CHINA SOUTH LOCOMOTIVE & ROLLING STOCK CORPORATION LIMITED

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

Stock Code: 1766

2008 ANNUAL REPORT

New CSR New Creation


COMFORT
SAFETY
RELIABILITY

Contents

Important Notice

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

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

(3) Ernst & Young Hua Ming, Certified Public Accountants, have issued standard unqualified audit report to the Company in accordance with PRC's Auditing Standards. Ernst & Young, Certified Public Accountants, Hong Kong, have issued standard unqualified audit report to the Company in accordance with International Financial Reporting Standards ("IFRS").

(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.


"To manufacture
top-grade products"

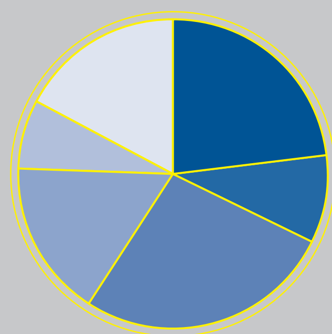
Results Highlights

In recent years, the State has increased investment in infrastructure construction of rail transportation, which provide a favourable platform for the development of the Company. In 2008, taking advantages of the increased investment of the State in equipment of rail transportation and greater efforts on development of new business and overseas market expansion by the Company, the business of the Company continued to expand with a substantial growth in profitability. During year 2008, revenue of the Company increased by **30.93%** to **RMB35,093 million** *as compared with that of last year. Profit before tax increased by* **103.65%** to **RMB1,931 million** *as compared with last year. Profits attributