details of Directors, Supervisors and Senior Management" in this annual report. Each Director is appointed for a term of three years. Upon expiry, the term is renewable upon re-election. The term of office for an independent non-executive Director is renewable subject to a limit of not more than six years. In 2009, the Company purchased liability insurance for the Directors, Supervisors and Senior Management of the Company to provide security for the compensation liabilities that may arise during the performance of their duties under the laws.

2. Independent Non-executive Directors

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

During the Reporting Period, under the principle of objectiveness, independence and prudence and for the interests of investors and relevant parties, the independent non-executive Directors put their expertise into full play, actively attended the Board meetings and meetings of board committees, duly performed their duties, and issued their independent opinion on significant events in accordance with the laws and regulations. They have played their role in improving the Board's scientific decision-making process and promoting sustainable and healthy development of the Company's businesses.

During the Reporting Period, the independent non-executive Directors conducted relevant investigations and studies according to the needs of the Company's arrangements in relation to its major production and operation and other important activities. Such investigations and studies included 11 person-time domestic investigations and 2 person-time foreign investigations, totaling 13 person-time investigations. Through investigations and studies, the independent non-executive Directors had better understanding of the Company's various businesses and put forward many admirable comments and suggestions for the reform and development of the Company.

The Company has established comprehensive working systems of independent non-executive Directors, including: Independent Directors' Manual, Annual Report Working Rules for Independent Directors, Communication Rules for Independent Directors and Management Methods for Investigations and Studies of Independent Directors.

The independent non-executive Directors of the Company have submitted written confirmations of their independency as required by Rule 3.13 of the Hong Kong Listing Rules. The Company is of the view that all its independent non-executive Directors are independent. During the Reporting Period, the independent non-executive Directors did not raised objections to proposals presented at the Board meetings or other meetings for the year.

3. Duty of the Board

The Board is the decision-making organisation of the Company. It reports to the shareholders' general meeting and exercises the following powers in accordance to the Articles of Association:

(1) to convene shareholders' general meetings and implement resolutions of the general meetings;

(2) to decide on the Company's business plans and investment plans;

(3) to formulate the Company's annual financial budget plan, final accounting plan, profit distribution plan and plan for recovery of losses;

(4) to formulate proposals for material acquisition, share repurchase by the Company, or merger, division, dissolution and transformation;

(5) to appoint or remove senior management personnel and, to decide on their remuneration and award matters;

(6) to formulate the Company's basic management system;

(7) to decide on the establishment of special committees of the Board and to consider and approve the resolutions proposed by each special committee of the Board;

(8) to manage information disclosure of the Company;

(9) to formulate the proposal of the share option incentive scheme;

(10) Other duties.

To ensure a balanced distribution of power and authorities, the position of Chairman is assumed by Mr. Zhao Xiaogang while the position of President is taken up by Mr. Zheng Changhong.

4. Board Meetings

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

In 2009, the Board held 7 meetings in total. The following table shows details of Director's attendance at the board meetings during the Reporting Period.

Name of Director	Number of attendance*	Number of entrusted attendance
Executive Director		
Mr. Zhao Xiaogang	7	0
Mr. Zheng Changhong	7	0
Mr. Tang Kelin	7	0
Mr. Liu Hualong	7	0
Independent Non-executive Director		
Mr. Zhao Jibin	7	0
Mr. Yang Yuzhong	7	0
Mr. Chen Yongkuan	7	0
Mr. Dai Deming	6	1
Mr. Tsoi, David	6	1

* During the Reporting Period, 5 board meetings were held by way of on-site meetings, and 2 board meetings were held by way of communication.

5. Board Committees

The Board has established the Strategy Committee, Nomination Committee, Remuneration and Evaluation Committee and Audit and Risk Management Committee, and specified their respective terms of references in accordance with laws, regulations and principles stipulated by the CG Code. Each committee reports its work to the Board. Duty performance of the Board Committees during the Reporting Period is as follows:

(1) STRATEGY COMMITTEE

The Strategy Committee consists of five Directors, namely, 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 the overall development plans and investment decision-making procedures for the Company, including, among others:

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

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

Name of Director	Number of attendance	Attendance rate
Zhao Xiaogang	5	100%
Zheng Changhong	4	80%
Yang Yuzhong	5	100%
Zhao Jibin	5	100%
Tang Kelin	5	100%

During the Reporting Period, the Strategy Committee strictly complied with requirements of Working Rules for Strategy Committee of the Board, independently and objectively performed duties of the committee, and studied and made proposals for the Company's development strategies and material investment decisions. The committee reviewed the proposals including the Special Report on Deposit and Actual Use of the Proceeds from the Company's A Shares Issue, Proposal on Issue of Medium-term Notes and Plan on Adjustment to the Company's Internal Management Structure. The committee also heard and considered the reports including the Report on the Overseas Investment Projects of the Company, Report on Certain Investment Projects Recently Developed by the Company and Report on Corporate Strategy Implementation and Plan.

(2) NOMINATION COMMITTEE

The Nomination Committee of the Company consists of five Directors, namely, Mr. Zhao Xiaogang (a new committee member approved by the Board on 15 June 2009). Mr. Zhao Jibin (independent non-executive Director), Mr. Yang Yuzhong (independent non-executive Director and a new committee member approved by the Board on 15 June 2009). Mr. Chen Yongkuan (independent non-executive Director) and Mr. Liu Hualong. Mr. Zhao Jibin currently serves as the chairman of the Nomination Committee. The primary responsibilities of the Nomination Committee are to formulate the nomination procedures and standards for candidates for Directors and members of the Senior Management, to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and Senior Management. The relevant standards for nomination of a Director include the Director's proper professional knowledge and experience in the industry, personal integrity, good faith and technique and commitment of adequate time.

During the Reporting Period, Nomination Committee held 1 meeting and all members attended the meeting.

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

During the Reporting Period, the Nomination Committee strictly complied with requirements of Working Rules for Nomination Committee of the Board, independently and objectively performed its duties. It considered and approved the proposal in relation to Management Method on Appointment of Directors and Senior Management of the Company.

(3) REMUNERATION AND EVALUATION COMMITTEE

The Remuneration and Evaluation Committee of the Company consists of four Directors, namely, 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 Evaluation Committee. The primary responsibilities of the Remuneration and Evaluation Committee are to formulate the evaluation standards and conduct evaluation of the Company's Directors and Senior Management and to determine and review the compensation policies and schemes for the Company's Directors and Senior Management, including, among others:

- studying the assessment criterion, performance assessment process, remuneration and punishment measure, and submitting the same to the Board for approval;

- assessing duty performance of the Directors and the Senior Management and evaluating their performance;

- supervising the implementation of the Company's remuneration system;

- considering the specific remuneration packages (including non-monetary benefit, pension arrangement and all insurance coverage, including unemployment insurance) of all executive Directors and the Senior Management and making recommendations to the Board regarding the remuneration of the non-executive Directors. Factors considered by the Remuneration and Evaluation Committee may include remuneration for relevant personnel among the peers, time dedicated to perform the duty by the Directors or the Senior Management, terms of reference of the Directors or the Senior Management, other employee's compensation and specific performance of the Directors or the Senior Management. When determining the remuneration for the Directors or the Senior Management, a Director or a member of the Senior Management or their respective associate shall not determine his/her own remuneration;

- considering if compensation arrangements are to be made for an executive Director and a member of the Senior Management for lost or termination of his/her position and ensuring that such compensation (if any) complies with the relevant contractual provisions, or if contract provisions are not followed, ensuring such compensation is fair and reasonable, without resulting in too heavy a burden on the Company;

- considering if compensation arrangements are to be made for a Director for termination or dismissal due to his/her misconduct, and ensuring such compensation (if any) complies with the relevant contractual provisions, or If contract provisions are not followed, ensuring compensation is fair and reasonable; and

- other affairs conferred by the Board.

During the Reporting Period, the Remuneration and Evaluation Committee held two meetings. The attendance of each Director of the committee during the Reporting Period is as follows:

Name of Director	Number of attendance	Attendance rate
Chen Yongkuan	2	100%
Dai Deming	1	50%
Liu Hualong	2	100%
Tsoi, David	2	100%

During the Reporting Period, the Remuneration and Evaluation Committee strictly complied with requirements of Working Principles for Remuneration and Evaluation Committee of the Board, independently and objectively performed its duties. The committee considered and approved the proposal in relation to the Remuneration and Welfare Contribution for the Company's Directors and Supervisors in 2008 and heard and considered the Report on the Implementation of Remuneration and Welfare System of the Company.

The remunerations of executive Directors and members of the Senior Management of the Company were determined based on their skills, knowledge and efforts with reference to the Company's results and profits, the status of the counterparts and the market condition.

(4) AUDIT AND RISK MANAGEMENT COMMITTEE

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

- 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.

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

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

During the Reporting Period, the Audit and Risk Management Committee strictly complied with the Working Rules for the Audit and Risk Management Committee of the Board and Annual Report Working Procedures for the Audit and Risk Management Committee of the Board, independently and objectively performed its duties, and amended the Annual Report Working Procedures for the Audit and Risk Management Committee of the Board according to the requirement of regulatory authorities. Relevant details are as follows:

- Considered and approved the following proposals: 2008 Annual Report of the Company and relevant announcements, 2009 First Quarterly Report of the Company and its summary, Estimated Total Amount of A Share Ordinary Connected Transactions of the Company in 2009, Relevant Matters on H Share Connected Transactions, Self-assessment Report of the Board on the Internal Control of the Company, External Guarantees Provided by the Company and Its Subsidiaries, Credit Limit of the Company for 2009, Reappointment of Certified Public Accountants for Year 2009 and Decision on the Remuneration Determination Method, Amendment to Annual Report Working Procedures for the Audit and Risk Management Committee of the Board, Summary Report on the Audit Work of the Ernst & Young Hua Ming in 2008; and heard and considered the following reports: Report on the Establishment of Regulations and Systems of the Company, Report on the Risk Management of the Company, Report on the Internal Audit of the Company in 2009, Report on the Work Plan for the Company's Annual Audit in 2010 and Report on Preparation of the Quality Assessment Form for the Auditors Appointed by the Company.

- Review of the 2009 financial report of the Company. The Audit and Risk Management Committee issued review opinions on the annual financial report of the Company twice: a) the Audit and Risk Management Committee issued a written opinion on the unaudited financial report, and b) after the auditors for annual audit issued preliminary audit opinion, the Audit and Risk Management Committee reviewed again the financial report of the Company and issued a written opinion and resolved on the 2009 financial report, consenting to submit the audited 2009 financial report of the Company to the Board for consideration.

- Supervise of the audit work of the auditors. The Audit and Risk Management Committee communicated with auditors for annual audit in respect of 2009 annual audit arrangement and timetable. Having heard special reports from the auditors and financial officers of the Company respectively, the committee determined the audit work arrangement of the Company for 2009. Upon the commencement of audit by the auditors for annual audit, members of the committee proactively communicated with the auditors, and through the financial officers and secretary to the Board of the Company, supervised the auditors to complete the auditors' report as scheduled and sent supervision letter to the auditors twice according to the requirement of China Securities Regulatory Commission ("CSRC").

- Summary Report on the annual audit work performed by the auditors. During the 2009 annual audit of the Company, Ernst & Young Hua Ming and Ernst & Young earnestly implemented audit for 2009 financial report of the Company strictly in compliance with audit regulations and standards. Responsible persons from the certified accountants visited the subsidiaries of the Company for financial data collection. The audit work was conducted in a prudent and sincere manner and the audit results provided an objective, fair and genuine appraisal on the entire financial conditions and operations of the Company. The Audit and Risk Management Committee is of the opinion that the existing auditors have completed the audit work for 2009 financial statement of the Company at a good standard.

- Proposal for re-appointment of Ernst & Young Hua Ming and Ernst & Young as external auditors of the Company for 2010. Based on its understanding of the existing auditors and after communications with certified accountants in charge and the main responsible persons, the Audit and Risk Management Committee is of the opinion that Ernst & Young Hua Ming and Ernst & Young have the ability to undertake audit work for large scale listed company. Therefore, the committee proposes to re-appoint Ernst & Young Hua Ming and Ernst & Young as the PRC auditors and the international auditors of the Company for the next year.

(IV) CHAIRMAN AND PRESIDENT

To avoid excessive concentration of power, the positions of the chairman and president are assumed by different individuals with distinct roles, so as to improve independence, accountability and responsibility. The chairman and the president are two distinctly different positions, with clean division of duties as set out in the Articles of Association.

As the legal representative of the Company, the chairman presides over the operations of the Board, aiming to ensure that the Board acts in the best interests of the Company, to ensure the Board's effective operation, the due performance of the Board's responsibilities and discussion of various important and appropriate matters, as well as access by the Directors to accurate, timely and clear data. The president leads the Management who are responsible for managing the day-to-day affairs of the Company, implementing the policies adopted by the Board and reporting to the Board on the Company's overall operation. The Articles of Association set out in detail the respective duties of the chairman and the president.

(V) SUPERVISORS AND THE SUPERVISORY COMMITTEE

The Supervisory Committee is the supervision organization of the Company. It reports to the shareholders' general meeting and is responsible for supervising the Company's finance and compliance of the duty performance of Directors, the president and other senior management members, so as to protect the interests of the Company and shareholders under the laws. The Company has taken effective measures to ensure the supervisor's rights to be informed and provide the Supervisors with necessary information and data in a timely manner.

(VI) ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

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

1. Management control

The Company has established a complete corporate governance structure and management control system. Apart from the Board, the Supervisory Committee of the Company comprises three members, one of whom is an employee representative Supervisor.

In order to ensure the effectiveness of corporate governance, the Company has established the following rules and regulations: Articles of Association, Rules of Procedure for Shareholders' General Meetings, Rules of Procedure for the Board of Directors, Rules of Procedure for Supervisory Committee, Independent Directors' Manual, Working principles of the Strategy Committee, Working principles of the Audit and Risk Management Committee, Working principles of the Nomination Committee, Working principles of the Remuneration and Evaluation Committee, President's Manual, Management Measures on Use of Proceeds, Management Measures on Related Party Transactions, Management Measures on Information Disclosure, Management Measures on Investor Relations and Management Measures on External Guarantees, etc. In addition, the Company has also formulated Management Measures on Contracts and Agreements, Management Measures on Investment and various financial and audit regulations, and has compiled Employee Handbook, Compilation of Rules and Regulations, Risk Management Manual, Internal Control Manual and Audit System Manual, with a view to standardizing its internal control practices.

2. Controls over connected transactions

The Company exercised overall management and control over all matters relating to the connected transactions including the principles of such transactions, connected persons and their connected relationship, the proposed connected transactions and the decision-making procedures thereof as well as the disclosure of such connected transactions in strict compliance with the Rules Governing the Listing of Securities and the Guidelines for Internal Control of Listed Companies of the Shanghai Stock Exchange, the Listing Rules of the Hong Kong Stock Exchange, the Articles of Association, the Rules of Procedure of Shareholders' General Meetings, the Rules of Procedure of the Board of Directors, the Management System for Capital transactions among Related Parties and the Internal Control Rules on Related Party Transactions, to safeguard the legitimate interests of the Company and its shareholders as a whole. During the Reporting Period, all connected transactions of the Company were duly approved and properly disclosed. The company's internal controls over connected transactions were rigorous, sufficient and effective.

3. Controls over external guarantees

The Rules on External Guarantees formulated by the Company stipulate detailed controls over external guarantees such as the guaranteed party, prior review, approval authority, approval procedures, signing of contracts and risk management. The Company maintains a system of multiple-level review and approval and supervision for external guarantees with the general meetings and the Board as decision-making bodies. During the Reporting Period, the Company exercised rigid control over the external guarantees in strict compliance with relevant laws and regulations.

4. Controls over significant investing activities

The Management Measures on Investment and its ancillary rules formulated by the Company define the basic investment principles of the Company, i.e. sticking to the market-oriented and benefit-centred approach, undertaking the responsibility to reward shareholders and aiming at enhancing core competence and realizing intensive and specialized production, which facilitated the establishment of Company's business structure with focused principal operations and distinctive characters. In addition, the Company has set strict requirements for controls over the management responsibilities, approval limits and procedures, annual investment budget, project execution and management, performance supervision and assessment and risk management in respect of investing activities. The investment management department managed investing activities in accordance with such requirements, which guaranteed the effectiveness and efficiency of investment.

5. Controls over information disclosure

The Management Measures on Information Disclosure established by the Company set out details of the rules for information disclosure and define various matters with respect to information disclosure, including the basic principles, the specific contents, management affairs, duties of persons-in-charge, the recording and archiving system, communications with investors, analysts and media, confidentiality measures and violation punishments, which ensure that the Company's information is disclosed in an open, just and fair way.

6. Internal audit

An independent internal audit department has been set up at the Company's headquarters and independent internal audit units have been set up at the Company's first-tier subsidiaries (direct subsidiaries) and major second-tier indirect subsidiaries. The internal audit department reports to the Board and the President of the Company on a regular basis, conducts audit on the operation management, financial conditions, economic responsibilities and internal control practices of the Company and its subsidiaries, periodically reviews the internal control situation of the Company and makes suggestions for improvement in a timely manner. The audit department strives to constantly improve its work rules and workflows, and has worked out 20 sets of rules such as the Audit Rules and 61 working templates such as the Template for Financial Revenue and Expenditure Audit, which further improve its work quality and efficiency.

7. Internal control system and its implementation

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

8. Establishment of supervisory departments for internal control

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

9. The Board's arrangements on internal control activities

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

(VII) EVALUATION AND MOTIVATION FOR THE SENIOR MANAGEMENT

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

(VIII) SELF-ASSESSMENT REPORT ON INTERNAL CONTROL AND REPORT ON PERFORMANCE OF SOCIAL RESPONSIBILITIES

1. SELF-ASSESSMENT REPORT

Based on the review of the Company's internal control system, the Board prepared the "Self-assessment Report of the Board on Internal Control of China South Locomotive & Rolling Stock Corporation Limited", a summary of which is set out as follows:

In compliance with Basic Standards for Enterprise Internal Control jointly issued by the Ministry of Finance and other 4 Ministries, Internal Control Guidance for Listed Company by Shanghai Stock Exchange, CG Code by Hong Kong Stock Exchange and Comprehensive Risk Management Guidance for Central Enterprises by SASAC, the Company, by reference to its own characteristics, established internal control system, which was strictly operated in compliance with such system. The Company's internal control system and process cover key sections and various levels of its operation, which ensure the effective execution of internal control and have achieved obvious effectiveness.

The Board and the Management of the Company are responsible for establishing and implementing a comprehensive internal control system. The goal of internal control is to ensure compliance with the laws and regulations in the Company's business operations, together with asset safety and accuracy and completeness of the financial reports and the relevant information, to increase business efficiency and to promote fulfilment the Company's corporate development strategy.

Due to its inherent limits, internal control can only provide reasonable assurance to the above goals. Moreover, the effectiveness of internal control is subject to changes of internal and external environment and the Company's operation conditions. The Company has set up supervisory system for internal control. Correction measures will be adopted upon identification of any defect in internal control.

The internal control system of the Company was established following the principal of compliance, systematises, well defined power and responsibility, operability and cost efficiency. In establishing the system, the Company considered 5 basic factors, including: internal environment, risk evaluation, control measures, information and communication as well as supervision.

(1) Internal environment. The Company proactively fosters the core value of "be grateful, the interest of the shareholders is supreme; customer first, the demand of the customers is always the motivation of our improvement; people oriented, every employee shares the success with CSR" and advocates the corporate spirits of "credit, dedication, innovation and excellence". It has established a sound corporate governance structure, internal audit organization and anti-fraud mechanism, thus creating a favourable environment for internal control. Internal environment includes governance structure, organization setup and rules, corporate culture, human resource policy, internal audit structure and anti-fraud system.

(2) Risk evaluation. The Company has established specialized risk management body, and set up comprehensive risk management system and risk management organization structure, which includes target settings and identification, analysis and handling of risks.

(3) Control measures, which include control over division of work, authorization, review and approval, budget, property protection, accounting system, internal report, economic activity analysis, performance assessments and information technologies.

(4) Information and communication, which includes information collection mechanism and communication mechanism inside and outside the Company.

(5) Supervision and inspection, which include ongoing supervision on overall internal control setup and enforcement, specialized supervision for certain aspect(s) of internal control, preparation of supervision reports and providing proposals of specific measures for improvement.

The Board has conducted self-assessment on all the above aspects of internal control in 2009. No material defect in internal control design or enforcement was found during the period from 1 January 2009 to the end of the reporting period.

The Board is of the opinion that the overall internal control system of the Company is comprehensive and has been effectively enforced during the period from 1 January 2009 to the end of the reporting period.

2. PERFORMANCE OF SOCIAL RESPONSIBILITY REPORT

In 2009, the Company implemented scientific development perspectives and incorporated social responsibility into its development strategy and operation management, facilitating balanced and harmonious development of the Company and society. With actions featuring "green production for green products, provision service for green transportation, being the enforcers of low carbon economy", the Company was granted the "Most Responsible Enterprise in China in 2009" by Ministry of Commerce, SASAC and State Administration of Industry and Commerce.

The Company improves its corporate governance in a more scientific and standard way through perfecting its governance structure, clarifying business division and department duty, completing rules and regulations, optimizing work flow, enhancing risk control and establishing effective system. The Company was nominated for "Information Disclosure Award 2009" by Shanghai Stock Exchange, and ranked 16th in "Best Corporate Management Company" by Investor Journal.

The Company's brand and social reputation have been constantly improved. The Company won, in succession, the "Most Valuable Enterprise Award 2009", Top 500 Brands in Asia, Top 500 Most Valuable Brands in the World. The Company is the only China-based equipment manufacturer in the World's Best Brand Value List. It also won the "Golden Tripod Prize" at the 5th Annual Meeting of China's Securities Market.

The Company accelerated the construction of national engineering laboratory and state-recognised corporate technical centre, undertook the "independent innovation joint operation program for China's high speed train" project, proactively built CSR 3 grades experiment certification system and synergic simulation design platform, further promoted the construction of "3 major technical platforms" and improved its independent innovation system in a continuous manner.

Based on the principle of "people oriented", the Company actively provides a stage for its employees to fulfil their values. It creates favorable working environment for its employees and makes room for their career development, so as to ensure the sharing of the success of the Company among the entire staff.

The Company was in strict compliance with Labour Contract Law and other regulations to establish harmonious labour relationship. The Company was granted the title of "Top 100 Best Employer for Graduates in Beijing" in 2009.

The Company enhanced production safety, enforced safety accountability system and organized the preparation of regulation for technical operation safety. The Company strengthened professional safety by implementing safety quality standardization. The Company kept close eyes on occupational health, enforced supervision over labor protection and occupational hazard, for which 100% test rate was reached for toxic working environment and 100% physical examination rate for the staff who are exposed to hazardous environment. Further, the Company enhanced safety education of employees, set up and improved the labor safety and sanitary system so as to provide a safer, healthier and more sanitary working and living environment for employees. No major fire, explosion and traffic accident was recorded during the year, nor any new occupational disease was found.

The Company advocates democratic management, and cares about employee's life. It endeavours to build a harmonious enterprise. The Company improved its democratic management system on the basis of staff representative assembly system. By enhancing democratic management, supervision and participation, it effectively built up harmonious relationship between the Company and its staff, thus promoting the construction of democracy in the Company.

In 2009, the Company executed energy diagnosis on all subsidiaries, and vigorously promoted new technology on energy saving and environmental protection. No subsidiary of the Company incurred pollution accident in 2009. Ecology results are progressing. Targets in relation to energy saving and discharge reduction were achieved in 2009. CSR Times Electric, a subsidiary of the Company, was recognized by the United Nations and joined the Global Compact Organization, being the first to join the organization from the rolling stock industry in China.

The Company actively participated in social welfare activities. Guided by poverty relief motif of the central government, the Company actively conducted poverty relief operations in Napo and Jingxi Counties in Baise region, Guangxi Province. Through providing assistance in the infrastructure construction of the two counties, the Company effectively improved living conditions of the residents and significantly uplifted the living conditions of the natives. Meanwhile, By insisting on the principle of "education goes before poverty relief", the Company changed its mode of poverty relief from the original "blood transmission" to "blood generation". by helping students in poverty through technical training with a view to improving human resource quality of such regions, and improving their living standard by encouraging them to increase income and through their own efforts.

In the future, the Company is to consistently improve its social responsibility system and communication system for the same, comply with laws and regulations, preserve commercial credit, open to public supervision and realize all-round, coordinated and sustainable development of the Company and the society.

(IX) SPECIAL CAMPAIGN FOR CORPORATE GOVERNANCE

Pursuant to the Notice on Issues Concerning the Special Campaign to Strengthen Corporate Governance in Listed Companies (Zheng Jian Gong Si Zi [2007] No. 28) issued by CSRC and relevant laws and regulations such as Company Law of the PRC and the Securities Law of the PRC, the Company performed self-inspection on corporate governance based on its actual conditions and with reference to the Articles of Association during the Reporting Period. Through the self-inspection, the Company deepened its understanding of corporate governance and further enhanced and improved its construction of rules and systems.

(X) ESTABLISHEMNT OF ACCOUNTIBILITY MECHANISM FOR MAJOR ERRORS IN ANNUAL REPORT DISCLOSURE

Pursuant to the Management Measures on Information Disclosure of the Company, obligors and other insiders for information disclosure shall be held liable for the non-compliance by the Company with the laws and regulations in relation to information disclosure which has incurred any adverse effect or loss to the Company as a result of the breach of duty of such persons or violation of relevant provisions by such person. As at the end of the Reporting Period, the Company was not aware of any significant errors in the disclosure of annual report of the Company.

(XI) DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors confirm that they have the responsibility for preparation of the financial statements for the Company for the year ended 31 December 2009, in order to truly and impartially report the financial conditions and business results of the Company and its subsidiaries ("the Group"), and undertake relevant responsibilities for preparation of the financial statements of the Group.

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

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

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

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

As at 31 December 2009, after making specific inquiries with all Directors and Supervisors, the Company confirmed that all Directors and Supervisors have complied with the relevant codes on securities transactions by Directors and Supervisors as set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" and the "Management Method regarding Shareholding of Directors, Supervisors and Senior Management of the Company".

(XIII) AUDITORS

The Company has appointed Ernst & Young and Ernst & Young Hua Ming as its international and domestic auditors respectively since its establishment.

The Company has paid Ernst & Young and Ernst & Young Hua Ming RMB12 million as annual professional auditing fees for auditing the 2009 financial statements, which fees are inclusive of business taxes, business trip costs, accommodation and communication costs. During 2009, the Company also paid them RMB2.3 million for agreed-upon procedures. Apart from the above, the Company has not engaged Ernst & Young or Ernst & Young Hua Ming for any major non-audited service.

Certain subsidiaries of the Company engaged Ernst & Young Hua Ming as their auditors for their financial report of 2009 and paid a total of RMB3.36 million as auditors' remuneration.

The Audit and Risk Management Committee has resolved to re-engage Ernst & Young and Ernst & Young Hua Ming to conduct the audit work for financial statements prepared under IFRSs and PRC Accounting Standards (2006) for the financial year of 2010. The resolution was approved by the Board, and is subject to final approval and authorisation by shareholders at the forthcoming 2009 Annual General Meeting.

(XIV) INVESTOR RELATIONS

2009 is the first "full year" for the Company after its listing and is a year it received much attention from its shareholders, potential investors and public community after it entered the capital market. Since its listing, the Company attached much importance to investor relation management. By strengthening system construction and maintaining a smooth communication channel, the Company established good relationship with investors, other institutes and media, which contributed to the enhancement in its capitalization and corporate image.

1. Building up an investor relations management team

The investor relations management team of the Company is divided into three levels. The first level is the management level. The management team for investor relations comprising the Chairman, President, vice presidents and secretary to the Board is responsible for planning and arranging major activities in relation to investor relations. The second level is implementation level. General affairs division of the office of the Board, being the execution team relating to investor relations management, focuses on implementation work including daily communication, non-transactional road show, shareholder analysis, capital market monitoring and information feedback. The third level is the support level. Responsible persons of each business department and each subsidiary constitute support team for investor relations. They provide information required for investor relations management and can understand operational information which the capital market concerns, which facilitated healthy development of the Company's operations.

2. A comprehensive system with solid foundation for investors relations management

The Company formulated the Management Rules for Investors Relations, Management Rules for Information Disclosure and Management Rules for News Release, specifying the purpose, principles, targets, contents and methods of investor relations management of the Company. The Company strictly implemented its daily work in investor relations management in accordance with the relevant rules and systems. First, it established investor relations special column in the Company's website. Second, the implementation team searched for information on the capital market, followed up movements of shareholders and timely reported the same to the management level, so as to provide data for planning and arrangement of major activities for investor relations. Third, the Company we set up investor relationship hotline and email address, arranged special personnel to listen, receive and record in a patient and meticulous way, answered questions brought by investors and collected visit plans of investors and made arrangements. Fourth, we organized non-transactional road shows and attended investor strategic meetings organized by securities traders. Through holding results announcement conference, arranging one to one investor visits and setting up regional investor online dialogue, the Company enhanced communication with investors and has established a good communication atmosphere. Fifth, the Company also established signature system for visitors reception.

3. In compliance with regulatory requirements, significant results achieved in investor relations management

In 2009, in strict compliance with the law and rules in the PRC and regulations of securities authorities, Shanghai Stock Exchange and Hong Kong Stock Exchange, CSR constantly enhanced and improved investor relations management while ensuring the disclosure of information on a truthful, accurate, complete and timely basis. The Company communicated with investors and analysts in a positive and frank manner though various channels such as results announcement conference, shareholders meeting, investor strategic meeting, company visits, teleconference and visit to its subsidiaries. The Company had 249 meetings with an aggregate of approximately 1,500 investors, analysts and fund managers, and attended 2 strategic meetings. These activities promoted investors' understanding and recognition of the Company and upgraded the Company's image on the capital market, increased the corporate awareness, contributed to the increase in its capitalization and achieved the "win-win" target of maximizing the Company's overall interests and protecting investor's legitimate interest.

4. Information disclosure and transparency

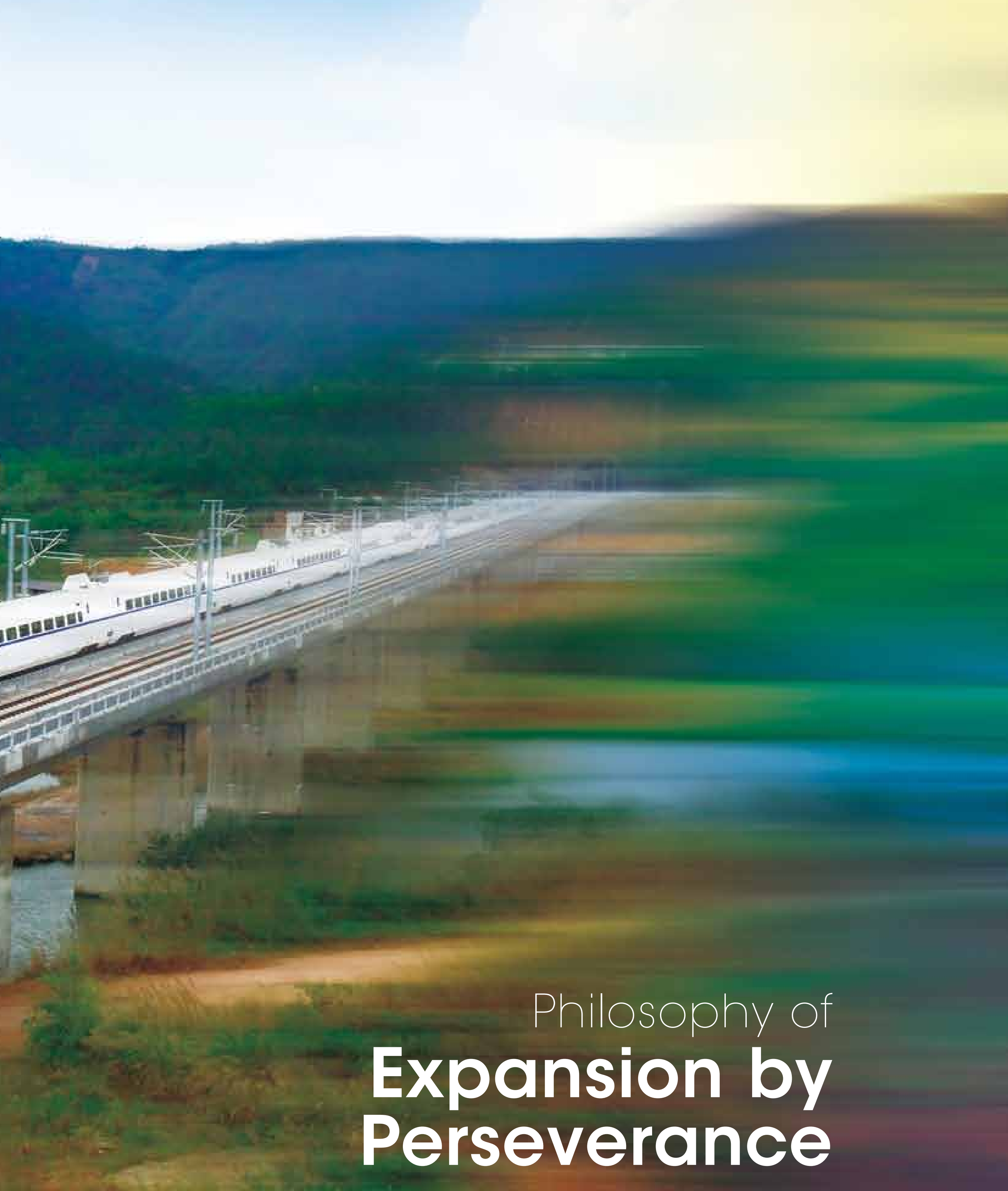
The Secretary to the Board is responsible for specific information disclosure. The Company has established the investor relationship unit of the Office of the Board, which is a department dedicated to investor relations responsible for investor reception and consultation for better communication with shareholders. During the reporting period and in strict compliance with the Rules Governing the Listing of Securities on the Shanghai Stock Exchange, the Hong Kong Listing Rules, the Articles of Association and the Administrative Measures on Information Disclosure and guided by the principle of simultaneous disclosure for companies with shares listed on multiple places, the Company performed its information disclosure obligations in accordance with the laws in PRC and Hong Kong, ensuring equal shareholders' access to information of the Company.

5. Highly recognized Investment value

The Company's investment value has been highly recognized since 2009. Awards won by the Company are as follows:

Time of Awards	Awards	Awarder
January 2009	National Award for Science and Technology Progress-Special Prize	the State Council
January 2009	National Award for Science and Technology Progress-First-class Prize	the State Council
January 2009	The Most Trustworthy Enterprise in the PRC for 2008	China Enterprise Confederation and China Enterprise Association
March 2009	Enterprise Management Innovation Result-First-class Prize (企業管理創新成果一等獎)	China Enterprise Confederation and China Enterprise Association
May 2009	No. 1 of the Most Stable Growing Company (最穩定增長公司排行榜第1名)	MoneyWeek
June 2009	Top 100 Valuable Listed Company in China for 2008 (2008年度中國上市公司價值百強)	Securities Times
June 2009	The Top 100 Golden Bull Listed Companies (上市公司金牛百強)	China Securities Journal
September 2009	The Asia 500 Most Influential Brands (亞洲品牌500強大獎)	Certification & Supervision & Management Center for Asia International Reputed Brand, State-owned Assets Supervision and Administration Commission of the State Council, Renmin University of China
November 2009	Best Corporate Management Company	Investor Journal(《投資者報》)
November 2009	"Golden Tripod" Prize on China Securities Market (中國證券市場「金鼎獎」)	Securities Times
December 2009	Valued Enterprise (具價值企業)	The Talents (《英才》)
December 2009	Nominees of Information Disclosure Award for 2009 (2009年信息披露獎提名)	Shanghai Stock Exchange
January 2010	National Award for Science and Technology Progress-First-class Prize	the State Council
January 2010	The Most Responsible Enterprise in China in 2009 (2009年最具責任感企業)	China Weekly (《中國新聞週刊》), China Red Cross Foundation
February 2010	World Top 500 Valuable Brands (全球最有價值500品牌)	Brand Finance, a brand value consultancy company in UK


CRH



Philosophy of Expansion by Perseverance

A. MANAGEMENT'S DISCUSSION AND ANALYSIS

(I) Review of the Company's operation during the Reporting Period

1. Summary of the overall operation of the Company during the Reporting Period

The revenue of the Company is mainly derived from the business of rolling stock equipment manufacturing. Therefore, the Company's business depends to a large extent on the development landscape as well as the infrastructural investment in railway transportation in the PRC. Over recent years, the State has pressed ahead with the infrastructural investment in railway transportation which put the Company's development on a sound platform.

With the more aggressive investment by the State in the rolling stock equipment sector, coupled with the Company's initiatives to develop new businesses and the overseas markets, the Company's business volume and profitability substantially increased in 2009. In 2009, the Company recorded operating revenue of RMB45.621 billion, representing an increase of 30% over the previous year. Net profit after tax amounted to RMB2.117 billion, representing an increase of 25.56% over the previous year. Net profit attributable to shareholders of the Company amounted to RMB1.678 billion, representing an increase of 21.24% over the previous year.

Looking back to the Company's operations in 2009, all product lines presented favourable performance except the freight wagon business which declined by 38.68% due to under the impact of the financial crisis.

In 2009, the Company completed all prototype tests for 6-axle 9600kW high-powered electric locomotives, being the first in the PRC. 160 units of such locomotives have been delivered, accounting for 89.39% of all similar products delivered in the year. Such type of locomotive is developed to fulfil the strategic goal of "To introduce advanced technology, to combine design with production, and to build up brands of China" which was set by the State Council, to achieve independent innovation with high starting point, high standards and high platform, to further meet the demand for railway transportation, and to enhance sustainable R&D capacity and production capacity. It is a new type of high-powered electric locomotive. In terms of high-powered internal-combustion locomotive segment, the Company has delivered 207 units of such locomotives, accounting for 78.71% of all similar products delivered in the year. In terms of new type of high-powered electric locomotive which has been rapidly developed and put into mass production, the Company has, with reference to the need of modularization, standardization and in-series development, carried out integrated and innovative design on HXD1C 7200kW 6-axle high-powered AC transmission electric locomotives based on the advanced design and production technologies of HXD1 and HXD1B locomotives, thereby ensuring the production of cutting-edge and reliable locomotives as well as upgrading the system integration technology of electric locomotives. It took less than half a year for the Company to complete the entire process, from planning, construction design, parts test, entire unit production, trail production to mass production, in relation to the HXD1C 7200kW 6-axle high-powered AC transmission electric locomotives. All prototype testings for such locomotive were completed in the year 2009, and 160 units were produced and delivered for railway transportation.

The Company is the only qualified producer with manufacturing technology of passenger carriages used on the Qinghai-Tibetan Railway and high-end passenger carriages. In 2009, the Company entered into orders for 2,795 units of passenger carriages with an aggregate contract value amounting to RMB5.537 billion, accounting for 55.90% and 55.93% respectively of all purchases in the domestic market for the year in terms of volume and amount.

By innovating high-speed MUs through the process of introduction, assimilation and digestion, the Company has established technological platform for its own independent innovation by actively establishing open system for technical innovation and by persisting on technological development through combining technology introduction and independent innovation. Such strategy has achieved success in advance of others. As at the end of 2009, the Company and its joint venture companies received orders for an aggregate 680 trains of MUs (8 units per train), representing 58.12% of the total orders, of which 242 trains (8 units per train) have been delivered to market, representing 70.97% of the market share.

The Company possesses advanced international capacity for the production of rapid transit vehicles, around the world. The Company owns supreme technology, talents and equipment resources, and has formed the railway transportation equipment R&D system forming the basis for featuring independent developed, with auxiliary system, advanced equipment and large scale rapid transit vehicles R&D and production system. The Company owns 3 designated entities for domestic production of rapid transit vehicles and equipment. With proper deployment, all of the 3 entities have had scale production of rapid transit related products, complete array of models and gradings, and respective edges to supplement each other. They are well positioned in the competition in the blooming rapid transit vehicle market. In 2009, 6 major markets for rapid transit vehicle included Beijing, Shanghai, Shenzhen, Guangzhou, Suzhou, Chongqing and Chengdu. The Company won the bid for 1,438 units or 51% of the total number of vehicles under all purchase contracts, and achieved the total contract value of RMB10.8388 billion, or 53.3% of the total contract value.

The Company's new business segment saw rapid growth in 2009. With respect to high-powered semiconductor component, the Company has become the production base of high-powered semiconductor component for locomotive purpose, and the most competitive supplier in HVDC and SVC sectors in China. The Company's products have been widely used in high ampere power source, motor soft start, industrial driver, motor excitation and induction heating, which have been exported to North America, Europe and Southeast Asia. As such, the Company has powerful core competitiveness in this sector. With respect to new materials sector, the Company is the sole domestic supplier for rubber damping products for wind power generation, and therefore takes the leading position in the rubber elastic component industry and accounts for 70% of market share in domestic market. Elastic base plate product of the Company is widely used for 350km high speed railway switch, rapid transit and subway market, and the Company has taken up 70% of the market share in 2009 and ranked first in the industry. With respect to electric automobile industry, the Company is one of the earliest new energy automobile manufacturers approved by the State. The Company is also the national industrialization base for high-tech research achievements the sponsor for national key projects of electric automobile and an industrialization base of the National Torch Project. The Company was the largest electric automobile system and component supplier for Beijing Olympics, and the exclusive supplier for motor system of pure electric passenger vehicle and auxiliary equipment. In 2009, system products of the Company successfully entered the World Expo market in Shanghai, representing over 70% of the pure electric passenger vehicle market share in the World Expo. With respect to the wind power generators sector, the Company set foot in the wind power industry in 2003, starting from R&D and production of key components for wind power generators. By gradual introduction and digestion of advanced design and production technology from abroad, the Company has completed the R&D in relation to key components with independent intellectual property rights. Independent R&D for WT1650 and small scale trail operation were completed, and large scale installation of WT1650 was achieved in 2009. As such, the swift uplift of the business of wind power whole equipment production was achieved. With respect to rail maintenance machinery in electric system of large rail maintenance machinery, the Company's core technology and industrialization measures are in leading position in China leveraging on introduction and localization of overseas advanced technology. With advanced technology and product quality in China and around the world, the Company is the only company that owns comprehensive knowledge on electric control system of rail maintenance machinery in China.

In 2009, the Company entered into export contracts, amounting to US$1.2 billion. Exported products included 34 units of locomotives, 80 trains of rapid transit vehicles, metro cars and MUs, 1,382 units of freight wagons and relevant components, which were mainly exported to Singapore, Sudan, Tajikistan, Guinea, Turkey, Sri Lanka, Argentina, Tunisia, Saudi Arabia, Venezuela, Australia, Pakistan, Russia, Japan, United States, Korea, Italy and France. Export product structure of the Company witnessed major adjustment in 2009, in which share of products with high added value recorded a significant growth. Contract value for metro car, rapid transit vehicle and MUs accounted for 77% of the total contract value for 2009, which has realized breakthroughs in both market and product exploration. With economic globalization and the impacts of financial crisis, increase of technology content and technical standard, exploration of new market and export of products with higher added value have become an important way for the Company and even China's manufacturing industry to uplift their standing and influence in international market. The supplementary purchase of MUs of the Company in Sri Lanka serves as a firm proof of recognition by customers of our product quality and after sales services. Singapore metro car project was our first successful cooperation with metro industry leaders in international market which proved that the Company has reached the highest technical level of rail market. Through the performance and management of the project, the Company will further upgrade its project management capability and technical standard. Rapid transit vehicle project in Turkey marked the Company's entrance into European rail market. DMU project in Tunisia revealed the Company's powerful competitiveness over its rivals. Through the freight wagon project in Saudi Arabia, the Company, for the first time, sold its freight wagons into Gulf region, and such exported freight wagons were subject to the highest technical standard.

2. Core businesses of the Company and operation thereof

(1) Summary of the Company's core businesses

The core business of the Company 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.

(2) Revenue breakdown by product lines

Comparisons between revenue from all product lines of the Company for 2009 and those of last year are set out in the following table:

	2009		2008		
Business segment	**Amount**	**Percentage**	Amount	Percentage	Growth rate
	(RMB'000)	**%**	*(RMB'000)*	*%*	*%*
Locomotives	**14,102,106**	**30.91**	8,136,571	23.19	73.32
Passenger carriages	**4,521,526**	**9.91**	3,265,214	9.30	38.48
Freight wagons	**5,795,272**	**12.70**	9,450,862	26.93	(38.68)
MUs	**7,932,310**	**17.39**	5,679,594	16.18	39.66
Rapid transit vehicles	**4,384,126**	**9.61**	2,574,216	7.34	70.31
New businesses	**4,941,255**	**10.83**	2,946,887	8.40	67.68
Others	**3,944,156**	**8.65**	3,039,452	8.66	29.77
Total	**45,620,751**	**100.00**	35,092,796	100.00	30.00

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

Revenue generated from the locomotive product line is the important drive of the Company's revenue. The main reasons for the increase of the Company's revenue from locomotive product line in 2009 as compared with that of the last year were primarily attributable to a more earnest market demand arising from the high speed and heavy load railway development in the PRC and the concentrated delivery period for orders received in past years which leads to dramatic increase in locomotive sales volume. Revenue from locomotive business as a percentage of total revenue increased by 7.72 percent as compared with the same period last year.

Revenue generated from our passenger carriage business increased as compared with the last year, mainly due to higher sales volume arising from stronger demand for new passenger carriages. Revenue from passenger carriage business as a percentage of the total revenue increased by 0.61 percent from same period last year.

The decrease in revenue from our freight wagon business is attributable to less bidding for new freight wagons required by the Ministry of Railway and the lower average price of our new freight wagons in 2009. Revenue from freight wagon business as a percentage of the total revenue decreased by 14.23 percent from same period last year.

Revenue from our MU business recorded significant increase over the last year, and its share in the total revenue increased by 1.21 percent, which were mainly attributable to the opening of Wuhan-Guangzhou railway and Zhengzhou-Xi'an railway, which drove the market demand.

Revenue from rapid transit vehicle business had seen material increase in 2009 over the last year, and its share in total revenue increased by 2.27 percent over the same period last year, mainly attributable to sales revenue achieved from orders made in 2007 and 2008.

New businesses include those that are closely related to proprietary rolling stock technologies. New businesses grew significantly in 2009 as compared with the last year, and its share in the total revenue increased by 2.43 percent, primarily attributable to the Company's proactive development of proprietary rolling stock related technologies by virtue of its technological competence and edges, which enlarged the production and sales volume. In particular, revenue from wind power generators amounted to RMB1.41 billion, representing a year-on-year increase of 108.27%; revenue from construction machinery amounted to RMB1.356 billion, representing a year-on-year increase of 128.28%; revenue from internal combustion engine for industrial purpose amounted to RMB512 million; and revenue from compound materials amounted to RMB525 million.

Other revenue includes revenue from sales of materials and businesses other than rolling stock business.

(3) Revenue breakdown by regions

Operating revenue from the Company's operations by regions for 2009 and the comparison with that of last year are shown in the following table:

Business segment	2009 Amount (RMB'000)	2009 Percentage %	2008 Amount (RMB'000)	2008 Percentage %	Growth rate %
Domestic market	**44,242,933**	**96.98**	33,458,916	95.34	32.23
Overseas market	**1,377,818**	**3.02**	1,633,880	4.66	(15.67)
Total	**45,620,751**	**100.00**	35,092,796	100.00	30.00

Revenue from domestic market of the Company increased by 32.23% as compared with that of last year whereas revenue from overseas market decreased by 15.67% as compared with that of last year. The decrease in revenue from overseas market was mainly attributable to the fact that despite the new overseas contract for 2009 increased as compared with 2008, most contracts are long term based, revenue of which will be realized after 2009.

(4) Breakdown of gross profit and gross profit margin

Consolidated gross profit of the Company for 2009 and the comparison with that of last year are shown in the following table:

Item	2009 Amount (RMB'000)	2008 Amount (RMB'000)	Growth rate %
Operating revenue	**45,620,751**	35,092,796	30.00
Operating cost	**38,453,741**	29,278,774	31.34
Gross profit	**7,167,010**	5,814,022	23.27
Gross profit margin	**15.71%**	16.57%	

The decrease in the consolidated gross profit and gross profit margin in 2009 was mainly attributable to adjustment of locomotive product mix and decrease in price of freight wagons.

(5) Major suppliers and customers

In 2009, the procurement of the Company from its top five suppliers totaled RMB3.451 billion, accounting for 9.43% of the total procurement for the year.

In 2009, the sales of the Company to its top five customers totaled RMB28.758 billion, accounting for 63.04% of the total sales of the Company for the year. Such high degree of customer concentration was primarily attributable to the Company's sales to its biggest customer, namely the Ministry of Railways of the PRC (the "Ministry of Railways" or the"MOR") together with the local Railway Bureaus, and companies invested and managed by them which accounted for 56.72% of the Company's total sales for the year. None of the Directors or its associates or any shareholders holding more than 5% of the equity interests in the Company had any interests in the above mentioned suppliers or customers.

3. Composition and changes of major assets and liabilities of the Company during the Reporting Period

(1) Composition and changes of major assets of the Company during the Reporting Period

In 2009, the Company's assets were mainly measured by historical cost method and partly at fair value. Items of main statements which were measured at fair value included financial assets. There were no material changes to the measurement basis of major assets during the Reporting Period.

The composition and year-on-year changes (in net value) of major assets of the Company as at 31 December 2009 are shown in the following table:

Item	2009 Amount *(RMB'000)*	2009 Percentage %	2008 Amount *(RMB'000)*	2008 Percentage %	Growth rate %
Total current assets	**36,686,815**	**66.42**	31,087,693	68.30	18.01
Of which: cash and Cash equivalents	**11,273,147**	**20.41**	11,065,179	24.31	1.88
Trade receivables	**6,638,161**	**12.02**	5,995,583	13.17	10.72
Prepayment, deposits and other receivables	**4,640,365**	**8.40**	4,417,719	9.71	5.04
Inventories	**11,415,069**	**20.67**	8,389,453	18.43	36.06
Total non-current assets	**18,551,500**	**33.58**	14,428,558	31.70	28.57
Of which: Property, plant and equipment	**13,509,207**	**24.46**	10,242,102	22.50	31.90
Total assets	**55,238,315**	**100.00**	45,516,251	100.00	21.36

As at 31 December 2009, the ratio of current assets to total assets of the Company was 66.42%. The asset structure composition of the Company was contributed mainly by current assets and lesser contribution by non-current assets. Such feature was mainly a result of the longer production cycle in the operation of the equipment manufacturing industry.

The balance of the Company's cash and cash equivalents was relatively significant, accounting for 20.41% of the total assets as at the end of 2009. This was attributable to more cash collection and RMB2 billion of proceeds from issue of mid-term notes.

The trade receivables of the Company were mainly contract receivables. In absolute terms, the trade receivables of the Company increased by 10.72% as at the end of 2009 as compared with that as at the end of last year, mainly attributable to the significant growth in operating revenue in 2009. However growth rate of accounts receivable fell short of that of operating revenue. In relative terms, accounts receivable as a percentage of total assets decreased as at the end of 2009.

Prepayments of the Company were mainly purchase payment to suppliers for raw material and equipments. As at the end of 2009, prepayments of the Company basically kept unchanged as compared with the last year, accounting for a stable ratio.

As at the end of 2009, inventories of the Company increased by 36.06% as compared with that as at the end of last year. Such increase was mainly attributable to a higher business volume following an upscale of the Company's operation. In relative terms, inventories as at the end of 2009 accounted for 20.67% of the total assets, accounting for a stable ratio, and representing a modest increase as compared with that as at the end of last year.

As at the end of 2009, the property, plant and equipment of the Company increased by 31.90% as compared with that as at the end of last year. Such increase was mainly attributable to the increase in investment due to the Company's endeavour to cater for its growing business by expanding production capacity and fostering production and technical upgrades. In relative terms, fixed assets accounted for 24.46% of the total assets as at the end of 2009, higher than that as at the end of last year.

(2) Composition and changes of major liabilities of the Company during the Reporting Period

The composition and year-on-year changes of major liabilities of the Company as at 31 December 2009 are shown in the following table:

Item	2009 Amount (RMB'000)	2009 Percentage %	2008 Amount (RMB'000)	2008 Percentage %	Growth rate %
Total current liabilities	**30,066,604**	**86.11**	23,652,158	88.01	27.12
Of which: Interest bearing bank and other borrowings	**3,193,345**	**9.15**	3,747,420	13.94	-14.79
Bills payable	**4,975,387**	**14.25**	3,127,130	11.64	59.10
Trade payables	**13,676,189**	**39.17**	8,415,044	31.31	62.52
Other payables and accruals	**7,597,602**	**21.76**	7,986,766	29.72	-4.87
Total non-current liabilities	**4,850,560**	**13.89**	3,221,516	11.99	50.57
Of which: Interest-bearing bank and other borrowings	**2,171,866**	**6.22**	664,996	2.47	226.60
Defined benefit obligations	**1,969,740**	**5.64**	2,141,570	7.97	-8.02
Total liabilities	**34,917,164**	**100.00**	26,873,674	100.00	29.93

As at 31 December 2009, the current liabilities of the Company accounted for 86.11% of the total liabilities. The structure of the Company's liabilities was featured by a high proportion of current liabilities, which echoed with the high proportion of current assets.

The short-term interest-bearing bank and other borrowings of the Company were mainly used for accommodating the needs for liquidity during its operation. In absolute terms, the short-term borrowings of the Company as at the end of 2009 dropped by 14.79%, representing a substantial decrease as compared with that as at the end of last year. In relative terms, the proportion of short-term borrowings among the total liabilities of the Company decreased as compared with that as at the end of last year, which was mainly attributable to relatively abundant current capital, and repayment of certain short-term borrowings.

The bills payable of the Company were mainly bills issued to suppliers for liquidity. As at the end of 2009, the bills payable of the Company increased significantly by 59.10% as compared with that as at the end of last year, mainly attributable to the increase in procurement given the increase in business scale and business volume of the Company.

The trade payables of the Company were mainly outstanding amount payable to suppliers of raw materials. As at the end of 2009, trade payables of the Company increased by 62.52% as compared with the end of last year. The dramatic increase was mainly attributable to the expansion of business scale, increase in the procurement amount given the increase in business volume of the Company.

As at the end of 2009, other payables and accruals decreased slightly by 4.87% as compared with that as at the end of last year, accounting for a stable ratio.

As at the end of 2009, long-term interest-bearing bank and other borrowings of the Company increased by 226.60% as compared with that as at the end of last year. The dramatic increase was mainly attributable to the issue of RMB2 billion mid-term notes.

As at the end of 2009, provision for supplemental pension subsidies and early retirement benefits decreased slightly from last year, accounting for a slightly lower ratio.

As at 31 December 2009, the financial leverage of the Company was 52%. Details are set out in note 41 to the financial statement prepared under IFRS in this annual report.

4. Material changes in financial figures such as administrative expenses during the Reporting Period

In 2009, the financial figures such as administrative expenses of the Company and year-on-year changes thereof are shown in the following table:

Item	**2009 Amount *(RMB'000)***	2008 Amount *(RMB'000)*	Growth rate %
Selling and distribution costs	**1,132,661**	787,350	43.86
Administrative expenses	**4,263,779**	3,382,117	26.07
Finance costs	**264,758**	430,630	(38.52)
Share of profits and losses of associate companies and jointly-controlled entities	**(343,743)**	(178,374)	92.71
Tax	**285,155**	244,929	16.42

In 2009, the selling and distribution costs of the Company increased as compared with that of last year, which was mainly attributable to the increase in revenue from sales of the Company. The increase in administrative expenses of the Company as compared with that of last year was mainly attributable to the increase in business volume and research and development expenses for the year. The decrease in the finance costs of the Company as compared with that of last year was mainly attributable to the decrease in both the average loan balance and the interest rates of long-term and short-term loans in 2009. The increase in share of profits and losses of associate companies and jointly-controlled entities of the Company was mainly attributable to the increase in profits of associate companies and jointly-controlled entities. The tax of the Company increased mainly due to the increase in overall profit from operations of the year, which is partially offset by the decrease of 0.82 percentage points in effective income tax rate which was 11.87% from last year.

5. Breakdown of cash flow during the Reporting Period

Item	2009 Amount (RMB'000)	2008 Amount (RMB'000)	Growth rate %
Net cash flows from operating activities	**4,402,804**	1,365,318	222.47
Net cash flows used in investing activities	**(4,541,317)**	(3,049,428)	48.92
Net cash flows from financing activities	**103,690**	5,817,557	(98.22)

In 2009, the net cash flows from operating activities of the Company increased by 222.47% over last year, which was mainly attributable to the increase in revenue, as well as the increase in trade receivables and inventories for the year being less than that of trade payables and bill payables. Net cash flows used in investing activities of the Company was RMB4,541,317,000, representing an increase of RMB1,491,889,000 or 48.92% over last year, which was mainly due to the increase in the expenditure for investment projects financed by raised proceeds. Net cash flows from financing activities of the Company decreased by 98.22% from last year, mainly because that the Company raised funds from share issue last year.

6. Significant capital expenses in the Reporting Period

The significant capital expenses of the Company in 2009 are set out in the following table:

Item	**2009 Amount *(RMB million)***	2008 Amount *(RMB million)*
Property, plant and equipment	**4,223.3**	3,576
Lease prepayments	**432.9**	343.4
Total capital expenses	**4,656.2**	3,919.4

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

7. Particulars of operations of principal subsidiaries of the Company (figures below are prepared under the PRC GAAP)

Unit: RMB'000

Name of subsidiary	Principal operations	Registered capital	Total assets as at the end of the year	Net assets attributable to shareholders of the Company as at the end of the year	Net profit attributable to shareholders of the Company for 2009	Operating revenue in 2009
CSR Zhuzhou Electric Locomotive Co., Ltd ("CSR Zhuzhou")	Research and development and manufacture of railway electric locomotives, MUs and rapid transit vehicles	1,944,025.8	11,061,721	2,265,962	334,501	10,574,605
CSR Sifang Locomotive & Rolling Stock Co., Ltd. ("CSR Sifang").	Research and development and manufacture of railway MUs, passenger carriages and rapid transit vehicles; provision of railway MUs and high-end passenger carriages maintenance services	3,103,712.3	10,133,663	3,713,475	460,707	10,141,853

Name of subsidiary	Principal operations	Registered capital	Total assets as at the end of the year	Net assets attributable to shareholders of the Company as at the end of the year	Net profit attributable to shareholders of the Company for 2009	Operating revenue in 2009
CSR Zhuzhou Electric Locomotive Research Institute Co.,Ltd. ("CSR ZELRI")	Research and development and manufacture of railway electric powered motors and control technology and related electric equipment; research and development and manufacture of railway vehicle accessories	2,381,710.0	9,974,676	3,062,088	325,304	6,116,546
CSR Yangtze	Research and development, manufacture and maintenance of railway freight wagons	1,707,418.3	3,919,967	1,544,786	-210,217	2,399,840
CSR Qishuyan Locomotive Co., Ltd. ("CSR Qi Shuyan")	Research and development and manufacture of railway freight wagons and brakes	942,610.6	2,504,141	1,023,591	106,564	3,506,476

8. Assets in relation to fair value measurement

Unit: RMB'000

Item	Amount at the beginning of the period	Gain or loss from changes of fair value in the period	Accumulated changes in fair value recognized in equity	Provision for impairment for the period	Other changes in the period	Amount at the end of the period
Financial assets						
of which: 1. Financial assets at fair value through profit or loss	100,000	(9,644)	—	—	—	24,248
of which: Derivative financial assets	100,000	(9,644)	—	—	—	24,248
2. Available-for-sale financial assets	7,746	—	884	—	—	8,084
Sub-total of financial assets	107,746	(9,644)	884	—	—	32,332
Financial liabilities						
Investment Property						
Biological assets for production						
Others						
Total	107,746	(9,644)	884	—	—	32,332

9. Financial assets and financial liabilities in foreign currencies

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

Unit: RMB'000

Item	Amount at the beginning of the period	Gain or loss from changes of fair value in the period	Accumulated changes in fair value recognized in equity	Provision for impairment for the period	Other changes in the period	Amount at the end of the period
Financial assets						
of which: 1. financial assets at fair value through profit or loss						
of which: Derivative financial assets						
2. Loans and other receivables	4,391,643	—	—	—	—	2,830,891
3. Available-for-sale financial assets	—	—	—	—	—	—
4. Investment held to maturity	—	—	—	—	—	—
Sub-total of financial assets	4,391,643	—	—	—	—	2,830,891
Financial liabilities	193,152	—	—	—	—	417,902

Particulars of foreign currency risk of the Company are set out in Note 41 to the financial statements prepared under the IFRS.

10. Sales of main products during the Reporting Period

Business segment	Quantity in 2009	Quantity in 2008
I. Locomotives		
Manufacturing of locomotives	**769 units**	363 units
Refurbishment of locomotives	**1,122 units**	1,335 units
II. Passenger carriages		
Manufacturing of passenger carriage	**1,843 vehicles**	863 vehicles
Refurbishment of passenger carriage	**1,798 vehicles**	2,216 vehicles
III. Freight wagons		
Manufacturing of freight wagons	**12,229 vehicles**	18,404 vehicles
Refurbishment of freight wagons	**14,404 vehicles**	24,687 vehicles
IV. MUs		
Manufacturing of MUs	**392 vehicles**	304 vehicles
Refurbishment of MUs	**648 vehicles**	480 vehicles
V. Rapid transit vehicles		
Manufacturing of rapid transit vehicles	**862 vehicles**	552 vehicles
Refurbishment of rapid transit vehicles	**6 vehicles**	8 vehicles

11. Outstanding orders as at the end of the Reporting Period

Unit: RMB0'000

Business segment	Contract amount
Locomotives	1,565,436
Passenger carriages	191,444
Freight wagons	102,559
MUs	5,521,530
Rapid transit vehicles	1,743,327
New businesses	679,015
Total	9,803,311
Including foreign operations	892,391

12. Overseas contracts signed during the Reporting Period (by region)

Unit:US$0'000

Export destination	Contract amount
Asia	64,463
Central and South America	29,547
Africa / Middle East	20,800
Commonwealth of Independent States	2,173
North America	2,066
Western Europe	642
Oceania	306
Total	119,997

13. Introduction of the research and development outcomes of the Company

In 2009, the Company invested RMB2,620 million in technical R & D, launched 404 new R & D projects and continued with 304 existing R & D projects. During the year, the Company won one first-class prize of the State Scientific and Technological Progress Award, as well as two special prizes, one first-class prize, three second-class prizes and two third-class prizes of the Science and Technology Award of China Railway Society (中國鐵道學會科學技術獎). The Company made applications for 718 national patents and was granted 554 national patents. In addition, the State Key Laboratory of MUs and Locomotive Traction and Control (動車組和機車牽引與控制國家重點實驗室)was included in the construction plan by the Ministry of Science and Technology of the PRC.

Through introduction, digestion and absorption of technology, the construction of three major technology platforms as the basis and with market trend as orientation, aiming at connecting to world top-class technology, CSR actively built an open-ended system for technical innovation, enhanced its abilities in system integration and independent innovation and developed a series of products that meet the needs of rolling stock equipment and its extended markets in 2009.

The Company realized mass production for high-speed MUs with proprietary intellectual property rights and incorporating world-class technology. The MUs manufactured by the Company have been operating quite well on the Beijing-Tianjin inter-city railway and the Wuhan-Guangzhou Express Railway, and achieved a record-high speed of 394.2 km/h on the trial operation on the Zhengzhou-Xi'an Passenger Dedicated Line. A foundation for the R&D of a new generation of high-speed MUs has been laid down with continuous R&D of Key Technologies for MUs and the nailing-down of the system design program for a new generation of high-speed MUs, together with the breakthroughs in experimental verification of major systems and key components.

Substantial progress was made in innovation in key technologies for high-powered AC locomotives. We successfully developed the 9,600Kw high-power six-axle electric locomotives (HXD1B). It took the Company only a bit more than half a year from design to mass production of our independently developed 7,200kW high-power six-axle electric locomotives (HXD1C), which was an outstanding achievement in the industry. In addition, significant progress was made in the localization of major components of 6,000-horsepower high-power five-axle diesel locomotives (HXN5).

The A-type metro cars designed for and running on Shenzhen Metro Line 1 (extension project) were accredited as National Independent Innovation Products by the Ministry of Science and Technology of the PRC, making CSR the first enterprise in the PRC that possesses independent R&D ability for A-type rapid transit vehicles. The A-type metro cars designed for Shanghai Metro Line 11 with proprietary intellectual property rights were the first of their kind that have a speed of 100 km/h in the country. The rapid transit vehicles designed for Guangzhou Metro Line 3 extension have a maximum speed of 120 km/h, and are the fastest home-produced metro cars in the country.

Nine new products of the Company were well received at the new-type truck exhibition organized by the Ministry of Railways of the PRC. NX70A general-purpose flat cars and P70C boxcars with sliding roofs for special purposes were successively finalized and put into mass production.

The success in high-powered IGBT packaging make CSR become one of the few companies that possess core technologies for manufacturing high-voltage insulated gate bipolar transistors. The development of parallel and series hybrid-powered buses came to a great success, with excellent performance in fuel saving as ascertained by a national authoritative testing institute and industry-leading technologies. As for the wind power segment, the remote monitoring system of the 1.65 MW wind turbine had completed domestic production on a trial basis and passed commissioning assessment. Wind turbines were put into mass production. The Company developed and sold new construction machinery products such as T80 crawler cranes and TR400C and TR135 rotary drilling rigs, of which the first super-tonnage TR400C rotary drilling rig in the country was awarded First-class Prize for Superior Shape and Appearance at the 10th International Construction Machinery Exhibition. In addition, the Company completed the development and manufacturing of wind generators with highest power in the country, wind generators for export to Cuba and the first 12,000m drilling winch motors in the country, which brought about more opportunities for us on the market.

14. Staff of the Company

Total number of staff	82,391	Number of people whose retirement expenses are born by the Company	52,949

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

The staff structure was as follows:

1. By profession

Category of profession	Number of persons
Production personnel	54,582
Engineering and technical personnel	11,804
Operation and management personnel	6,732
Other personnel	9,273
Total	82,391

2. By education

Education level	Number of persons
Doctors	57
Masters	981
University graduates	11,470
Tertiary college graduates	17,160
Secondary school graduates	15,631
High School graduates and under	37,092
Total	82,391

The training schemes for staff were as follows:

The Company spared no effort in optimizing the deployment of talents, nurturing key personnel and improving the selecting mechanism for chiefs and management members of all sections. It carried out a succession scheme as a preliminary move to establish a backup talent data bank at each management level. The Company also pledged to recruit talents, establish a high calibre research and development team, whilst strengthening its labor systems and aspiring for harmonious staff relationships in compliance with the Labor Contract Law of the PRC. The Company standardized the training and development of talents on management, technology and expertise with reference to its human resources strategic planning, and focused on training backup and core talents, with a view to increasing overall staff quality, skills and international competitiveness. During the year, a total of approximately 95,000 attendances were received at the training sessions, of which, approximately 12,000 were for management training sessions, approximately 9,000 were for expertise training sessions and approximately 74,000 were for technical training sessions.

Staff remuneration policy is set out as follows:

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

For ordinary employees, the Company mainly adopted a remuneration system which is based on position-linked salaries and complemented by multiple distribution methods. Remunerations are paid by reference to the Company's results and employee's individual performance. The Company adopted a position-based salary system for management, technical and supporting personnel; a the position-based piece-rate wage system for production line operators; a position and results-based project wage system for scientific and technical personnel; a performance-linked sales commission system for sales staff; and salary agreements system for rare talents.

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

Details in respect of the wages, salaries and other employee's benefits of the staff of the Company are set out in Note 32 to the financial statements prepared under the IFRS in this annual report.

15. Particulars of pledge of assets of the Company

As at 31 December 2009, the following assets of the Group were pledged to secure bank loans and other credit facilities:

Item	Amount *(RMB'000)*
Property, plant and equipment	158,764
Lease prepayment	21,273
Time deposits and bank balances	1,618,367
Inventories	57,527
Other assets	259,855
Total	2,115,786

16. Particulars of contingent liabilities of the Company

Save for the guarantees provided by the Company to its subsidiaries, neither the Group nor the Company has any other contingent liabilities.

(II) Prospect of the Company's future development

1. Development of the industry of the Company and market competitions ahead

The railway industry:

According to "The Mid and Long-term Plans for Railway Network"（中長期鐵路網規劃）as revised in 2008, the national railway operational length in the PRC by 2010 will be extended to over 90,000 km, comprising approximately 7,000 km of passenger dedicated lines with more than 45% consisting of double lines and electrified lines. By 2020, the national railway operational length will be extended to over 120,000 km, comprising approximately 16,000 km of passenger dedicated lines with, 50% of which will consist of double lines and over 60% of which will consist of electrified lines. Major high-traffic lines are expected to realise separate lines for cargo and passenger transportations. Major technologies and facilities are expected to be either up to or aligned with advanced international standards. The railway industry is poised to enjoy rapid growth momentum.

The rapid transit system industry:

As at the end of 2009, over 40 cities in the PRC are constructing or preparing to construct rapid transit facilities system such as subway systems and light rail cars. 25 urban plannings have been approved which involve the construction of a transit system with a total length of approximately 2,500 km and an investment of nearly RMB 1 trillion by 2016. China has become the largest rapid transit system construction market in the world and demand for metro cars is expected to increase. The Company has an unparalleled presence in the domestic industry. In the short-run, lines such as locomotives, passenger carriages and freight wagons in the domestic rolling stock manufacturing industry will face relatively mild pressure from overseas competitors. Competitions in the domain of rapid transit vehicles are envisaged to intensify as the industry develops, given the critical mass of domestic and overseas participants at the current stage. With its strategy of internationalisation gathering pace, the Company's participation in the overseas market will increase and its direct competitions with international players will emerge in a recurring manner.

2. Future opportunities and challenges that concern the Company's management

Sound development opportunities are underway. Firstly, the promotion of harmonious railway construction as well as the adjustment to The Mid and Long-term Plans for Railway Network by the Ministry of Railways of the PRC in 2008 have speeded up the railway construction and development and will stimulate high demands for locomotive equipment in terms of varieties, quality and quantity therefore bringing enormous opportunities for a leap forward in the rolling stock industry. Secondly, accelerating urbanisation, particularly the rapid economic development in regions such as the Yangtze River Delta, the Pearl River Delta, Bohai Bay Region, Chang-Zhu-Tan, Cheng-Yu as well as city clusters in the central part of China, Wuhan city Circle (武漢城市圈), Guanzhong-Tianshui (關中 — 天水) and city clusters in the West Coast of the Straits, will bring robust growth to intracity and intercity transit system transportation, thereby giving fresh impetus to the rolling stock industry. Thirdly, the State's sweeping effort in promoting its energy saving and emission reduction strategies, alongside the eco-friendly features and environmental advantages of rail transportation and rapid transit, has reinforced the pivotal role of the industry in the national economy and will favor a sustainable and rapid expansion in the rolling stock manufacturing arena. Fourthly, the State Council has established industry stimulus plans and a series of regional stimulus schemes such as the Accelerating Adjustment and Stimulus Plan of Rolling Stock Manufacturing Industry (《加快裝備製造業調整振興計劃》). These, together with a series of preferential and favorable policies such as tax exemption for imports and refunds for exports of major stock manufacturing enterprises, will bring opportunities for rolling stock manufacturing enterprises. Fifthly, both the globalisation and the gradual integration of China's economy into the world economy will promote to technical improvement and structural adjustment in the rolling stock industry, enhancing the internationalisation of the business operation of enterprises. Sixthly, as the rolling stock industry of various countries around the world is either undergoing or will undergo a phrase of overhaul, taking account of the competitiveness arising from an increasingly advanced industrial chain in the domestic manufacturing sector and with China emerging as a global manufacturing hub, the rolling stock industry is given a golden opportunity to kick start international operation.

The Company's major challenges ahead are as follows: Firstly, as investment in the construction of railways and other infrastructure has increased, market demand for rolling stock increased sharply but an imbalanced demand structure for its products will subsist. Secondly, considerable impact on rolling stock overseas are expected as a result of the dampening impact brought by the global financial crisis upon the economy, which will still have certain impact on the Company's export of rolling stock and other businesses that utilise proprietary rolling stock technologies and increase its performance and exchange rate risks. Thirdly, more demanding requests from users and changing market dynamics will be the headwind to the sustainable development of the Company. Fourthly, excess liquidity around the globe is expected to lead to greater fluctuations in prices of basic production materials such as oil, water, electricity, steel products and non-ferrous metals, which will enhance the difficulties of controlling corporate operating cost.

3. Development strategies and business planning of the Company

The Company will pool more resources in scientific research and establish a system of research, development, production and manufacturing that aligns with advanced international standards. Through the introduction, assimilation, absorption, reinvention and autonomous innovation of technology, the levels of rolling stock designs, manufacturing and products have been up to the current advanced international standards and have been evolving with such advanced standards simultaneously. The Company aims to become one of the top three rolling stock manufacturers around the world, creating CSR as a highly renowned brand in the industry worldwide. The Company's goal in mid to long term is to be one of the Global 500 with CSR as a famous international brand in the industry.

Development planning of each major product lines:

Locomotive operation: According to the development trend of railway locomotive, high-speed, heavy-hauling and high-powered locomotives will become the mainstream. The Company will take efforts in developing electric locomotives, especially high-speed, heavy-hauling and high-powered products, aiming to build up a world-class research and development, test and manufacturing base of electric locomotives with leading capacity. Through realigning scale and product mix for higher performance, the Company expects to maintain its production capacity, technology and export edges on high-powered diesel locomotives, mining and shunting locomotives in the PRC, securing its domestic leading position and catching up with the advanced international level.

MU operation: MU is a stronghold in future development. The Company will increase the capacity, enhance the performance and optimise the product mix of MU operation, unify their planning in order to capitalise their advantages, and keep expanding production capacity whilst enhancing its utilisation rate to sharpen its edges in the MU arena.

Passenger carriage operation: Improve production efficiency and product quality by developing a first-class product portfolio, with an aim to sustaining a leading edge in passenger carriage operation.

Freight wagon operation: Under product planning on the basis of maintaining existing output and reintegrating resources, the Company aims to build up a world-class research and development, manufacturing, service and export base of railway freight wagon with the largest capacity in Asia. Meanwhile, the Company will promote the future-oriented product mix for high-speed and heavy-hauling freight wagons, and enhance its development and manufacturing capability for dedicated freight transportation vehicles.

Rapid transit vehicle operations: With a view to expanding varieties and capacity as well as boosting international competitiveness in planning the Company's product fix, the Company will capitalise on its self-owned research and development base, leveraging technology introduction and cooperation with overseas leading players to speed up technology renovation. By improving the technological platform for Type A and Type B metro car and light rail cars based on stainless steel and aluminum alloy bodywork technologies, the Company is committed to build up world-class research and development, test and manufacturing industrial base for rapid transit vehicles with the largest capacity in the PRC. In addition, the Company will aggressively engage in maintenance of rapid transit vehicles and component refurbishment operations, aiming to expand it into a new business segment.

Extended proprietary technology operation: In the coming years, besides the focuses on the above traditional rolling stock products and innovations, the Company will draw upon its technical expertise and advantages to develop extended products on proprietary rolling stock technologies, such as wind power equipment, electric automobile, gear transmission system, motors, project machines, engine and parts, industrial converters and electrical installation, automobile turbocharger, etc. to diversify the income stream and increase business potentials of the Company for higher profitability and comprehensive competitiveness.

4. Business blueprint for the new year

The Company will embark on year 2010 by maintaining rapid momentum. The operating revenue is expected to increase by more than 25%. As such, the Company will focus on achieving the following tasks in 2010: (1) keep atop of market dynamics to step up expansion. (2) strengthen financial management to enhance profitability. (3) promote technical innovation to boost growth fundamentals. (4) reinforce resource consolidation for greater competitiveness. (5) press ahead with innovative management to perfect operation.

5. Capital requirement and use of funds for future development strategy of the Company

In view of the development strategy and production and operating needs of the Company, the Company plans to invest RMB6.023 billion in fixed assets in 2010, mainly for projects of strategic importance to its development such as high-powered locomotives, high-speed MUs, rapid transit, railway freight wagon and projects that utilise proprietary rolling stock technologies. The Company will mainly make use of the remaining balance of the raised proceeds from listing, financing by medium term notes and internal resources. The outstanding balance of the fund will be mainly financed by bank loans.

6. Risk factors which could adversely affect the future development strategy and operating targets of the Company and counter-measures

(1) Major risk of the Company

1 Risk of macroeconomic policies

The national industrial policies and domestic market demand will be subject to considerable fluctuations in light of the random nature of political, economic, legal and natural environmental variables. The rolling stock production industry, to which the Company belongs, is regulated by the national industrial policies and its own trade policies. At present, the State encourages the industry development of rolling stock products manufacturing. However, if the industry and its policies change in the future, the market environment and room for development of the Company could be altered and the operation of the Company could be affected. Besides, the development of the industry where the Company has a presence is highly correlated to the prosperity of the national economy. When economic development gathers pace, it stimulates the demands for the rolling stock and increases the demand for rolling stock products; on the contrary, when the economy declines, it will suppress the growth in the demand for rolling stock products, which in turn affects the performance of the Company and brings risk to the production of the Company to a certain extent.

2 Risk of technology

Since the incorporation of the Company, achievements have been made in technical innovation, resulting in stronger technical competence. To date, the need for constant upgrades and modernisation of domestic rolling stock products remains challenging to the Company's power of technical innovation. Following product updates, new challenges also lie in the improvement of product quality and product reliance. Failing to response to such challenges and to maintain higher competitive edges in terms of technical innovation could adversely affect the operating results and financial position of the Company.

3 Risk of market and operations

The largest customer of the Company is the Ministry of Railway, local railway bureaus and companies invested and managed by them. The Company estimates that given the characteristics of the rolling stock industry, where there are no significant changes to the overall industry landscape, the Company will still rely on its major customers to a certain degree. Thus, any reduction or cancellation of orders from the major customers may lead the Company's revenue to contract substantially and adversely affect the operating results. As the Ministry of Railway, its local railway bureaus and companies invested and managed by them are the largest retained client of the Company, products are basically sold in accordance with market pricing principle, but in a weaker bargaining position given the number of orders and the influence of retained clients, which may pose adverse impact on the operating results of the Company.

4 Risk of finance

Firstly, the Company is susceptible to the risk of tax policy changes. Thus far, the Chinese government is promoting tax reforms in an active but prudent manner, which may alter tax policies in relation to the Company's operations. The Company has attached much importance to the management of tax risk. However, changes in certain tax policies may still affect the operating results and financial conditions of the Company. Secondly, the Company may be subject to risk of working capital and cash liquidity arising from delayed payment from its customers.

(2) Counter-measures of the Company

1 Focus on the collection of macro-economic and micro-economic information to stay abreast of market and industry dynamics. Further strengthen market risks analysis and identification to enhance counter-measures against market changes and better avert and control risk.

2 Step up endeavors to establish a technical talent pipeline, form scientific research institutions with leading key national labs (國家重點實驗室), increase technical investment and reserve and promote technical innovation to ever improve the design, manufacturing and technical level of its products.

3 Improve corporate governance and internal control to build a comprehensive management system. Speed up the establishment of information systems such as ERP and instill the concept of manufacturing "first-class" products to ever improve the standard of the Company's business management.

B. REPORT OF INVESTMENT DURING THE REPORTING PERIOD

1. Use of proceeds

Use of proceeds raised from H share offering

In 2008, the Company raised aggregate proceeds of HK$4.784billion from the listing of the H Shares. Actual capital received amounted to HK$4.647 billion after netting of relevant issuing expenses. As at 31 December 2009, a total of approximately HK$3.509 billion of proceeds raised from the H shares offering were used, of which approximately HK$3.193 billion were used in 2009. In 2009, approximately HK$894 million were used to acquire advanced foreign research and development, manufacturing and laboratory equipments; approximately HK$2.292 billion were used to import critical components which facilitate the domestic production of complete rolling stock units; approximately HK$7 million were used to import advanced key foreign technologies for rail vehicles. In addition, in 2009, the Company contributed HK$390 million to the capital of CSR (Hong Kong) Company Limited("CSR Hong Kong") and received bank deposit interests of HK$55 million.

As at 31 December 2009, the balance of proceeds raised from the H shares offering in the designated proceeds account of the Company amounted to approximately HK$803 million, including HK$391 million and US$53 million. The uses of proceeds stated above are in strict compliance with the disclosures in the Prospectus and the relevant approvals from the State Administration of Foreign Exchange of the PRC ("SAFE") and supervised by the bank(s) where such account is opened.

Use of proceeds raised from A Share offering

The Company raised net proceeds of RMB6.36941 billion from the initial public offering of A Shares in August 2008. In 2009, the Company used a total of RMB1.98118 billion of the proceeds (including RMB630 million of the proceeds as temporary supplements to the working capital).

As considered and approved at the 12th meeting of the first session of the Board, on 16 June 2009, the Company utilized RMB630 million in aggregate out of the proceeds to temporarily supplement the working capital which was subsequently fully returned on 24 November 2009. As considered and approved at the 15th meeting of the first session of the Board, on 27 November 2009, the Company utilized RMB630 million in aggregate out of the proceeds to temporarily supplement the working capital.

As at 31 December 2009, the balance of proceeds in the designated proceeds account of the Company aggregated to RMB170.76million. The balance will continue to be used on investment projects funded by proceeds according to the planned purposes.

2. Material Project Investment not funded by proceeds from share offerings

In 2009, the Company's investment not funded by proceeds from the share offerings amounted to RMB2,143 million, mainly comprising industrialization project of high-speed MUs with maximum speed of 350 km/h of CSR Sifang Co., Ltd., technology renovation project of railway project machines of CSR Luoyang Locomotive Co., Ltd., Capacity expansion project for polymeric shock-absorbing and noise reducing elastic cells products of CSR ZELRI, renovation project of IGBT chip production line of DYNEX Company and relocation and expansion project of Lanry Forge Company of CSR Qishuyan Institute.

During the Reporting Period, material project investment not funded by proceeds from share offerings are set out as follows:

Unit: RMB0'000

Project Name	Total Investment of the Project	Investment during the Reporting Period	Progress of project	Revenue from Projects
Industrialization project of high-speed MUs with maximum speed of 350 km/h of CSR Sifang Co., Ltd.	129,360	56,238	The land has been acquired and major construction work has been completed. Most equipment has been ordered and some of them has been installed and put into use. It is expected to commence production in July 2010.	The project has not been completed yet and no revenue was generated therefrom.
Technology renovation project of railway project machines of CSR Luoyang Locomotive Co., Ltd.	12,813	3,581	Most equipment has been ordered and some of them has been installed. It is expected to commence production in late 2010.	The project has not been completed yet and no revenue was generated therefrom.
Capacity expansion project for polymeric shock-absorbing and noise reducing elastic cells products of CSR ZELRI	25,009	2,468	The land has been acquired and major construction has commenced. Certain equipment has been ordered. It is expected to be completed in late 2010.	The project has not been completed yet and no revenue was generated therefrom.

Project Name	Total Investment of the Project	Investment during the Reporting Period	Progress of project	Revenue from Projects
Renovation project of IGBT chip production line of DYNEX Company	12,222	10,965	Major construction has been completed and it is ready for trial production.	The project has not been completed yet and no revenue was generated therefrom.
Relocation and expansion project of Lanry Forge Company of CSR Qishuyan Institute	22,000	4,061	Most construction has been completed and equipment commissioning and craftwork test are in process.	The project has not been completed yet and no revenue was generated therefrom.

3. Major Equity Investments

(1) In 2009, Times Electric Co., Ltd., a subsidiary of the Company, invested and established Baoji CSR Times Engineering Company Limited and held 60% of its equity interest. Baoji CSR Times Engineering Company Limited is mainly engaged in development, manufacturing, sales and provision of repair and after-sales service of railway construction machinery products including track vehicles, track lift trucks, electrified operation vehicles, metro construction machinery.

(2) In 2009, CSR Hong Kong, a wholly-owned subsidiary of the Company, acquired 12.7% equity interests in Huaneng Panjing Wind Power Company Limited. Huaneng Panjing Wind Power Company Limited is principally engaged in investment, development, operation, management of wind power project, production and sales of electricity, provision of consultant service, development and construction of electricity projects.

(3) In 2009, CSR Hong Kong, a wholly-owned subsidiary of the Company, invested and formed Huaneng Tieling Wind Power Company Limited and held 25% equity interests of this company. Huaneng Tieling Wind Power Company Limited is principally engaged in investment, development, operation, management of wind power project, production and sales of electricity, provision of consultant service, development and construction of electricity project and other related services.

4. Captial Increase in Major Subsidiaries

In 2009, the Company further injected HK$390 million to the share capital of CSR Hong Kong, a wholly-owned subsidiary of the Company. The Company further injected RMB2.0 billion to the share capital of CSR Sifang Co., Ltd., a wholly-owned subsidiary of the Company. The Company further injected RMB200.0 million to the share capital of CSR Nanjing Puzhen Rolling Stock Co., Ltd., a wholly-owned subsidiary of the Company. The Company further injected RMB290 million to the share capital of CSR Qishuyan Locomotive Co., Ltd., a wholly owned subsidiary of the Company. The Company further injected RMB570 million to the share capital of CSR Ziyang, a subsidiary of the Company. The Company further injected RMB820 million to the share capital of CSR Zhuzhou, a subsidiary of the Company.

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

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

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

For details, please refer to note 2 “Basis of preparation and accounting policies” and note 3 “Significant Accounting Judgements and Estimates” to the financial statements prepared under IFRS in this annual report.

E. EXECUTION OF RESOLUTIONS OF THE GENERAL MEETING BY THE BOARD

During the Reporting Period, the Board implemented the resolutions passed at the general meetings strictly in compliance with powers assigned to it by the general meeting and Articles of Association.

1. Implementation of resolutions passed at the 2008 annual general meeting held on 15 June 2009

Resolution	Contents	Implementation
The proposal for profit distribution plan for 2008	To consider and approve profit distribution plan of the Company and authorize the Board committee to implement specific matters in relation to the distribution.	Proposal for 2008 profit distribution plan for 2008 was considered and approved at the 2008 annual general meeting held on 15 June 2009. Announcement of implementation of final dividend distribution of A shares of CSR for 2008 was published on the websites of Hong Kong Stock Exchange and Shanghai Stock Exchange on 16 June 2009, and China Securities Journal, Shanghai Securities News and Securities Times and Securities Daily on 16 June 2009.
The proposal for amendments to Articles of Association and Rules of Procedures for General Meetings	To consider and approve the amendments to Article of Association and Rules of Procedures for General Meetings and authorize the Board to committee implement the same as required by regulatory bodies.	Proposal for the amendments to Articles of Association and Rules of Procedures for General Meetings was considered and approved at the 2008 annual general meeting held on 15 June 2009. Revised Articles of Association had been approved by regulatory bodies and were published on the website of Shanghai Stock Exchange on 30 July 2009, and had been filed with Hong Kong Companies Registry.

2. Implementation of resolutions passed at 2009 first extraordinary general Meeting on 7 August 2009

Resolution	Contents	Implementation
The resolution in relation to the issue of medium-term notes	To consider and approve the issue of medium-term notes at an issue size of not more than RMB4 billion, and authorize the Board committee to decide and handle relevant matters.	The resolution in relation to the issue of medium-term notes was considered and approved at the first extraordinary general meeting for 2009 held on 7 August 2009. The Company issued RMB2 billion of first batch of medium-term notes for 2009 in China's Inter-bank Bond Market on 9 December 2009 and issued RMB2 billion of first batch of medium-term notes for 2010 in China's Inter-bank Bond Market on 3 February 2010. The relevant announcements were published on the websites of Hong Kong Stock Exchange and Shanghai Stock Exchange and China Securities Journal, Shanghai Securities News and Securities Times and Securities Daily on 11 December 2009 and 5 February 2010, respectively.

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

According to the Company Law of the PRC, the Securities Law of the PRC, the relevant financial policies, the Articles of Association, and the undertakings in the Prospectus of the Company, and considering the financial status of the Company, the Board proposes to make profit distribution to the shareholders, based on 29.83% of distributable profit of the Company for 2009 (consolidated and attributable to the parent company), with RMB0.04 (tax inclusive) for each share. The distribution proposal is subject to consideration and approval at the general meeting of the Company.

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

Under relevant regulations of China Securities Depository and Clearing Corporation and according to the market practice adopted for dividend distribution for A shares, the Company will publish a separate announcement in respect of dividend distribution to holders of A shares for the year 2009 after the 2009 annual general meeting to determine the record date and ex-rights date for dividend distribution to holders of A shares for the year 2009.

G. DISTRIBUTIONS MADE IN THE LAST THREE YEARS

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

Details of profit distributions made in 2009 are set out below:

Unit: RMB0'000

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

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

The Company established Measures for Management on Information Disclosure and Implementation Rules of Measures for Management on Information Disclosure to specifically regulate the methods, contents and confidential measures in relation to the provision of information to the external information users of the Company.

I. TAX AND TAX RELIEF

Holders of H Shares

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

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

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

J. CONNECTED TRANSACTION

The main connected transactions of the Group in 2009 under the Hong Kong Listing Rules are as follows:

(I) Non-Exempt Connected Transactions

1. Connected Transactions in respect of Purchase of Hard Rock Tunnelling Boring Machines from Chengdu Tunnel Company

CSR Ziyang, a subsidiary of the Company, entered into the purchase contracts ("Purchase Contracts") with independent third parties, CTG and China Railway 18th Bureau, on 19 November 2008 and 17 December 2008 respectively for sales of two hard rock tunnelling boring machines, one of which to be delivered to CTG and the other to be delivered to China Railway 18th Bureau, at a total consideration of approximately RMB539.7 million. The delivery dates were set to be in October 2009 and November 2009, respectively. As the production of tunnelling boring machines was not within the principal business operation of CSR Ziyang, CSR Ziyang entrusted Chengdu Tunnel Company, an associate of CSRG, for production of the hard rock tunnelling boring machines. CSR Ziyang entered into two original purchase and sales contracts with Chengdu Tunnel Company on 5 January 2009 and two supplemental purchase and sales contracts on 26 March 2009 (together as "Purchase and Sales Contracts"), pursuant to which the two hard rock tunnelling boring machines were to be manufactured by Chengdu Tunnel Company. The total consideration of the Purchase and Sales Contracts was approximately RMB523.6 million. Chengdu Tunnel Company is a subsidiary of CSRG, and therefore is a connected person of the Company under the Hong Kong Listing Rules.

Pursuant to the Purchase and Sales Contracts, the terms under the Purchase Contracts constituted an integral part of the Purchase and Sales Contracts. All obligations assumed by CSR Ziyang in favour of CTG and China Railway 18th Bureau under the Purchase Contracts shall be fully performed by Chengdu Tunnel Company in favour of CSR Ziyang correspondingly. Chengdu Tunnel Company agreed to indemnify CSR Ziyang in full for any contingent liabilities under the Purchase Contracts, which can thus protect the interest of CSR Ziyang to the maximum extent.

2. Provision of Financial Assistance to Times New Materials

Pursuant to the resolution passed at the meeting of the Board on 22 April 2009, certain subsidiaries of the Company were approved to grant joint and several guarantees (not exceeding a set cap) to their subsidiaries for their banking facilities, bidings and performance of agreements. The term of such guarantees shall expire on the date of the 2009 annual general meeting of the Company. The total amount of guarantee provided by CSR ZELRI, a wholly-owned subsidiary of the Company, for third-party loans and bank facilities of Times New Materials in 2009 shall not exceed RMB200 million. Such limit included guarantees amount mainly represents the joint and several liability for the guarantee provided by CSR ZELRI to Times New Materials to secure third party's loan or facilities.

On 28 April 2009, CSR ZELRI entered into a guarantee contract with the Export-Import Bank of China Hunan Branch, pursuant to which CSR ZELRI provided a joint and several guarantee to Times New Materials for an export seller credit loan of RMB60 million from the bank under the loan agreement. The major contractual terms applicable to the provision of joint liability guarantees by CSR ZELRI for the loans or credit facilities were on normal commercial terms and were substantially the same as those provided to other third parties by the lending bank in respect of similar transactions.

Times New Materials is a non wholly-owned subsidiary of the Company. As BRIT, a promoter and a connected person of the Company at the listed issuer level, is a substantial shareholder of Times New Materials holding 11.30% equity interest, Times New Materials therefore is a connected person of the Company under the Hong Kong Listing Rules.

3. CSR ZELRI To Subscribe For New A Shares of Times New Materials

Pursuant to the resolution passed at the meeting of the board of Times New Materials, a non wholly-owned subsidiary of the Company, on 11 June 2009, Times New Materials proposes to issue by a way of non-public offering not more than 60 million A shares to CSR ZELRI and not more than 9 other qualified investors CSR ZELRI. CSR ZELRI is a wholly-owned subsidiary of the Company and controlling shareholder of Times New Materials.

On 11 June 2009, the Board of the Company approved connected transactions matter in relation to subscription of the newly issued A shares of Times New Materials by CSR ZELRI. CSR ZELRI entered into a share subscription agreement with Times New Materials. Pursuant to the shares subscription agreement, CSR ZELRI undertook to acquire not less than 40% of A shares of Times New Materials proposed to be issued for non-public offering. Upon completion of the non-public offering, the Company through CSR ZELRI and other subsidiaries of the Company, will maintain its control over Times New Materials. Pursuant to relevant laws in the PRC, subscription price shall not be below RMB13.55 per share. The final number of issued shares and subscription price of the offering will be determined by the board of Times New Materials as authorized by its general meeting based on the total proceeds to be raised and the subscription prices offered by the targeted investors in the bidding process. In accordance with share subscription agreement and relevant laws in the PRC, A shares of Times New Materials subscribed by CSR ZELRI will be subject to a lock-up period of 36 months commencing from the date of completion of non-public offering. As at the latest practicable date before printing of this annual report, the non-public offering has not completed yet.

(II) Non-Exempt Continuing Connected Transactions

With the continuous development of the Group, the existing annual caps for certain continuing connected transactions of the Company are no longer sufficient for the needs of the Group, therefore the Company published relevant announcements on 23 April 2009 and 27 November 2009 in which the Company revised annual caps for 2009 and 2010 in relation to continuing connected transactions under the Product Mutual Provision Framework Agreement with CSRG, the Components Supply Framework Agreement with Xi'an Kaitian Railway Traction Electric Apparatus Co., Ltd. ("Xi'an Kaitian"), the Aluminum Supply Framework Agreement with Jilin Midas Aluminum Industries Co. Ltd. ("Jilin Midas") and the MU Components Supply Framework Agreement with KTK Group Co., Ltd. ("KTK").

In addition, the Company entered into the Product Purchase Framework Agreement and the Product and the Ancillary Services Mutual Provision Framework Agreement with Times New Materials and China Railway Group Limited ("CRGL"), respectively.

The annual caps for the Company's revised and new continuing connected transactions and their actual transaction amounts during the Reporting Period are as follows:

Unit: RMB million

Connected Parties and Transaction	2009 Original Annual Caps	2009 Revised Annual Cap	Actual Transaction amount in 2009
1 Aggregate procurement value under Product Mutual Provision Framework Agreement with CSRG	371	749	258
Aggregate Sales value under Product Mutual Provision Framework Agreement with CSRG	137.5	345	83
2 Components Supply Framework Agreement with Xi'an Kaitian	69	131	56
3 Aluminum Supply Framework Agreement with Jilin Midas	210	353	122
4 MU Components Supply Framework Agreement with KTK	210.5	859.9	658
5 Product Purchase Framework Agreement entered into with Times New Materials	423	423	65
6 Aggregate procurement value under Products and Ancillary Services Mutual Provision Framework Agreement with CRGL	463.8	463.8	51
Aggregate Sales value under Products and Ancillary Services Mutual Provision Framework Agreement with CRGL	587.5	587.5	256

The major continuing connected transactions of the Company during the Reporting Period are as follows:

1. Product Mutual Provision Framework Agreement with CSRG

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

(1) The 2009 annual cap for the provision of products by CSRG or its associates to the Group for the year ended 31 December 2009 was RMB749 million, and the actual transaction amount was RMB258 million; (2) the 2009 annual cap for the sales of products to CSRG or its associates by the Group for the year ended 31 December 2009 was RMB345 million, and the actual transaction amount was RMB83 million.

2. Components Supply Framework Agreement with Xi'an Kaitian

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

The 2009 annual cap for the procurement of products from Xi'an Kaitian or its associates by the Group for the year ended 31 December 2009 was RMB131 million, and the actual transaction amount was RMB56 million.

3. Aluminum Supply Framework Agreement with Jilin Midas

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

The 2009 annual cap for the procurement of products from Jilin Midas or its associates by the Group for the year ended 31 December 2009 was RMB353 million, and the actual transaction amount was RMB122 million.

4. MU Components Supply Framework Agreement with KTK

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

The 2009 annual cap for the procurement of products from KTK or its associates by the Group for the year ended 31 December 2009 was RMB859.9 million, and the actual transaction amount was RMB658 million.

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

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

The 2009 annual cap for the procurement of products from Times New Materials or its associates by the Group for the year ended 31 December 2009 was RMB423 million, and the actual transaction amount was RMB65 million.

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

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

(1) The 2009 annual cap for the provision of products and/or services by CRGL or its associates to the Group for the year ended 31 December 2009 was RMB463.8 million, and the actual transaction amount was RMB51 million; (2) The 2009 annual cap for the sales of products and/or services to CRGL or its associates by the Group for the year ended 31 December 2009 was RMB587.5 million, and the actual transaction amount was RMB256 million.

In respect of the aforesaid 2009 annual caps and actual annual transaction amounts for aforesaid continuing connected transactions in 2009, each of the applicable percentage ratios (as defined in the Hong Kong Listing Rules, other than the profit ratio) is below 2.5%. Therefore, the aforesaid transactions are exempt from the independent shareholders' approval requirements, and are only subject to the reporting and announcement requirements under the Hong Kong Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

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

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

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

- such transactions have received the approvals of the Board of the Company;
- such transactions are in line with the pricing policy of the Group;
- such transactions were made in accordance with the terms of relevant agreements; and
- the actual transaction amounts incurred during the year did not surpass annual caps of transactions disclosed in the announcement of the Company.

(III) Non-Competition Agreement

In 2009 CSRG stated that it did not violate the commitments under Non-Competition Agreement entered into with the Company on 10 January 2008 (as supplemented by a supplementary agreement dated 15 July 2008). The Independent Non-executive Directors of the Company also reviewed the compliance of CSRG with the Non-Competition Agreement and considered that CSRG had not violated the requirements of the agreement in 2009.

J. OTHER DISCLOSEABLE MATTERS

Principal Operations

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

Major Customers and Suppliers

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

Fixed Assets

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

Reserves

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

Reserves Available for Distribution

Please refer to Note 35 to the financial statements prepared under IFRS in this annual report for details of the Company's reserves available for distribution.

Share Capital

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

Bank Loans and Other Loans

Please refer to Note 31 to the financial statements prepared under IFRS in this annual report for details of the Company's bank loans and other loans as at 31 December 2009.

Property, Plant and Equipment

Please refer to Note 14 to the financial statements prepared under IFRS in this annual report for details of changes in the Group and the Company's property, mechanic devices and equipment for 2009.

Donations

The Group's charitable and other donations amounted to approximately RMB7.42 million during the Reporting Period.

Service Contracts of Directors and Supervisors

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

Directors and Supervisors' Interests in Contracts

None of the Company or its subsidiaries entered into any contract of significance in which Director or Supervisor of the Company held, either directly or indirectly, any material interests for the year ended 31 December 2009.

Loans provided to the Directors, Supervisors or Senior Management

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

The Directors' Interest in Businesses Competing with the Company

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

Financial, Business or Family Relationship among Directors

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

Management Contracts

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

Pre-emptive Rights

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

Employee Retirement Plan

Please refer to Notes 32 to the financial statements prepared under IFRS in this annual report for details of the Company's employee retirement plan.

Report of Supervisory Committee

During the Reporting Period, all members of the first session of the Supervisory Committee have exercised supervision on the Company's financial position, lawful operation and the performance of duties by the Board and the management with a view to protect the corporate interests and shareholders' interests in accordance with relevant requirements of the Company Law of the PRC, the Articles of Association and the Rules of Procedures for the Supervisory Committee's Meeting. All members of the Supervisory Committee fully completed the work of the Supervisory Committee in 2009 diligently.

I. OPERATION OF THE SUPERVISORY COMMITTEE

In 2009, the Supervisory Committee convened five meetings in total. Major contents of the meetings are as follows:

1. The sixth meeting of the first session of the Supervisory Committee was held on-site in Beijing on 21 April 2009. There were 3 eligible supervisors and 3 of them were present. The following resolutions were considered and passed at the meeting: the proposal for consideration of the 2008 Working Report of the Supervisory Committee of the Company; the proposal for consideration of the 2008 Annual Report of the Company and related announcements; the proposal for consideration of the 2009 First Quarterly Report of the Company and its summary; the proposal for consideration of the Proposal Regarding the 2008 Final Accounts of the Company; the proposal for consideration of the 2008 Profit Distribution Plan of the Company; the proposal for consideration of the Self-assessment Report of the Board on Internal Control of the Company; the proposal for consideration of the 2008 Social Responsibility Report of the Company; the proposal for consideration of the Specific Report on Deposit and Actual Use of Proceeds Raised from A Share Offering of the Company. The announcement of the resolutions passed at the meeting was published on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 22 April 2009, and in the China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily dated 23 April 2009.

2. The seventh meeting of the first session of the Supervisory Committee was held on-site in Beijing on 15 June 2009. There were 3 eligible supervisors and 3 of them were present. The Proposal for Consideration of Supplementing the Working Capital by the Proceeds of RMB630 million from the A Share Offering was considered and approved at the meeting. The announcement of the resolution passed at the meeting was published on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 15 June 2009, and in the China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily dated 16 June 2009.

3. The eighth meeting of the first session of the Supervisory Committee was held on-site in Beijing on 19 August 2009. There were 3 eligible supervisors and 3 of them were present. The following resolutions were considered and passed at the meeting: the proposal for consideration of the 2009 Interim Report of the Company; the proposal for consideration of the Specific Report on Deposit and Actual Use of Proceeds Raised from A Share Offering in the First Half of Year 2009 of the Company; the proposal for consideration of the Audit Report on the Use of Proceeds of the Company. The announcement of the resolutions passed at the meeting was published on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 20 August 2009, and in the China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily dated 21 August 2009.

4. The ninth meeting of the first session of the Supervisory Committee was held on-site in Beijing on 27 October 2009. There were 3 eligible supervisors and 3 of them were present. The proposal for consideration of the 2009 Third Quarterly Report of the Company was considered and approved at the meeting.

5. The tenth meeting of the first session of the Supervisory Committee was held by written resolution on 27 November 2009. There were 3 eligible supervisors and 3 of them voted. The Proposal for Consideration of Temporarily Supplementing the Working Capital by the Proceeds of RMB630 million from the A Share Offering was considered and approved at the meeting. The announcement of the resolution passed at the meeting was published on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 27 November 2009, and in the China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily dated 28 November 2009.

Five meetings were held in compliance with relevant requirements of the Company Law and the Articles of Association. During the Reporting Period, all members of the Supervisory Committee attended the two general meetings and presented at the seven Board meetings of the Company, thereby have carried out supervision on the compliance with the laws and regulations, voting procedures of and attendance of Directors in the general meetings and Board meetings.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON THE LAWFUL OPERATION OF THE COMPANY

In accordance with the laws and regulations of the jurisdiction where the shares of the Company are listed, the Supervisory Committee has duly overseen and examined the convening procedures and resolutions of Board meetings of the Company, implementation by the Board of the resolutions of general meetings, performance by senior management of the Company of their duties and the establishment and consistent implementation of the sound internal control system of the Company. The Supervisory Committee is of the view that the Board and senior management of the Company have acted in strict compliance with the Company Law and the Articles of Association and other relevant regulations and rules of the jurisdictions where the shares of the Company are listed, have performed their duties with integrity and diligence and implemented the resolutions of, and exercised the power granted by, the general meetings; and that the operations and decisions are in compliance with the laws and regulations and the Articles of Association. In examining the financial position of the Company and overseeing the performance by the Directors and senior management of the Company of their duties, the Supervisory Committee is not aware of any act in breach of laws and regulations, the Articles of Association and the rules and regulations of the Company.

III. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON INSPECTION OF THE COMPANY'S FINANCIAL POSITION

During the Reporting Period, the Supervisory Committee supervised and inspected the Company's financial systems and financial position, and carefully considered and issued the written audit opinion on the 2008 Annual Report, the 2008 Profit Distribution Plan, the 2009 First Quarterly Report, the 2009 Interim Report and the 2009 Third Quarterly Report of the Company. The Supervisory Committee is of the view that the financial report of the Company gives a truthful, fair and complete view of the Company's financial position and operating results. Ernst & Young has audited and issued standard unqualified audit report on the annual financial report.

IV. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON ACTUAL USE OF THE LATEST RAISED PROCEEDS BY THE COMPANY

During the Reporting Period, the Company has utilized the proceeds in accordance with its commitments in the Prospectus. The Supervisory Committee is of the view that the utilization of proceeds is in compliance with the relevant laws and regulations in the PRC and the Articles of Association, without any actions detrimental to the interests of the Company and the shareholders. The Supervisory Committee of the Company will continue to supervise and inspect the progress of relevant projects.

V. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON ASSET ACQUISITIONS AND DISPOSALS BY THE COMPANY

During the Reporting Period, no insider dealing or any behavior detrimental to the interests of the shareholders that may cause any loss to the Company's assets was found in asset acquisitions or disposals of the Company.

VI. INDEPENDENT OPINIONS OF SUPERVISORY COMMITTEE ON CONNECTED TRANSACTIONS OF THE COMPANY

The Supervisory Committee is of the view that the connected transactions of the Company during 2009 were fair and just. No behaviour in prejudice to the interests of the Company and the shareholders was found.

Chairman of the Supervisory Committee
Wang Yan

April 2010

(I) MATERIAL LITIGATION AND ARBITRATION

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

(II) MATTERS RELATED TO BANKRUPTCY AND REORGANISATION

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

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

1. Stock investment

Unit: HKD

Stock Variety	Stock Code	Abbreviated Name	Initial Investment Amount	Number of Shares held *(share)*	Carrying Amount at the End of the Reporting Period	Percentage in Securities Investment held by the Company *(%)*	Gain or Loss Occurred in the Reporting Period
Shares listed on the Hong Kong Stock Exchange	01618.HK	MCC	38,484,429	6,000,000	27,540,000	100	(10,944,429)

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

Unit: RMB

Stock Code	Abbreviated Name	Initial Investment Amount	Percentage in the Share Capital of the Company Invested *(%)*	Carrying Amount at the End of the Reporting Period	Gain or Loss Occurred in the Reporting Period	Changes in Owner's Equity in the Reporting Period	Accounting Items	Source of Equity Interest
601328	Bank of Communications	989,952.80	—	8,083,879.10	234,380.09	3,985,741.46	Financial assets available for- sale	Purchase
600335	Dingsheng Tiangong	3,402,547.00	—	7.50	5,917,562.36	-3,102,987.85	Financial assets available for- sale	Set-off of debts

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

Unit: RMB

Name of institution	Initial Investment Amount	Number of Shares held *(share)*	Percentage in the Share Capital of the Company Invested *(%)*	Carrying Amount at the End of the Reporting Period	Gain or Loss Occurred in the Reporting Period	Changes in Owner's Equity in the Reporting Period	Accounting Items	Source of Equity Interest
Jiangsu Bank	74,400.00	74,400.00	—	74,400.00	11,904.00	—	Financial assets available for- sale	Purchase
Zhuzhou City Commercial Bank	770,000.00	700,000.00	0.21	550,000.00	42,000.00	—	Financial assets available for- sale	Purchase
Donghai Securities Co., Ltd.	19,483,800.00	20,000,000.00	1.20	19,483,800.00	3,200,000.00	—	Financial assets available for- sale	Purchase

4. Shares in other listed companies traded by the Company

Buy/Sell	Stock Name	Number of Shares at the Beginning of the Reporting Period *(share)*	Number of Shares Bought/Sold at the Reporting Period *(share)*	Number of Shares at the end the Reporting Period *(share)*	Amount of Funds Used	Investment Income
Buy, Sell	Sinopharm	0	50,000	0	HK$808,072	HK$135,239.01
Sell	Dingsheng Tiangong	800,002	800,001	1	RMB 545,014.14	RMB 5,917,562.36

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

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

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

The 9th meeting of the first session of the Board was held on 26 December 2008, at which the Stock Appreciation Rights Plans of China South Locomotive & Rolling Stock Corporation Limited was approved. Such plan is subject to review by the regulatory authorities and consideration and approval at the general meeting of the Company.

(VI) MATERIAL CONTRACTS AND THE PERFORMANCE

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

(1) Trust

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

(2) Contract

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

(3) Lease arrangement

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

2. Guarantees

Unit: RMB'000

Guarantee provided by the Company to external parties (excluding guarantee provided by the Company in favour of its subsidiaries)	
Total guarantee amount provided during the Reporting Period (excluding guarantee provided by the Company in favour of its subsidiaries)	—
Total guarantee balance at the end of the Reporting Period (excluding guarantee provided by the Company in favour of its subsidiaries)	—
Guarantee provided by the Company in favour of its subsidiaries	
Total guarantee amount provided to the Company's subsidiaries during the Reporting Period	3,001,902
Total guarantee balance provided to the Company's subsidiaries at the end of the Reporting Period	3,131,151
Aggregate guarantee amount provided by the Company (including guarantee provided by the Company in favour of its subsidiaries)	
Total guarantee amount	3,131,151
Percentage of total guarantee amount to net assets of the Company *(%)*	18.07%
including:	
Amount of guarantees provided in favour of shareholders, ultimate controller and their related parties	—
Amount of guarantees directly or indirectly provided in favour of parties with gearing ratio over 70%	1,758,443
Portion of the total guarantee amount in excess of 50% of net assets	—
Total amount of the three above-stated guarantees	1,758,443

In 2009, total guarantee amount provided by the Company in favour of its subsidiaries was RMB3,001,902,000, including the guarantee of RMB2,554,166,000 provided for its wholly-owned subsidiaries and the guarantee of RMB447,736,000 provided for its non wholly-owned subsidiaries. Total guarantee balance amounted to RMB3,131,151,000 as at the end of the Reporting Period, representing 18.07% of the unaudited net assets of the Company as at the end of the Reporting Period.

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

During the Reporting Period, the Company did not provide any guarantees in favour of its shareholders, ultimate controller and their related parties; and all guarantees provided by the Company were in favour of its wholly-owned subsidiaries and non wholly-owned subsidiaries. As at the end of the Reporting Period, the guarantee balance provided by the Company in favour of its wholly-owned and non wholly-owned subsidiaries with gearing ratio over 70% was RMB1,758,443,000. Approval procedures have been complied with at the Board meetings and the general meetings as required by the Articles of Associations in respect of the guarantees provided by the Company in favour of its wholly-owned and non wholly-owned subsidiaries with gearing ratio over 70%.

3. Entrusted Investment

The Company did not entrust any investment which was discloseable during the Reporting Period.

4. Other Material Contracts

(1) On 22 June 2009, CSR Zhuzhou Electric Locomotive Co., Ltd., a subsidiary of the Company, has entered into a sale contract with Wuhan Railways Bureau of the Ministry of Railways of the PRC in relation to the sale of high-powered AC six-axles 7,200KW electric locomotives. The total contract value amounted to RMB5.8 billion. For details, please refer to the relevant announcements published on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 22 June 2009, and in the China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily dated 23 June 2009.

(2) On 28 September 2009, CSR Qingdao Sifang Locomotive and Rolling Stock Co., Ltd. (南車青島四方機車車輛股份有限公司), a subsidiary of the Company, and Wuhan Railway Bureau of the Ministry of Railways of the PRC entered into a contract in relation to the sale of MUs (with speed of 350 km/h). The total contract value amounted to RMB45 billion. Bombardier Sifang (Qingdao) Transportation Ltd. (青島四方龐巴迪鐵路運輸設備有限公司), a jointly venture of the Company which is indirectly owned as to 50% by the Company, and Shanghai Railway Bureau of the Ministry of Railways of the PRC entered into a contract in relation to the sale of multiple units (with speed of 350 km/h). The total contract value amounted to RMB27.4 billion. For details, please refer to the relevant announcements published on the websites of the Hong Kong Stock Exchange and Shanghai Stock Exchange on 28 September 2009, and in the China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily dated 29 September 2009.

(VII) PERFORMANCE OF UNDERTAKINGS

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

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

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

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

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

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

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

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

During the Reporting Period, CSRG, the controlling shareholder of the Company, fully complied with its undertakings as stated above.

2. The Company's commitment on building ownership problems in the Prospectus

As disclosed in the Prospectus, the Company has not yet obtained proper property ownership certificates for 326 properties with a total gross floor area of 282,019.03 m^2, mainly because they have not been granted property ownership certificates by the local government authorities due to the implementation of the "Leaving the City and Entering the Suburb" policy in Shijiazhuang and the changes in urban planning in Chengdu area. In respect of those properties in Shijiazhuang, Shijiazhuang Administration of Urban and Rural Planning (石家莊市城鄉規劃局) has issued the Explanation on the Area Planning of CSR Shijiazhuang Rolling Stock Works and pointed out that it would, due to urban planning, not accept any applications for the planning permit in respect of any properties without property ownership certificates. In respect of those properties in Chengdu, Chengdu Administration of Urban Planning (成都市規劃管理局) has issued the Explanation on the Road Planning in the Area of CSR Chengdu Locomotive & Rolling Stock Works and pointed out that two municipal roads planned would run through the land of the area of the works based on the need of urban development. Application of property ownership certificates for the properties was temporarily on hold according to the request of the local governments. Apart from the above two subsidiaries which failed to obtain the property ownership certificates due to objective reasons, all the remaining properties have obtained property ownership certificates.

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

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

(IX) NOTES ON OTHER MATERIAL EVENTS

During the Reporting Period, the Company had no other discloseable significant event.

Independent Auditors' Report

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2868 4432
www.ey.com/china

To the shareholders of China South Locomotive & Rolling Stock Corporation Limited

(Registered in the People's Republic of China with limited liability)

We have audited the accompanying financial statements of China South Locomotive & Rolling Stock Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 128 to 251, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

To the shareholders of China South Locomotive & Rolling Stock Corporation Limited
(Registered in the People's Republic of China with limited liability)

AUDITORS' RESPONSIBILITY (CONTINUED)

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with IFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
22 April 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**45,620,751**	35,092,796
Cost of sales		**(38,453,741)**	(29,278,774)
Gross profit		**7,167,010**	5,814,022
Other income and gains	5	**695,961**	525,131
Selling and distribution costs		**(1,132,661)**	(787,350)
Administrative expenses		**(4,263,779)**	(3,382,117)
Other expenses, net	6	**(144,179)**	13,102
PROFIT FROM OPERATIONS		**2,322,352**	2,182,788
Finance costs	7	**(264,758)**	(430,630)
Share of profits and losses of associates and jointly-controlled entities		**343,743**	178,374
PROFIT BEFORE TAX	6	**2,401,337**	1,930,532
Income tax expense	10	**(285,155)**	(244,929)
PROFIT FOR THE YEAR		**2,116,182**	1,685,603
OTHER COMPREHENSIVE INCOME			
Available-for-sale assets:			
Changes in fair value		**6,801**	(8,176)
Reclassification adjustments for gains included in profit or loss			
— gain on disposal	5	**(5,917)**	(31,194)
Income tax effect		**248**	9,335
Exchange differences on translation of foreign operations		**10,100**	(16,289)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**11,232**	(46,324)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,127,414**	1,639,279

Year ended 31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
Profit attributable to:			
Owners of the parent		**1,678,153**	1,384,240
Minority interests		**438,029**	301,363
		2,116,182	1,685,603
Total comprehensive income attributable to:			
Owners of the parent		**1,683,754**	1,346,396
Minority interests		**443,660**	292,883
		2,127,414	1,639,279
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic	13	**14.2 cents**	15.7 cents
— Diluted		**14.2 cents**	15.7 cents

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

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**13,509,207**	10,242,102
Lease prepayments	15	**3,469,812**	3,112,164
Goodwill	16	**52,544**	48,115
Other intangible assets	17	**439,780**	363,156
Interests in jointly-controlled entities	19	**782,798**	517,384
Interests in associates	20	**56,604**	27,419
Available-for-sale investments	21	**31,117**	30,640
Deferred tax assets	10	**183,440**	60,507
Other non-current assets		**26,198**	27,071
Total non-current assets		**18,551,500**	14,428,558
CURRENT ASSETS			
Inventories	22	**11,415,069**	8,389,453
Trade receivables	23	**6,638,161**	5,995,583
Bills receivable	24	**999,097**	399,650
Prepayments, deposits and other receivables	25	**4,640,365**	4,417,719
Financial assets at fair value through profit or loss	26	**24,248**	100,000
Tax recoverable		**78,361**	62,516
Pledged deposits	27	**1,618,367**	657,593
Cash and cash equivalents	27	**11,273,147**	11,065,179
Total current assets		**36,686,815**	31,087,693
CURRENT LIABILITIES			
Trade payables	28	**13,676,189**	8,415,044
Bills payable	29	**4,975,387**	3,127,130
Other payables and accruals	30	**7,597,602**	7,986,766
Interest-bearing bank and other borrowings	31	**3,193,345**	3,747,420
Defined benefit obligations	32	**174,010**	200,970
Tax payable		**186,194**	34,133
Provision for warranties	33	**215,094**	86,901
Government grants	34	**48,783**	53,794
Total current liabilities		**30,066,604**	23,652,158
NET CURRENT ASSETS		**6,620,211**	7,435,535
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,171,711**	21,864,093

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**2,171,866**	664,996
Defined benefit obligations	32	**1,969,740**	2,141,570
Provision for warranties	33	**144,724**	82,571
Government grants	34	**549,118**	317,495
Deferred tax liabilities	10	**11,903**	10,066
Other non-current liabilities		**3,209**	4,818
Total non-current liabilities		**4,850,560**	3,221,516
NET ASSETS		**20,321,151**	18,642,577
EQUITY			
Equity attributable to owners of the parent			
Share capital	35	**11,840,000**	11,840,000
Reserves		**5,016,568**	3,802,248
Proposed final dividend	12	**473,600**	378,880
		17,330,168	16,021,128
Minority interests		**2,990,983**	2,621,449
Total equity		**20,321,151**	18,642,577

Zhao Xiaogang
Director

Zheng Changhong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Attributable to owners of the parent									
	Share capital	Capital reserve	Available-for-sale investment revaluation reserve	Common statutory reserve fund	Exchange fluctuation reserve	Retained earnings	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	7,000,000	(2,724,035)	35,056	—	—	—	—	4,311,021	2,069,906	6,380,927
Total comprehensive income for the year	—	—	(30,035)	—	(7,809)	1,384,240	—	1,346,396	292,883	1,639,279
Capital contribution from minority shareholders	—	—	—	—	—	—	—	—	40,068	40,068
Capital contribution from a promoter	—	24,470	—	—	—	—	—	24,470	—	24,470
Acquisition/consolidation of subsidiaries	—	3,776	—	—	—	—	—	3,776	419,519	423,295
Excess of the cost of acquisition of additional interests in subsidiaries over the acquirers' additional interests in the carrying value of identifiable net assets	—	(17,874)	—	—	—	—	—	(17,874)	17,874	—
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	—	(77,149)	(77,149)
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(6,567)	(6,567)
Excess of acquirer's additional interest in the net carrying value of acquirer's' identifiable net assets over the cost of acquisition of additional interests in subsidiaries	—	3,646	—	—	—	—	—	3,646	(3,646)	—
Increase of paid-up capital in a subsidiary	—	—	—	—	—	—	—	—	3,030	3,030
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	(134,469)	(134,469)
Proposed final 2008 dividend	—	—	—	—	—	(378,880)	378,880	—	—	—
Transfer from retained earnings	—	—	—	59,047	—	(59,047)	—	—	—	—
Issue of shares to the public	4,840,000	5,509,693	—	—	—	—	—	10,349,693	—	10,349,693
At 31 December 2008	11,840,000	2,799,676*	5,021*	59,047*	(7,809)*	946,313*	378,880	16,021,128	2,621,449	18,642,577

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

* These reserve accounts comprise the consolidated reserves of RMB5,016,568,000 (2008: RMB3,802,248,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,401,337**	1,930,532
Adjustments for:			
Depreciation of items of property, plant and equipment	6	**849,880**	666,980
Impairment of items of property, plant and equipment	6	**276**	343
Amortisation of lease prepayments	6	**71,455**	65,917
Amortisation of other intangible assets	6	**91,756**	60,601
Impairment of available-for-sale investments	6	**—**	950
Loss on disposal of items of property, plant and equipment, net	6	**30,882**	23,250
Loss/(gain) on disposal of other intangible assets, net	6	**1,415**	(2,200)
Gain on disposal of items of lease prepayments	6	**(11,705)**	—
Provision against obsolete inventories	6	**85,240**	42,127
Impairment of trade receivables	6	**73,658**	44,547
Impairment of other receivables	6	**46,364**	8,574
Interest income	5	**(102,652)**	(97,910)
Dividend income	5	**(3,488)**	(349)
Finance costs	7	**264,758**	430,630
Share of profits and losses of associates and jointly-controlled entities		**(343,743)**	(178,374)
Gain on disposal of subsidiaries, net	5	**—**	(19)
Realised losses on derivative financial instrument transactions	6	**—**	8,998
Loss on equity investments at fair value through profit or loss	6	**9,644**	—
Gain on disposal of listed equity investments, at fair value	5	**(5,917)**	(31,194)
Gain on disposal of unlisted equity investments, at cost less impairment	5	**(358)**	(975)
		3,458,802	2,972,428

	Notes	2009 RMB'000	2008 RMB'000
Increase in inventories		**(3,118,468)**	(2,218,382)
Increase in trade receivables, bills receivable and prepayments, deposits and other receivables		**(1,772,566)**	(2,697,240)
Increase in pledged deposits		**(960,774)**	(178,555)
Increase in trade payables, bills payable and other payables and accruals		**6,971,005**	3,873,358
Decrease in defined benefit obligations		**(198,790)**	(161,490)
Increase in provision for warranties		**190,346**	42,467
Cash generated from operations		**4,569,555**	1,632,586
Interest received		**102,652**	97,910
Income tax paid		**(269,403)**	(365,178)
Net cash flows from operating activities		**4,402,804**	1,365,318

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment, excluding interest capitalised		**(4,207,150)**	(3,529,568)
Acquisition of lease prepayments		**(404,238)**	(343,440)
Purchases of other intangible assets	17	**(167,932)**	(104,140)
Investments in associates		**(48,356)**	(2,470)
Investments in jointly-controlled entities		**—**	(639)
Purchases of available-for-sale investments		**—**	(3,200)
Purchases of financial assets at fair value through profit or loss		**(34,597)**	(100,000)
Purchases of financial instruments classified as other receivables		**(93,391)**	(300,000)
Acquisition/consolidation of subsidiaries		**—**	111,767
Dividends received from a jointly-controlled entity		**76,996**	61,000
Dividends received from available-for-sale investments		**3,788**	868
Interest on financial instruments included in other receivables		**3,125**	31,205
Proceeds from disposal of interests in associates		**—**	12,502
Disposal of subsidiaries		**—**	(1,920)
Proceeds from disposal of lease prepayments		**15,495**	42,006
Proceeds from disposal of items of property, plant and equipment		**66,908**	91,105
Proceeds from disposal of other intangible assets		**704**	6,160
Proceeds from disposal of available-for-sale investments		**6,871**	36,821
Proceeds from disposal of financial assets at fair value through profit or loss		**100,831**	—
Proceeds from disposal of financial instruments classified as other receivables		**300,000**	—
Realised losses on derivative financial instrument transactions		**—**	(8,998)
Decrease/(increase) in non-pledged deposits with original maturity of three months or more when acquired		**(242,791)**	860,751
Receipt of government grants		**82,420**	90,762
Net cash flows used in investing activities		**(4,541,317)**	(3,049,428)

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(16,642,601)**	(14,426,791)
Capital contributions from minority shareholders		**43,695**	47,383
Capital contributions from a promoter		**—**	24,470
Increase of paid-up capital in a subsidiary		**—**	3,030
Purchase of minority interests		**(76,633)**	(12,128)
Dividends paid to minority shareholders		**(145,683)**	(120,530)
Interest paid		**(266,532)**	(452,149)
Proceeds from issuance of shares		**—**	10,737,126
Share issue expenses		**—**	(387,433)
Distribution to shareholders		**(378,880)**	—
Proceeds from bank and other borrowings		**15,576,534**	10,404,579
Proceeds from issuance of bonds		**2,000,000**	—
Bond issue expense		**(6,210)**	—
Net cash flows from financing activities		**103,690**	5,817,557
Net increase/(decrease) in cash and cash equivalents		**(34,823)**	4,133,447
Cash and cash equivalents at beginning of year		**11,032,907**	6,899,460
Cash and cash equivalents at end of year		**10,998,084**	11,032,907

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**7,328**	9,463
Other intangible assets	17	**7,687**	722
Interests in subsidiaries	18	**19,780,616**	15,590,951
Available-for-sale investments	21	**678**	678
Total non-current assets		**19,796,309**	15,601,814
CURRENT ASSETS			
Trade receivables	23	**—**	30,000
Prepayments, deposits and other receivables	25	**3,730,880**	2,092,468
Pledged deposits	27	**8,358**	7,401
Cash and cash equivalents	27	**4,333,843**	5,984,588
Total current assets		**8,073,081**	8,114,457
CURRENT LIABILITIES			
Other payables and accruals	30	**4,970,682**	1,811,880
Interest-bearing bank and other borrowings	31	**600,000**	1,630,000
Defined benefit obligations	32	**1,473**	1,460
Government grants	34	**—**	500
Total current liabilities		**5,572,155**	3,443,840
NET CURRENT ASSETS		**2,500,926**	4,670,617
TOTAL ASSETS LESS CURRENT LIABILITIES		**22,297,235**	20,272,431

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**2,100,000**	600,000
Defined benefit obligations	32	**15,932**	19,322
Total non-current liabilities		**2,115,932**	619,322
Net assets		**20,181,303**	19,653,109
EQUITY			
Share capital	35	**11,840,000**	11,840,000
Reserves	35	**7,867,703**	7,434,229
Proposed final dividend	12	**473,600**	378,880
Total equity		**20,181,303**	19,653,109

Zhao Xiaogang
Director

Zheng Changhong
Director

1. CORPORATE INFORMATION AND REORGANISATION

The Company was registered in the People's Republic of China ("PRC") on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. The Company's A shares were listed on the Shanghai Stock Exchange on 18 August 2008 and the Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 21 August 2008. The details of the A shares and H shares' issuance are set out in note 35.

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised IFRSs has had no significant effect on these financial statements.

IFRS 1 and IAS 27 *Amendments*	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based payment - Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue - Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments Presentation* and IAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement-Embedded Derivative*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in April 2009).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

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

(a) Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in profit or loss in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The adoption of IAS 27 Amendment has no impact on the consolidated financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

(b) Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

(c) Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 40 to the financial statements, while the liquidity risk disclosures are not significantly impacted by the amendments.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(d) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity 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 adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments determined in accordance with IFRS 8 were the same as the business segments previously identified under IAS 14. The disclosures are shown in note 4 to the financial statements.

(e) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

(f) Amendment to Appendix to IAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the Appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(g) IAS 23 (Revised) *Borrowing Costs*

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 did not have any impact on the financial position or results of operations of the Group.

(h) Amendments to IAS 32 *Financial Instruments: Presentation and* IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. The IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

(i) Amendments to IFRIC 9 *Reassessment of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*

These amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(j) IFRIC 13 *Customer Loyalty Programmes*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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 scheme, IFRIC 13 is not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

(k) IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group's currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

(l) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to profit or loss as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the adoption of this interpretation did not have any financial impact on the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(m) IFRIC18 *Transfers of Assets from Customers* (adopted from 1 July 2009)

IFRIC 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation did not have any impact on the financial position or results of operations of the Group.

(n) Improvements to IFRSs

In May 2008, the IASB issued its first improvements to IFRSs which set out amendments to a numbers of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Plan to sell the controlling interest in a subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

IAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. The Group amended its accounting policy accordingly, which did not result in any change in the financial position of the Group.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the benefit of the reduced interest to be accounted for as a government grant. The adoption of this standard has no significant financial impact to the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(n) Improvements to IFRSs (Continued)

IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

— *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

— *IFRS 7 Financial Instruments: Disclosures*

— *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

— *IAS 10 Events after the Reporting Period*

— *IAS 18 Revenue*

— *IAS 27 Consolidated and Separate Financial Statements*

— *IAS 28 Investments in Associates*

— *IAS 31 Interests in Joint Ventures*

— *IAS 34 Interim Financial Reporting*

— *IAS 36 Impairment of Assets*

— *IAS 38 Intangible Assets*

— *IAS 39 Financial Instruments: Recognition and Measurement*

— *IAS 40 Investment property*

— *IAS 41 Agriculture*

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners* [1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*[1]

Apart from the above, the IASB has issued *Improvements to IFRSs* in April 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

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

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

The IFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 - Group and Treasury Share Transactions*. The Group expects to adopt the IFRS 2 Amendments from 1 January 2010. The amendments are unlikely to have any significant financial impact on the Group.

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 without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions and loss of control.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IAS 39 is aimed to be replaced by IFRS 9 in its entirety by the end of 2010. The Group expects to adopt IFRS 9 from 1 January 2013. The adoption of the new standard is unlikely to have significant financial impact on the Group.

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

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

The IAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the IAS 39 Amendment from 1 January 2010. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Reporting Period* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

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

The amendments to IFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

Improvements to IFRSs 2009 issued in April 2009 sets out amendments to a number of IFRSs. Except for the amendment to IAS 18, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

(a) *IFRS 2 Share-based Payment:* Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of IFRS 2 even though it is outside the scope of IFRS 3.

(b) *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that (i) the disclosures required in respect of non-current assets (or a disposal group) classified as held for sale or a discontinued operation are those set out in IFRS 5; (ii) the general requirements of IAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other IFRSs are not required unless:

(i) those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

(ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of IFRS 5 and disclosures are not disclosed elsewhere in the financial statements.

(c) IFRS 8 *Operating Segments:* Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

(d) IAS 1 *Presentation of Financial Statements:* States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

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

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

(g) IAS 36 *Impairment of Assets:* Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 *Operating Segments* before aggregation for financial reporting purposes.

(h) IAS 38 *Intangible Assets:* Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(i) IAS 39 *Financial Instruments: Recognition and Measurement*: Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

(j) IFRIC 9 *Reassessment of Embedded Derivatives:* Clarifies that it does not apply to possible reassessment, at the date of acquisition, of embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

(k) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation:* Removes the restriction of where the hedging instrument may be held in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits 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 accounted for in accordance with IAS 39, 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

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

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit or loss and consolidated reserves, respectively. 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. 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 profit or loss 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.

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries (except for the business combination under common control), jointly-controlled entities and associates represents the excess of the cost of the business combination over the Group's interest 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 statement of financial position 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 in the consolidated statement of financial position.

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. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess over the cost of business combinations (except for the combination of business under common control)

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 profit or loss.

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

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

Purchased patents and technical know-how

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

Computer software

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

Research and development costs

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

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

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial investments

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Available-for-sale financial investments (Continued)

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 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 when:

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

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

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

Impairment of financial assets

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

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

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

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

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

Financial assets carried at cost

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Financial guarantee contracts

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

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

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

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.

Contracts for services

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

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

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

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

Provisions

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of 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. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 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 recognised as and when incurred.

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

In addition, the Group also pays supplemental pension subsidies to retiree employees. As detailed in note 32 below, these supplemental pension payables were assessed using the projected unit credit actuarial cost method; the cost of providing such subsidies is charged to profit or loss so as to spread the service cost over the average lives of such former employees, in accordance with the actuarial reports which contained full valuations of the plans for each of the relevant accounting periods.

These supplemental pension obligations are measured at the present value of the estimated future cash outflows using market yields of government bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets and 10% of the defined benefit obligation are charged or credited to profit or loss over the employees' expected average vesting period.

Termination and early retirement benefits

Termination and early retirement benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed to either 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividends

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

Foreign currencies

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

De facto control over subsidiaries

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

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

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

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

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

Estimation uncertainty

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

Employee retirement benefits

The Group has recognised the employee retirement benefit obligations as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, the growth rate of the benefits and other factors. The deviation from the actual result and the actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amount of employee retirement benefit obligations. The carrying amount of employee retirement benefits at 31 December 2009 was RMB2,143,750,000 (2008: RMB2,342,540,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2009 was RMB183,440,000 (2008: RMB60,507,000).

Impairment of receivables

The Group recognises provision based on the judgement of recovery of accounts receivable. Bad debt provision is required to be recognised when there are indications that the receivable cannot be recovered. Recognition of bad debt provision requires the use of judgement and estimates. If the revised estimates deviate from the current estimates, then any difference arising from changes of accounting estimates will affect the carrying value of debtors in the relevant accounting periods. The net carrying amount of trade receivables and prepayments, deposits and other receivables at 31 December 2009 were RMB6,638,161,000 (2008: RMB5,995,583,000) and RMB4,640,365,000 (2008: RMB4,417,719,000), respectively.

Write-down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventory analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. The net carrying amount of inventories at 31 December 2009 was RMB11,415,069,000 (2008: RMB8,389,453,000).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was RMB52,544,000 (2008: RMB48,115,000). More details are given in note 16.

4. OPERATING SEGMENT INFORMATION

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

Products and services

Revenue from external customers

	2009 **RMB'000**	2008 RMB'000
Rail transportation products and their extent products and services	**45,620,751**	35,092,796

Geographical information

Revenue from external customers

	2009 **RMB'000**	2008 RMB'000
Mainland China	**44,242,933**	33,458,916
Other countries and regions	**1,377,818**	1,633,880
	45,620,751	35,092,796

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information (Continued)

Non-current assets

	31 December 2009	31 December 2008
	RMB'000	*RMB'000*
Mainland China	**18,192,108**	14,274,590
Other countries and regions	**144,835**	62,821
	18,336,943	14,337,411

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

Information about a major customer

Revenue, net of sales tax, generated from a single customer which amounted to more than 10% of the Group's revenue for the year ended 31 December 2009 was RMB25,878,098,000 (2008:RMB20,359,489,000). The state-owned entities are not identified as a group of customers under common control by the directors of the Company.

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2009 RMB'000	2008 RMB'000
Revenue			
Sale of goods and services		**45,620,751**	35,092,796
Other income			
Interest income		**102,652**	97,910
Dividend income		**3,488**	349
Profit from sales of scrap materials		**63,299**	47,285
Value-added tax refunds		**157,146**	130,487
Government grants	34	**299,961**	190,983
Total		**626,546**	467,014
Gains			
Gain on disposal of subsidiaries, net		**—**	19
Fair value gains:			
Listed equity investment included in available-for-sale investments (transfer from equity on disposal)		**5,917**	31,194
Gain on disposal of unlisted equity included in available-for-sale investments, stated at cost		**358**	975
Others		**63,140**	25,929
Total		**69,415**	58,117

6. PROFIT BEFORE TAX

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

	Notes	**2009** **RMB'000**	2008 RMB'000
Cost of inventories sold		**38,453,741**	29,278,774
Depreciation of items of property, plant and equipment	14	**849,880**	666,980
Amortisation of lease prepayments	15	**71,455**	65,917
Amortisation of other intangible assets	17	**91,756**	60,601
Provision against obsolete inventories *		**85,240**	42,127
Auditors' remuneration		**12,000**	12,000
Provision for warranties	33	**293,126**	168,985
Minimum lease payments under operating leases:			
Plant and machinery		**30,802**	19,865
Land and buildings		**24,409**	22,097
Research and development costs		**1,696,357**	1,005,111
Less: amount capitalised		**(16,609)**	(69,874)
		1,679,748	935,237
Staff costs (including directors' and supervisors' remuneration wages, salaries and other employees' benefits)		**4,061,144**	3,500,879
Contribution to government-operated pension schemes		**506,972**	413,478
Contribution to annuity pension schemes		**56,811**	57,213
Defined benefit obligations — interest costs		**47,860**	94,540
		4,672,787	4,066,110

6. PROFIT BEFORE TAX (CONTINUED)

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

	Notes	2009 RMB'000	2008 RMB'000
Included in other expenses, net:			
Impairment of trade receivables	23	**73,658**	44,547
Impairment of other receivables	25	**46,364**	8,574
Impairment of available-for-sale investments		**—**	950
Exchange losses/(gains), net		**(6,355)**	(97,564)
Loss on disposal of items of property, plant and equipment, net		**30,882**	23,250
Loss/(gain) on disposal of items of other intangible assets, net		**1,415**	(2,200)
Loss on equity investments at fair value through profit or loss		**9,644**	—
Realised losses on derivative financial instrument transactions		**—**	8,998
Gain on disposal of items of lease prepayments		**(11,705)**	—
Impairment of items of property, plant and equipment	14	**276**	343
		144,179	(13,102)

* Included in "Cost of sales" on the face of the consolidated statement of comprehensive income for the year ended 31 December 2008 and 31 December 2009.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2009 RMB'000	Group 2008 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**270,766**	457,271
Interest on bills discounted	**643**	330
Less: Interest capitalised in construction in progress	**(6,651)**	(26,971)
Total	**264,758**	430,630

8. DIRECTORS' AND SUPERVISORS' REMUNERATION AND BENEFIT CONTRIBUTIONS

Directors' and supervisors' remuneration for the year, disclosed pursuant to 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	
	2009	2008
	RMB'000	*RMB'000*
Fees	**895**	854
Other emoluments:		
Salaries	**1,539**	1,601
Performance-related bonuses	**1,606**	1,526
Social security contribution other than pension*	**207**	203
Pension scheme contributions**	**173**	161
	3,525	3,491

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

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

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

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

	Fees	Salaries	Performance-related bonuses	Social security contribution other than pension	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2009						
Executive directors:						
Mr. Zhao Xiaogang	—	167	434	31	26	658
Mr. Zheng Changhong	—	167	434	31	26	658
Mr. Tang Kelin	—	142	369	31	26	568
Mr. Liu Hualong	—	142	369	31	26	568
	—	618	1,606	124	104	2,452
Independent non-executive directors:						
Mr. Zhao Jibin	173	—	—	—	—	173
Mr. Yang Yuzhong	188	—	—	—	—	188
Mr. Chen Yongkuan	170	—	—	—	—	170
Mr. Dai Deming	182	—	—	—	—	182
Mr. Tsoi, David	182	—	—	—	—	182
	895	—	—	—	—	895
Supervisors:						
Mr. Wang Yan	—	338	—	31	26	395
Mr. Li Jianguo	—	314	—	31	26	371
Mr. Qian Yi	—	262	—	20	17	299
Mr. Qiu Wei	—	7	—	1	—	8
	—	921	—	83	69	1,073
	895	1,539	1,606	207	173	4,420

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

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

	Fees	Salaries	Performance-related bonuses	Social security contribution other than pension	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2008						
Executive directors:						
Mr. Zhao Xiaogang	—	167	412	29	23	631
Mr. Zheng Changhong	—	167	412	29	23	631
Mr. Tang Kelin	—	142	351	29	23	545
Mr. Liu Hualong	—	142	351	29	23	545
	—	618	1,526	116	92	2,352
Independent non-executive directors:						
Mr. Zhao Jibin	173	—	—	—	—	173
Mr. Yang Yuzhong	179	—	—	—	—	179
Mr. Chen Yongkuan	170	—	—	—	—	170
Mr. Dai Deming	176	—	—	—	—	176
Mr. Tsoi, David	156	—	—	—	—	156
	854	—	—	—	—	854
Supervisors:						
Mr. Wang Yan	—	343	—	29	23	395
Mr. Li Jianguo	—	323	—	29	23	375
Mr. Qian Yi	—	317	—	29	23	369
	—	983	—	87	69	1,139
	854	1,601	1,526	203	161	4,345

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

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

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Salaries	**665**	612
Performance-related bonuses	**3,785**	2,770
Social security contribution other than pension	**125**	101
Pension scheme contributions	**109**	90
	4,684	3,573

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

	Number of employees	
	2009	2008
RMB500,001 to RMB1,000,000	**5**	5
	5	5

10. INCOME TAX

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Current income tax	**406,898**	282,317
Deferred income tax	**(121,743)**	(37,388)
Total tax charge for the year	**285,155**	244,929

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 25% is applied to the Group for the years ended 31 December 2009 and 2008, except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the years.

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2009.

10. INCOME TAX (CONTINUED)

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

	Group			
	2009		2008	
	RMB'000	**%**	*RMB'000*	*%*
Profit before tax	**2,401,337**		1,930,532	
Tax at the applicable tax rate	**600,334**	**25.0**	482,633	25.0
Entities subject to lower statutory income tax rates	**(230,144)**	**(9.6)**	(161,642)	(8.4)
Adjustments in respect of current tax of previous year	**1,919**	**0.1**	2,620	0.1
Profit and losses of associates and jointly-controlled entities	**(82,779)**	**(3.4)**	(34,778)	(1.8)
Expenses not deductible for tax *(note 1)*	**103,895**	**4.3**	53,268	2.8
Prior year tax losses utilised	**(17,107)**	**(0.7)**	(2,884)	(0.1)
Income not subject to tax *(note 2)*	**(18,297)**	**(0.8)**	(15,784)	(0.8)
Tax losses not recognised	**76,832**	**3.2**	42,808	2.2
Others *(note 3)*	**(149,498)**	**(6.2)**	(121,312)	(6.3)
	285,155	**11.9**	244,929	12.7
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 statements of comprehensive income	**53,652**		6,335	

Notes:

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

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

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

10. INCOME TAX (CONTINUED)

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

	Group			
	Consolidated statement of financial position		**Consolidated statement of comprehensive income**	
	As at 31 December		**Year ended 31 December**	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred income tax assets:				
Warranty claim provision	**51,978**	23,990	**(27,988)**	(4,225)
Assets impairment	**19,824**	4,344	**(15,480)**	(4,344)
Tax losses	**1,990**	—	**(1,990)**	—
Wages payable	**5,438**	1,711	**(3,727)**	(1,711)
Accrued expenses	**61,675**	10,590	**(51,085)**	(10,590)
Government grants	**42,535**	19,872	**(22,663)**	(19,872)
Gross deferred income tax assets	**183,440**	60,507		
Deferred income tax liabilities:				
Fair value adjustments arising from available-for-sale financial assets	**(942)**	(1,190)	**(248)**	(9,335)
Fair value adjustments arising from acquisition of subsidiaries	**(8,492)**	(8,876)	**(384)**	8,876
Depreciation difference	**(2,469)**	—	**2,469**	—
Gross deferred income tax liabilities	**(11,903)**	(10,066)		
			(121,096)	(41,201)
Represented by:				
Deferred income tax credited to profit or loss			**(121,743)**	(37,388)
Deferred tax credited to other comprehensive income during the year			**(248)**	(9,335)
Acquisition of subsidiaries			**—**	6,876
Exchange realignment			**895**	(1,354)
			(121,096)	(41,201)

10. INCOME TAX (CONTINUED)

The Group also has tax losses arising in Mainland China of RMB733,389,000 (2008: RMB396,489,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB907,074,000 (2008: RMB590,467,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The dividends for the years ended 31 December 2009 and 2008 are set out below:

	2009	2008
	RMB'000	*RMB'000*
Proposed final		
— RMB4.0 cents (2008: RMB3.2 cents) per ordinary share	**473,600**	378,880

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 11,840,000,000 (2008: 8,800,000,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of basic earnings per share is based on:

	2009	2008
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**1,678,153**	1,384,240
Shares		
Weighted average number of domestic shares in issue during the year used in the calculation of basic earnings per share	**11.84 billion**	8.8 billion

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

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

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

		Group					
	Notes	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008							
At 1 January 2008:							
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 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		40,778	216,326	8,685	103,722	3,208,128	3,577,639
Transfer from construction in progress		749,952	609,988	21,614	53,671	(1,435,225)	—
Acquisition of subsidiaries		198,474	144,263	7,046	13,835	30,322	393,940
Disposals		(51,651)	(43,364)	(587)	(1,805)	(19,024)	(116,431)
Reclassification		23,827	(89,587)	37,048	28,712	—	—
Disposal of subsidiaries		(4,492)	(172)	(125)	(255)	(3,929)	(8,973)
Depreciation	6	(126,893)	(412,271)	(61,044)	(66,772)	—	(666,980)
Impairment	6	—	(343)	—	—	—	(343)
Exchange realignment		—	(2,561)	—	—	(1,827)	(4,388)
At 31 December 2008, net of accumulated depreciation and impairment		3,432,816	3,500,210	259,196	501,937	2,547,943	10,242,102
At 31 December 2008:							
Cost		4,721,370	5,870,091	590,653	921,774	2,549,508	14,653,396
Accumulated depreciation and impairment		(1,288,554)	(2,369,881)	(331,457)	(419,837)	(1,565)	(4,411,294)
Net carrying amount		3,432,816	3,500,210	259,196	501,937	2,547,943	10,242,102

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Company Computer equipment and others *RMB'000*
At 31 December 2008	
At 1 January 2008:	
Cost	20,334
Accumulated depreciation and impairment	(10,326)
Net carrying amount	10,008
At 1 January 2008, net of accumulated depreciation and impairment	10,008
Additions	2,053
Disposals	(143)
Depreciation	(2,455)
At 31 December 2008, net of accumulated depreciation and impairment	9,463
At 31 December 2008:	
Cost	20,660
Accumulated depreciation and impairment	(11,197)
Net carrying amount	9,463

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, capitalisation rates ranging from 4.8% to 7.5% have been applied to the expenditure on individual assets.

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

The details of the above property, plant and equipment pledged to secure general banking facilities granted to the Group are set out in note 31 below.

15. LEASE PREPAYMENTS

		Group	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Carrying amount at 1 January,			
net of accumulated amortisation		**3,112,164**	2,804,055
Additions		**432,891**	343,440
Acquisition of subsidiaries		**—**	72,592
Disposals		**(3,788)**	(42,006)
Amortisation	6	**(71,455)**	(65,917)
Carrying amount at 31 December		**3,469,812**	3,112,164

The leasehold lands are held under medium term leases and are 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 31 below.

16. GOODWILL

	Group	
	2009	2008
	RMB'000	*RMB'000*
Cost, net of accumulated impairment:		
At beginning of year	**48,115**	3,150
Acquisition of subsidiaries	**—**	54,719
Disposal of subsidiaries	**—**	(3,150)
Exchange realignment	**4,429**	(6,604)
At end of year	**52,544**	48,115
Cost	**52,544**	48,115
Net carrying amount	**52,544**	48,115

17. OTHER INTANGIBLE ASSETS

		Group		
	Notes	Patents and technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2009:				
At 1 January 2009, net of accumulated amortisation and impairment		283,944	79,212	363,156
Additions		70,382	97,550	167,932
Disposals		(2,119)	—	(2,119)
Amortisation	6	(60,874)	(30,882)	(91,756)
Exchange realignment		2,567	—	2,567
At 31 December 2009, net of accumulated amortisation and impairment		293,900	145,880	439,780
At 31 December 2009:				
Cost		510,753	227,226	737,979
Accumulated amortisation and impairment		(216,853)	(81,346)	(298,199)
Net carrying amount		293,900	145,880	439,780

17. OTHER INTANGIBLE ASSETS (CONTINUED)

		Group		
	Notes	Patents and technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2008:				
At 1 January 2008:				
Cost		360,867	103,205	464,072
Accumulated amortisation and impairment		(134,258)	(33,267)	(167,525)
Net carrying amount		226,609	69,938	296,547
At 1 January 2008, net of accumulated amortisation and impairment		226,609	69,938	296,547
Additions		73,683	30,457	104,140
Acquisition of subsidiaries		29,431	1,299	30,730
Disposals		(1,020)	(2,940)	(3,960)
Amortisation	6	(41,059)	(19,542)	(60,601)
Exchange realignment		(3,700)	—	(3,700)
At 31 December 2008, net of accumulated amortisation and impairment		283,944	79,212	363,156
At 31 December 2008:				
Cost		439,924	129,831	569,755
Accumulated amortisation and impairment		(155,980)	(50,619)	(206,599)
Net carrying amount		283,944	79,212	363,156

17. OTHER INTANGIBLE ASSETS (CONTINUED)

	Company Computer software RMB'000
31 December 2009:	
At 1 January 2009, net of accumulated depreciation and impairment	722
Additions	7,530
Depreciation	(565)
At 31 December 2009, net of accumulated depreciation and impairment	7,687
At 31 December 2009:	
Cost	8,390
Accumulated depreciation and impairment	(703)
Net carrying amount	7,687
31 December 2008:	
At 1 January 2008	
Cost	406
Accumulated depreciation and impairment	(27)
Net carrying amount	379
At 1 January 2008, net of accumulated depreciation and impairment	379
Additions	454
Depreciation	(111)
At 31 December 2008, net of accumulated depreciation and impairment	722
At 31 December 2008:	
Cost	860
Accumulated depreciation and impairment	(138)
Net carrying amount	722

18. INTERESTS IN SUBSIDIARIES

	Company 2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	**19,536,616**	15,296,951
Loans to subsidiaries	**244,000**	294,000
	19,780,616	15,590,951

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

Particulars of the principal subsidiaries of the Company at 31 December 2009 are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Subsidiaries					
CSR Zhuzhou Electric Locomotive Co., Ltd. 南車株洲電力機車有限公司	PRC 31 August 2005	RMB1,944,025,800	94.3	5.1	Manufacturing, selling and repairing of locomotives
CSR Ziyang Locomotive Co., Ltd. 南車資陽機車有限公司	PRC 12 May 2006	RMB793,356,334	99.6	—	Manufacturing, selling and repairing of locomotives
CSR Qingdao Sifang Locomotive and Rolling Stock Co., Ltd. 南車青島四方機車車輛股份有限公司	PRC 22 July 2002	RMB3,103,712,300	97.2	—	Manufacturing , selling and repairing of locomotives

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Company at 31 December 2009 are as follows: (Continued)

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. 南車株洲電力機車研究所有限公司	PRC 9 September 1992	RMB2,381,710,000	100.0	—	Investment holding
CSR Sifang Rolling Stock Co., Ltd. 南車四方車輛有限公司	PRC 4 September 1980	RMB287,095,500	100.0	—	Repairing locomotives and rolling stock
CSR Investment & Leasing Co., Ltd. 南車投資租賃有限公司	PRC 26 April 1999	RMB300,000,000	100.0	—	Trading and investment holding
CSR Yangtze Rolling Stock Co., Ltd. 南車長江車輛有限公司	PRC 14 September 2006	RMB1,707,418,300	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. 南車戚墅堰機車車輛工藝研究所有限公司	PRC 15 May 1992	RMB680,000,000	100.0	—	Research and development of train-related products
CSR Shijiazhuang Rolling Stock Co., Ltd. 南車石家莊車輛有限公司	PRC 28 June 2007	RMB195,854,000	100.0	—	Repairing locomotives and rolling stock

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Company at 31 December 2009 are as follows: (Continued)

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
CSR Chengdu Locomotive & Rolling Stock Co., Ltd. 南車成都機車車輛有限公司	PRC 28 June 2007	RMB338,971,941	100.0	—	Repairing locomotives and rolling stock
CSR Nanjing Puzhen Rolling Stock Co., Ltd. 南車南京浦鎮車輛有限公司	PRC 27 June 2007	RMB996,660,000	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Feb. 7th Rolling Stock Co., Ltd. 南車二七車輛有限公司	PRC 28 June 2007	RMB379,305,828	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Meishan Rolling Stock Co., Ltd. 南車眉山車輛有限公司	PRC 28 June 2007	RMB272,008,600	100.0	—	Manufacturing and selling of rolling stock
CSR Luoyang Locomotive Co., Ltd. 南車洛陽機車有限公司	PRC 27 June 2007	RMB255,689,000	100.0	—	Repairing locomotives & rolling stock
CSR Qishuyan Locomotive Co., Ltd. 南車戚墅堰機車有限公司	PRC 26 June 2007	RMB942,610,557	100.0	—	Manufacturing, selling and repairing of locomotives
CSR (Hong Kong) Co., Ltd. 中國南車(香港)有限公司	PRC 7 April 2008	HKD400,000,000	100.0	—	Investment company

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Company at 31 December 2009 are as follows: (Continued)

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Zhuzhou CSR Times Electric Co., Ltd. 株洲南車時代電氣股份有限公司	PRC 26 September 2005	RMB1,084,255,637	—	56.2	Manufacturing of train-bore systems and components
Zhuzhou Times New Material Technology Co., Ltd (i) 株洲時代新材料科技股份有限公司	PRC 24 May 1994	RMB204,355,200	—	21.9	Manufacturing and selling of polymer compounds, etc.
Dynex Power Inc.	Canada	CAD37,041,524	—	75.0	Manufacturing and selling of power semiconductors and integrated circuit products

(i) The directors are of the opinion that the Group obtained de facto control over Zhuzhou Times New Material Techonology Co., Ltd. ("ZTNM") as the Group obtained a majority in the board of the directors of ZTNM and held 38.34% of the voting rights in shareholder meeting of ZTNM.

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

All the above subsidiaries are limited liability companies.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2009. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2009 RMB'000	Group 2008 RMB'000
Share of net assets	**782,798**	517,384

Particulars of the principal jointly-controlled entities of the Group as at 31 December 2009 are as follows:

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

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

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

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

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

	2009 **RMB'000**	2008 RMB'000
Share of the jointly-controlled entities' net assets:		
Current assets	**4,966,501**	2,767,789
Non-current assets	**389,108**	237,473
Current liabilities	**(4,572,504)**	(2,487,728)
Non-current liabilities	**(307)**	(150)
Net assets	**782,798**	517,384
Share of the jointly-controlled entities' revenue and profit:		
Revenue	**3,186,834**	1,341,726
Expenses	**(2,800,046)**	(1,163,932)
Profit before tax	**386,788**	177,794
Tax	**(51,786)**	(5,978)
Profit after tax	**335,002**	171,816

20. INTERESTS IN ASSOCIATES

	Group	
	2009	2008
	RMB'000	*RMB'000*
Share of net assets	**56,604**	27,419

Particulars of the principal associate of the Group as at 31 December 2009 are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company Direct	Percentage of equity interests attributable to the Company Indirect	Principal activities
Associates					
Beijing Times Wharton Technology Co., Ltd 北京時代沃頓科技有限公司	PRC 16 January 2007	RMB26,000,000	—	38.0	Manufacturing of chemical materials

The English name of the company above represents the best effort of the management of the Company in directly translating the Chinese name of this company as no English name has been registered.

The above table lists the principal associate of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of the Group's associates extracted from their audited financial statements or management accounts:

	2009	2008
	RMB'000	*RMB'000*
Share of the associates' net assets:		
Current assets	**34,694**	35,079
Non-current assets	**24,066**	12,884
Current liabilities	**3,053**	(12,477)
Non-current liabilities	**(3,937)**	(5,028)
Minority interests	**(1,272)**	(3,039)
Net assets	**56,604**	27,419
Share of the associates' revenue and profit:		
Revenue	**85,155**	75,211
Expenses	**(74,091)**	(67,977)
Profit before tax	**11,064**	7,234
Tax	**(1,866)**	(357)
	9,198	6,877
Minority interests	**(457)**	(319)
Profit after tax	**8,741**	6,558

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at cost less impairment	**23,033**	22,894	**678**	678
Listed equity investments, in the PRC, at fair value	**8,084**	7,746	**—**	—
	31,117	30,640	**678**	678

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB6,801,000 (2008: RMB8,176,000), of which RMB5,917,000 (2008: RMB31,194,000) was reclassified from other comprehensive income to profit or loss for the year.

Unlisted equity investments

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

Listed equity investments

The fair value of the listed equity investments is determined by reference to published price quotations in an active market.

22. INVENTORIES

	Group	
	2009	2008
	RMB'000	*RMB'000*
Cost, net of provision		
Raw materials	**4,026,279**	3,762,912
Work in progress	**5,093,284**	3,295,828
Finished goods	**2,295,506**	1,330,713
	11,415,069	8,389,453

The details of the above inventories pledged to secure general banking facilities granted to the Group are set out in note 31 below.

23. TRADE RECEIVABLES

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**6,989,343**	6,288,692	**—**	30,000
Impairment	**(351,182)**	(293,109)	**—**	—
	6,638,161	5,995,583	**—**	30,000

23. TRADE RECEIVABLES (CONTINUED)

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**5,117,702**	5,044,384	**—**	30,000
6 months to 1 year	**906,955**	563,816	**—**	—
Over 1 year	**613,504**	387,383	**—**	—
	6,638,161	5,995,583	**—**	30,000

An aged analysis of the trade receivables that are neither individually or collectively considered to be impaired, is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**5,235,740**	5,062,735	**—**	30,000
Past due but not impaired				
— Less than 3 months past due	**163,507**	127,078	**—**	—
— 3 to 6 months past due	**259,131**	11,765	**—**	—
— Over 6 months past due	**112,837**	22,307	**—**	—
	5,771,215	5,223,885	**—**	30,000

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

Receivables that were past due but not impaired relate to some independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

23. TRADE RECEIVABLES (CONTINUED)

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

		Group		Company	
		2009	2008	**2009**	2008
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January		**293,109**	268,098	**—**	—
Impairment loss recognised	6	**73,658**	44,547	**—**	—
Acquisition of subsidiaries		**—**	15,301	**—**	—
Amount written off as uncollectible		**(17,051)**	(34,837)	**—**	—
Exchange realignment		**1,466**	—	**—**	—
At 31 December		**351,182**	293,109	**—**	—

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB111,786,000 (2008: RMB98,172,000) with a carrying amount of RMB210,038,000 (2008: RMB107,239,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to recovered.

	Group	
	2009	2008
	RMB'000	*RMB'000*
Trade receivables denominated in:		
United States Dollars	**151,938**	205,216
Hong Kong Dollars	**2,088**	3,769
Euros	**67,733**	2,426
Canadian Dollars	**39,925**	—
Australian Dollars	**9,244**	—
Japanese Yen	**934**	—
Great Britain Pounds	**289**	—
Singapore Dollars	**23**	—
	272,174	211,411

23. TRADE RECEIVABLES (CONTINUED)

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
— CSRG and its subsidiaries, excluding the Group (the "CSRG Group")	**32,843**	48,729
— Jointly-controlled entities	**129,175**	124,042
	162,018	172,771

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

The details of the above trade receivables pledged to secure general banking facilities granted to the Group are set out in note 31 below.

24. BILLS RECEIVABLE

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 6 months	**999,097**	399,650
	999,097	399,650

The above balances are neither past due nor impaired.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**3,644,759**	3,555,793	**—**	79
Deposits and other receivables	**995,606**	861,926	**3,730,880**	2,092,389
	4,640,365	4,417,719	**3,730,880**	2,092,468

Movements in provision for impairment of prepayments, deposits and other receivables are as follows:

		Group		Company	
		2009	2008	**2009**	2008
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January		**53,476**	59,497	**—**	13,592
Impairment loss recognised	6	**46,364**	8,574	**—**	—
Acquisition of subsidiaries		**—**	698	**—**	—
Written off		**(5,777)**	(15,178)	**—**	(13,592)
Disposal of subsidiaries		**—**	(115)	**—**	—
At 31 December		**94,063**	53,476	**—**	—

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	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
— CSRG Group	**11,822**	160,880	**—**	84,021
— Jointly-controlled entities	**242,657**	125,253	**—**	—
— Subsidiaries	**—**	—	**2,858,514**	1,355,117
	254,479	286,133	**2,858,514**	1,439,138

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.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Deposit and investment with embedded derivatives	**—**	100,000
Listed equity investments, at market value	**24,248**	—
	24,248	100,000

The above equity investments at 31 December 2009 were classified as held for trading. Fair value losses of RMB9,644,000 were recognised in profit or loss for the year ended 31 December 2009 (2008: Nil).

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**12,891,514**	11,722,772	**4,342,201**	5,991,989
Less : Pledged time deposits	**(1,618,367)**	(657,593)	**(8,358)**	(7,401)
Cash and cash equivalents in the consolidated statement of financial position	**11,273,147**	11,065,179	**4,333,843**	5,984,588
Less : Non-pledged time deposits with original maturity of three months or more when acquired	**(275,063)**	(32,272)		
Cash and cash equivalents in the statements of cash flow	**10,998,084**	11,032,907		
Cash and bank balances and time deposits denominated in:				
— RMB	**10,336,461**	7,545,201	**3,615,959**	2,173,260
— United States dollars	**510,351**	1,034,098	**382,379**	878,532
— Hong Kong dollars	**1,873,106**	3,054,778	**343,863**	2,940,197
— Euros	**18,914**	18,878	**—**	—
— Canadian dollars	**148,742**	58	**—**	—
— Other currencies	**3,940**	69,759	**—**	—
	12,891,514	11,722,772	**4,342,201**	5,991,989

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality.

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

Pledged bank balances and time deposits represented balances pledged to banks for the issuance of the Group's bills payable and letters of credit, and for the grant of bank loans to the Group. Further details of the bank loan are set out in note 31 below.

28. TRADE PAYABLES

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 6 months	**12,619,417**	7,621,457
6 months to 1 year	**650,811**	460,652
Over 1 year	**405,961**	332,935
	13,676,189	8,415,044

	Group	
	2009	2008
	RMB'000	*RMB'000*
Trade payables denominated in:		
Japanese Yen	**31,761**	67,823
United States Dollars	**3,016**	12,041
Hong Kong Dollars	**11,356**	—
Euros	**1,656**	403
Great Britain Pounds	**39**	—
Australian Dollars	**12**	—
	47,840	80,267

28. TRADE PAYABLES (CONTINUED)

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
CSRG Group	**286,775**	34,268
Jointly-controlled entities	**92,029**	55,115
	378,804	89,383

The above balances are unsecured, interest-free and repayable on similar credit terms to those offered by major suppliers of the Group.

29. BILLS PAYABLE

The maturity profile of the bills payable of the Group at the end of the reporting period is as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 6 months	**4,975,387**	3,127,130
	4,975,387	3,127,130

The amounts due to the related parties of the Group included in bills payable can be analysed as follows:

	2009	2008
	RMB'000	*RMB'000*
— CSRG Group	**12,850**	6,410
— Jointly-controlled entities	**17,592**	—
	30,442	6,410

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

30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other payables	**1,662,207**	1,390,908	**4,959,601**	1,802,974
Advances from customers	**5,174,616**	6,252,075	**—**	—
Accruals	**760,779**	343,783	**11,081**	8,906
	7,597,602	7,986,766	**4,970,682**	1,811,880

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

	2009	2008
	RMB'000	*RMB'000*
— CSRG Group	**4,683**	9,133
— Jointly-controlled entities	**100,000**	56,533
	104,683	65,666

The above balances are unsecured, interest-free and have no fixed terms of repayment.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group					
	Effective interest rate per annum (%)	**Maturity**	**2009 RMB'000**	Effective interest rate per annum (%)	Maturity	2008 RMB'000
Current						
Bank loans						
— Secured	**2.22-7.20**	**2010**	**986,326**	3.84-8.59	2009	1,500,974
— Unsecured	**1.86-5.60**	**2010**	**2,204,078**	4.37-8.96	2009	2,212,607
Current portion of long term bank loans						
— Secured	**3.23-7.12**	**2010**	**1,955**	3.20-7.58	2009	2,436
— Unsecured	**Interest-free**	**2010**	**778**	3.58	2009	26,149
Other loans						
— Secured	**4.80-5.46**	**2010**	**44**	6.57	2009	5,000
— Unsecured	**Interest-free**	**2010**	**164**	Interest-free	2009	254
			3,193,345			3,747,420

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	Group					
	Effective interest rate per annum	**Maturity**	**2009**	Effective interest rate per annum	Maturity	2008
	(%)		***RMB'000***	*(%)*		*RMB'000*
Non-current						
Bank loans						
— Secured	**Interest-free-7.12**	**2011-2035**	**37,234**	4.74-6.56	2013-2015	3,585
— Unsecured	**Interest-free**	**2011-2019**	**104,578**	Interest-free	2010-2035	661,260
Long term bond						
— Unsecured	**4.18**	**2012**	**2,000,000**			—
Other loans						
— Secured	**5.46-5.94**	**2011-2014**	**5,050**			—
— Unsecured	**Interest-free-0.3**	**2011-2012**	**25,004**	Interest-free	2010-2011	151
			2,171,866			664,996
			5,365,211			4,412,416

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	Company					
	Effective interest rate per annum	**Maturity**	**2009**	Effective interest rate per annum	Maturity	2008
	(%)		***RMB'000***	*(%)*		*RMB'000*
Current						
Bank loans						
— Unsecured	**4.37**	**2010**	**600,000**	4.37-6.72	2009	1,630,000
Non-current						
Bank loans						
— Unsecured	**5.13**	**2012**	**100,000**	7.18-7.49	2017-2022	600,000
Long term bonds						
— Unsecured	**4.18**	**2012**	**2,000,000**			—
			2,100,000			600,000
			2,700,000			2,230,000

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**3,193,137**	3,747,167	**600,000**	1,630,000
In the second year	**26,619**	1,889	**—**	—
In the third to fifth years, inclusive	**105,140**	47,287	**100,000**	—
Beyond five years	**10,053**	615,668	**—**	600,000
	3,334,949	4,412,011	**700,000**	2,230,000
Long term bonds repayable:				
In the third to fifth years, inclusive	**2,000,000**	—	**2,000,000**	—
Other borrowings repayable:				
Within one year or on demand	**208**	253	**—**	—
In the second year	**15,046**	138	**—**	—
In the third to fifth years, inclusive	**15,008**	14	**—**	—
Beyond five years	**—**	—	**—**	—
	30,262	405	**—**	—

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

The above secured bank loans and other banking facilities were secured by certain assets and their carrying values are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Property, plant and equipment	**158,764**	135,798	**—**	—
Lease prepayment	**21,273**	15,869	**—**	—
Time deposits and bank balances	**1,618,367**	657,593	**—**	—
Inventories	**57,527**	47,039	**—**	—
Other assets	**259,855**	782,981	**—**	—
	2,115,786	1,639,280	**—**	—

	Group	
	2009	2008
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings denominated in:		
Euros	**9,935**	33,073
United States Dollars	**63,917**	24,327
Great British Pounds	**96,021**	11,248
Japanese Yen	**14,381**	—
	184,254	68,648

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans				
— secured	**37,234**	3,585	**30,611**	3,638
— unsecured	**104,578**	661,260	**103,853**	706,414
Long term bonds				
— unsecured	**2,000,000**	—	**2,008,914**	—
Other loans				
— secured	**5,050**	—	**5,050**	—
— unsecured	**25,004**	151	**23,292**	135
	2,171,866	664,996	**2,171,720**	710,187

The fair value of the Company's unsecured bank loans (non-current portion) with a carrying amount of RMB100,000,000 (2008: RMB600,000,000) was RMB99,501,000 (2008: RMB650,818,000) at the end of the reporting period.

The fair value of long-term bonds at the end of the reporting period are measured at quoted market price. The fair value of other long-term borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

32. DEFINED BENEFIT OBLIGATIONS

In addition to the monthly contributions to various defined contribution pension schemes regulated by the PRC government, the Group provided supplementary pension subsidies and early retirement benefits to certain qualified employees. The amounts of employee benefit obligations recognised in the statements of financial position 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 recognised in the statements of financial position are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of the year	**2,342,540**	2,504,030	**20,782**	21,491
Interest cost recognised in administrative expenses	**47,860**	94,540	**(1,290)**	833
Amount paid	**(246,650)**	(256,030)	**(2,087)**	(1,542)
At end of the year	**2,143,750**	2,342,540	**17,405**	20,782

32. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

The provision for supplemental pension subsidies and early retirement benefits recognised in the statements of financial position is determined as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Present value of unfunded obligations	**1,989,170**	2,320,670	**15,745**	17,272
Unrecognised net actuarial gain	**154,580**	21,870	**1,660**	3,510
Defined benefit liabilities recognised	**2,143,750**	2,342,540	**17,405**	20,782
Portion classified as current liabilities	**(174,010)**	(200,970)	**(1,473)**	(1,460)
Non-current portion	**1,969,740**	2,141,570	**15,932**	19,322

The net expenses recognised in the profit or loss of the Group are analysed as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Interest cost	**47,860**	94,540

32. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

The above employee benefit obligations were determined based on actuarial valuation performed by Towers Perrin, an independent actuary, whose registered office is located at 1266 Nanjing West Road, 39/F, Plaza 66, Shanghai, the PRC, using the projected unit credit actuarial cost method and the material actuarial assumptions used in valuing these obligations are as follows:

	2009	2008
	%	*%*
Discount rate adopted	**3.50%**	3.00%
Health care cost trend	**8.00%**	8.00%
Cost of living adjustment for early retirees	**8.00%**	8.00%

Interest cost are charged in the administrative expenses.

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Increase in effect on the interest cost	**1,120**	1,240
Decrease in effect on the interest cost	**(960)**	(1,040)
Increase in effect on the defined benefit obligations	**32,050**	41,320
Decrease in effect on the defined benefit obligations	**(27,290)**	(34,590)

33. PROVISION FOR WARRANTIES

		Group	
		2009	2008
	Note	***RMB'000***	*RMB'000*
At beginning of year		**169,472**	127,005
Charged for the year	6	**293,126**	168,985
Utilised during the year		**(102,780)**	(126,518)
At end of year		**359,818**	169,472
Portion classified as :			
Current liabilities		**215,094**	86,901
Non-current portion		**144,724**	82,571

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.

34. GOVERNMENT GRANTS

		Group		Company	
		2009	2008	**2009**	2008
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year		**371,289**	334,635	**500**	500
Received during the year		**526,573**	227,637	**—**	—
Recognised as other income and gains during the year	5	**(299,961)**	(190,983)	**(500)**	—
At end of year		**597,901**	371,289	**—**	500
Current portion		**(48,783)**	(53,794)	**—**	(500)
Non-current portion		**549,118**	317,495	**—**	—

35. EQUITY

Share capital	Company 2009 Number of shares	Nominal value RMB'000	2008 Number of shares	Nominal value RMB'000
Registered and fully paid				
— State-owned shares of RMB1.00 each	**6,520,285,714**	**6,520,286**	6,816,000,000	6,816,000
— A shares of RMB1.00 each	**3,295,714,286**	**3,295,714**	3,000,000,000	3,000,000
— H shares of RMB1.00 each	**2,024,000,000**	**2,024,000**	2,024,000,000	2,024,000
	11,840,000,000	**11,840,000**	11,840,000,000	11,840,000

During the year, 300,000,000 shares of A shares held by State-owned shareholders of the Company are requested to be transferred to the PRC National Council for Social Security Fund ("NSSF") for the reduction of State-owned shares. As at 31 December 2009, 295,714,286 shares held by CSRG has been transferred to NSSF, while the transfer of the remaining 4,285,714 shares held by Beijing Railway Industry Trade Company ("BRIT") to NSSF has not completed.

35. EQUITY (CONTINUED)

Equity movement

	Company					
	Share Capital	Capital reserve	Common statutory reserve fund	Retained profits	Proposed final dividends	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	7,000,000	1,688,479	—	—	—	8,688,479
Total comprehensive income for the year	—	—	—	590,467	—	590,467
Capital contribution from a promoter *(note a)*	—	24,470	—	—	—	24,470
Issue of share *(note b)*	4,840,000	5,509,693	—	—	—	10,349,693
Transfer from profit	—	—	59,047	(59,047)	—	—
Proposed final 2008 dividend	—	—	—	(378,880)	378,880	—
At 31 December 2008	11,840,000	7,222,642	59,047	152,540	378,880	19,653,109
Total comprehensive income for the year	—	—	—	907,074	—	907,074
Transfer from profit	—	—	90,707	(90,707)	—	—
Dividends distributed to the shareholders	—	—	—	—	(378,880)	(378,880)
Proposed final 2009 dividend	—	—	—	(473,600)	473,600	—
At 31 December 2009	11,840,000	7,222,642	149,754	495,307	473,600	20,181,303

Note a: In January 2008, BRIT contributed cash of RMB24.5 million to the Company, and this cash contribution was recorded as capital reserve in the Company's financial statements for the year ended 31 December 2008.

Note b: As approved by the China Securities Regulatory Commission through the approval document Zheng Jian Xu Ke [2008] No. 961, the Company initially and publicly issued 3,000,000,000 ordinary A shares denominated in Renminbi through an initial public offering in the domestic market in August 2008. The issue price was RMB2.18 per A share, with total proceeds of approximately RMB6,540 million. After deducting the offering expenses, the net proceeds amounted to RMB6,369 million. The A shares were listed on the Shanghai Stock Exchange on 18 August 2008.

As approved by the China Securities Regulatory Commission through the approval document Zheng Jian Xu Ke [2008] No. 883, the Company issued a total of 1,600,000,000 H shares in August 2008. These new H shares together with 160,000,000 shares as transferred by the state-owned shareholders of the Company to the PRC NSSF for the reduction of state-owned shares which have been converted into H shares were listed on the HKSE on 21 August 2008. On 12 September 2008, an Over-allotment Option (as defined in the Company's prospectus dated 8 August 2008) was exercised in full and 240,000,000 additional H shares were issued to the public. In addition, the relevant state-owned shareholders of the Company transferred another 24,000,000 state-owned shares to the NSSF and converted into H shares and these shares were listed on the HKSE on 19 September 2008. The issue price of the H shares was HK$2.60 per share and the net proceeds on the issuance of 1,840,000,000 H shares amounted to RMB3,980 million (after deducting the offering expenses).

35. EQUITY (CONTINUED)

In accordance with the PRC Company law and articles of association of the Company, the Company has transferred RMB90,707,000 to the common statutory reserve fund for the year ended 31 December 2009. This amount represented the Company's 10% after-tax profit determined under PRC GAAP. The Company distributed dividends of RMB378,880,000 to the shareholders of the Company.

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 IFRSs. 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 years' cumulative losses, if any.

(ii) Allocation 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 this reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

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

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

36. COMMITMENTS

OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases certain property, plant and equipment under operating lease arrangements negotiated for terms ranging from 1 to 15 years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2009 ***RMB'000***	2008 *RMB'000*
Within one year	**26,796**	18,694
In the second to fifth years, inclusive	**39,936**	28,182
More than five years	**5,150**	4,147
	71,882	51,023

(b) As lessee

The Group leases certain of its land and buildings and property, plant and equipment under operating lease arrangements negotiated for terms ranging from 1 to 15 years.

The Group's future minimum rental payables under non-cancellable operating leases in respect of land and buildings at the end of the reporting period are as follow:

	2009 ***RMB'000***	2008 *RMB'000*
Within one year	**17,794**	14,402
In the second to fifth years, inclusive	**39,936**	54,549
More than five years	**72,266**	68,768
	129,996	137,719

36. COMMITMENTS (CONTINUED)

CAPITAL COMMITMENTS

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

	2009 **RMB'000**	2008 *RMB'000*
Contracted, but not provided for:		
— Property, plant and equipment	**1,726,671**	2,391,586
— Lease prepayments	**56,512**	43,494
— Other intangible assets	**320,761**	124,950
	2,103,944	2,560,030
Authorised, but not contracted for:		
— Property, plant and equipment	**1,019,299**	2,688,961
— Other intangible assets	**—**	4,436
	1,019,299	2,693,397

37. CONTINGENT LIABILITIES

As at 31 December 2009 and 2008, the Group had no significant contingent liabilities.

The Company had the following contingent liabilities not provided for in the financial statements at the end of the reporting period:

	Company	
	2009 **RMB'000**	2008 *RMB'000*
Guarantees given to banks in connection with facilities granted to:		
Subsidiaries	**13,820,519**	4,007,180

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB3,131,151,000 (2008: RMB2,398,064,000).

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year.

In the opinion of the directors, the transactions below were conducted in the ordinary course of business of the Group and are in accordance with the terms agreed between the Group and its related parties.

	Group	
	2009	2008
	RMB'000	*RMB'000*
(a) Purchases of materials and components from:		
— CSRG Group	**690,449**	240,094
— Jointly-controlled entities	**296,842**	446,760
	987,291	686,854
(b) Sale of goods to:		
— CSRG Group	**72,460**	459,070
— Jointly-controlled entities	**831,634**	352,862
— An associate	**84,288**	—
	988,382	811,932
(c) Purchase of property, plant and equipment from:		
— CSRG Group	**70**	119,515
(d) Provision of services to:		
— CSRG Group	**10,915**	26,564
(e) Rental of property, plant and equipment from:		
— CSRG Group	**12,830**	10,696
(f) Sale of property, plant and equipment to:		
— CSRG Group	**—**	16,008

38. RELATED PARTY TRANSACTIONS (CONTINUED)

	Group 2009 RMB'000	2008 RMB'000
(g) Compensation of key management personnel of the Group:		
Short term employee benefits	**6,239**	6,092
Post-employment benefits	**276**	252
Total compensation paid/payable to key management personnel	**6,515**	6,344

For the changes of key management personnel occurred during the year, the above compensation was based on the actual period of their tenure of office. Further details of directors' emoluments are included in note 8 to the financial statements.

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

As at 31 December 2009

Group

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Available-for-sale investments	—	31,117	—	31,117
Financial assets at fair value through profit or loss	—	—	24,248	24,248
Trade receivables	6,638,161	—	—	6,638,161
Bills receivable	999,097	—	—	999,097
Financial assets included in prepayments, deposits and other receivables	790,066	—	—	790,066
Pledged deposits	1,618,367	—	—	1,618,367
Cash and cash equivalents	11,273,147	—	—	11,273,147
	21,318,838	31,117	24,248	21,374,203

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2009

Group (Continued)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade payables	13,676,189
Bills payable	4,975,387
Financial liabilities included in other payables and accruals	1,716,470
Financial liabilities included in other non-current liabilities	3,209
Interest-bearing bank and other borrowings	5,365,211
	25,736,466

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2009

Company

Financial assets

	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	678	678
Loans to subsidiaries *(note 18)*	244,000	—	244,000
Financial assets included in prepayments, deposit and other receivables	3,730,880	—	3,730,880
Pledged deposits	8,358	—	8,358
Cash and cash equivalents	4,333,843	—	4,333,843
	8,317,081	678	8,317,759

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	4,962,678
Interest-bearing bank and other borrowings	2,700,000
	7,662,678

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2008

Group

Financial assets

	Loans and receivables	Available-for-sale financial assets	Financial assets at fair value through profit or loss designated as such upon initial recognition	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	—	30,640	—	30,640
Financial assets at fair value through profit or loss	—	—	100,000	100,000
Trade receivables	5,995,583	—	—	5,995,583
Bills receivable	399,650	—	—	399,650
Financial assets included in prepayments, deposits and other receivables	859,630	—	—	859,630
Pledged deposits	657,593	—	—	657,593
Cash and cash equivalents	11,065,179	—	—	11,065,179
	18,977,635	30,640	100,000	19,108,275

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade payables	8,415,044
Bills payable	3,127,130
Financial liabilities included in other payables and accruals	1,422,518
Financial liabilities included in other non-current liabilities	4,818
Interest-bearing bank and other borrowings	4,412,416
	17,381,926

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2008

Company

Financial assets

	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	678	678
Loans to subsidiaries *(note 18)*	294,000	—	294,000
Financial assets included in prepayments, deposit and other receivables	1,450,287	—	1,450,287
Pledged deposits	7,401	—	7,401
Cash and cash equivalents	5,984,588	—	5,984,588
	7,736,276	678	7,736,954

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	1,797,835
Interest-bearing bank and other borrowings	2,230,000
	4,027,835

40. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2009

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments:				
Equity investments	8,084	—	—	8,084
Equity investments at fair value through profit or loss	24,248	—	—	24,248
	32,332	—	—	32,332

During the year ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

As at 31 December 2009, the Company did not hold any financial instruments measured at fair value.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The board reviews and agrees on policies for managing each of these risks and they are summarised below:

Credit risk

Credit risk means the risk of loss in respect of a financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group only transacts with those third parties who are recognised as creditworthy. The Group's policy is to perform credit verification for all customers who have transactions with the Group. Further, credit limits, credit terms and sales methods are determined based on the credit 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 continuously monitors its trade receivable balance, insists that salespersons are responsible for cash collection, and persons who approve sales contracts are accountable for the collection of receivables. For receivables which are not collected in three years, the relevant personnel have the responsibility to make compensation so as to ensure that the Group will not be subject to material bad debt risk.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

The Group's other financial assets included cash and cash equivalents, and other receivables. The credit risk of these financial assets arose from the risk of default of counterparties who transacted with the Group, with maximum exposure equal to the carrying amount of these instruments.

The Group's principal customers are the Ministry of Railways and entities invested and managed by local railway departments. Since the Group only trades with third parties recognised to be creditworthy, no pledge of assets is required from the customers. Concentrations of credit risk are managed by customers.

Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate financing to repay the debts related to financial instruments. Liquidity risk may arise from liability to dispose of financial assets promptly, or arise from the counterparty who cannot repay its contracted debt obligations, or arise from liability to generate the expected cash flows.

The Group's objective is to maintain a balance between continuity and flexibility through measures such as bills settlement, loans and short term commercial paper, to adopt an appropriate combination of long term and short term financing, and to improve the financing structure.

The Group has already obtained banking facilities from various commercial banks for its working capital and capital expenditure.

The Group's management monitors the working capital position to ensure that there is adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of the Group's financial resources.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

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

As at 31 December 2009

	Group				
	Within one year or on demand	In the second year	In the third to fifth years inclusive	Beyond five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	3,335,652	131,265	2,202,552	10,421	5,679,890
Trade payables	13,676,189	—	—	—	13,676,189
Bills payable	4,975,387	—	—	—	4,975,387
Financial liabilities included in other payables and accruals	1,716,470	—	—	—	1,716,470
Financial liabilities included in other non-current liabilities	—	1,605	1,604	—	3,209
	23,703,698	132,870	2,204,156	10,421	26,051,145

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

As at 31 December 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	3,936,140	48,607	182,032	882,885	5,049,664
Trade payables	8,415,044	—	—	—	8,415,044
Bills payable	3,127,130	—	—	—	3,127,130
Financial liabilities included in other payables and accruals	1,422,518	—	—	—	1,422,518
Financial liabilities included in other non-current liabilities	1,606	1,606	1,606	—	4,818
	16,902,438	50,213	183,638	882,885	18,019,174

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

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

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

	Group	
	Increase/ (decrease) in basis points in	**Increase/ (decrease) profit before tax**
	RMB'000	*RMB'000*
Year ended 31 December 2009	100	(14,676)
	(100)	14,676
Year ended 31 December 2008	100	(13,278)
	(100)	13,278

Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. The Group's foreign risk mainly arise from sales or purchases by operating units in currencies other than the units' functional currency and from net investments in foreign operations.

The Group's businesses are mainly located in the PRC and are mainly transacted and settled in Renminbi. Certain sales, purchases and borrowings are settled in foreign currencies. The fluctuation of the exchange rates of foreign currencies against Renminbi will affect the Group's results of operations.

The Group endeavours to reduce foreign currency risk to a minimum mainly by closely monitoring market exchange rate changes and actively adopting measures.

For foreign business contracts under negotiation, the Group also requires price quotations to be based on the expected exchange rate changes. In negotiations, the Group also requires price quotations to be based on the expected exchange rate changes. When negotiating foreign business, the relevant terms should clearly state the scope of exchange rate fluctuations and the related risk to be borne by both the seller and buyer. For import activities, the relevant import entities are required to monitor the timing of settlement such that the appreciation of Renminbi can be utilised to reduce the cost of purchase.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Canadian dollar and Great Britain Pound exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). In the opinion of the directors, as the currency exposures arising from possible change in other currencies will not have any significant financial impact on the Group, the relative sensitivity is not disclosed.

	Group	
	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax
	%	*RMB'000*
Year ended 31 December 2009		
If Renminbi strengthens against Canadian dollar	20	(37,510)
If Renminbi weaken against Canadian dollar	(20)	37,510
If Renminbi strengthens against Great Britain Pound	20	18,778
If Renminbi weaken against Great Britain Pound	(20)	(18,778)
Year ended 31 December 2008		
If Renminbi strengthens against Canadian dollar	30	2,565
If Renminbi weaken against Canadian dollar	(30)	(2,565)
If Renminbi strengthens against Great Britain Pound	40	4,182
If Renminbi weaken against Great Britain Pound	(40)	(4,182)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the parent.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its business. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirement and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at 31 December 2009 and 2008 were as follows:

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**5,365,211**	4,412,416
Trade payables	**13,676,189**	8,415,044
Bills payable	**4,975,387**	3,127,130
Other payables and accruals	**7,597,602**	7,986,766
Less: Cash and cash equivalents and pledged deposits	**(12,891,514)**	(11,722,772)
Net debt	**18,722,875**	12,218,584
Total capital	**17,330,168**	16,021,128
Capital and net debt	**36,053,043**	28,239,712
Gearing ratio	**52%**	43%

Fair values

The fair value of the Group's long term borrowings at the end of the reporting period are disclosed in note 31.

The carrying amounts of all other financial instruments approximate to their fair values due to the short term to maturity.

42. EVENTS AFTER THE REPORTING PERIOD

(1) On 2 March 2010, CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd ("CSR ZELRI"), a wholly-owned subsidiary of the Company, entered into a joint venture and cooperation proposal agreement ("Proposal Agreement") with Liaoning Shuguang Automobile Group Company Limited ("Shu Guang", 遼寧曙光汽車集團股份有限公司), an independent third party of the Company. Pursuant to the Proposal Agreement, the parties proposed to proceed with, inter alia, the following transactions:

(i) CSR ZELRI and Shu Guang will both invest in the capital of Hunan CSR Times Electric Automobile Co., Ltd. ("Times Electric Automobile", 湖南南車時代電動汽車股份有限公司), a non wholly-owned subsidiary of CSR ZELRI, amounting to approximately RMB255.2 million in total, out of which approximately RMB177.0 million is expected to be invested by Shu Guang and approximately RMB78.2 million is expected to be invested by CSR ZELRI. The final percentage of equity interest to be held by each of CSR ZELRI and Shu Guang in Times Electric Automobile will be determined after completion of the due diligence;

(ii) CSR ZELRI will invest approximately RMB167.0 million in the capital of Jiangsu Changzhou Huanghai Automobile Co., Ltd. ("Changzhou Huanghai Automobile", 江蘇常州黃海汽車有限公司), a subsidiary controlled by Shu Guang. The final percentage of equity interest to be held by CSR ZELRI in Changzhou Huanghai Automobile will be determined after completion of the due diligence; and

(iii) Jointly incorporate an automobile sales company ("New JVCo") with a proposed registered capital of approximately RMB20 million. The New JVCo is proposed to be owned as to 51% by Shu Guang and 49% by CSR ZELRI respectively.

(2) The Company issued a three-year term commercial paper (10 南車 MTN1) in an amount of RMB2 billion on 3 February 2010 in the inter-bank bond market in mainland China. This commercial paper was issued at par and the interest is calculated at 4.08% per annum and will be paid in arrear annually.

43. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised IFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2010.

Basic Information of the Company

CHINESE NAME	中國南車股份有限公司
ENGLISH NAME	China South Locomotive & Rolling Stock Corporation Limited *(the "Company", "CSR", the Company and its subsidiaries collectively referred as the "Group")*
DATE OF BUSINESS REGISTRATION	28 December 2007
REGISTERED OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
BUSINESS ADDRESS OF THE HEAD OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
PRINCIPLE PLACE OF BUSINESS IN HONG KONG	Unit H, 41/F., Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong
LEGAL REPRESENTATIVE	Zhao Xiaogang
EXECUTIVE DIRECTORS	Zhao Xiaogang, Zheng Changhong, Tang Kelin, Liu Hualong
INDEPENDENT NON-EXECUTIVE DIRECTORS	Zhao Jibin, Yang Yuzhong, Chen Yongkuan, Dai Deming, Tsoi, David
AUTHORIZED REPRESENTATIVES	Liu Hualong, Wong Kai Yan, Thomas
JOINT COMPANY SECRETARIES	Shao Renqiang, Wong Kai Yan, Thomas
QUALIFIED ACCOUNTANT	Wong Kai Yan, Thomas
SECRETARY TO THE BOARD	Shao Renqiang
SECURITIES REPRESENTATIVE	Wang Gongcheng
TELEPHONE FOR INFORMATION INQUIRY	(86) 10 5186 2188
FAX	(86) 10 6398 4785
WEBSITE	www.csrgc.com.cn
E-MAIL ADDRESS	csr@csrgc.com.cn

H SHARE REGISTRAR	Computerhsare Hong Kong Investor Services Limited 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
PLACES OF LISTING	The Stock Exchange of Hong Kong Limited Shanghai Stock Exchange
STOCK NAME	CSR
STOCK CODE	1766 (Hong Kong) 601766 (Shanghai)
PRINCIPAL BANKERS	China Minsheng Banking Corp., Ltd. China CITIC Bank Corporation Limited Industrial and Commercial Bank of China Limited Bank of Communications Co., Ltd.
PRC INDEPENDENT AUDITOR	Ernst & Young Hua Ming *Certified Public Accountants* Level 16, Ernst & Young Tower (Tower E3), Oriental Plaza, No. 1 East Chang An Avenue, Dongcheng District, Beijing, the PRC
INTERNATIONAL INDEPENDENT AUDITOR	Ernst & Young *Certified Public Accountants* 18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
LEGAL ADVISERS	*As to Hong Kong laws:* Baker & Mckenze 23rd Floor, Pacific Place, 88 Queensway, Central, Hong Kong *As to PRC laws:* Jia Yuan Law Firm F407 Ocean Plaza, 158 Fuxing Men Nei Avenue, Beijing, the PRC

Designed and produced by: **Wonderful Sky Financial Group Limited** Tel.: 2851 1038

Address	**No. 16 Central West Fourth Ring Road, Haidian District, Beijing, the PRC**
Postal Code	**100036**
E-mail	**csr@csrgc.com.cn**
Website	**www.csrgc.com.cn**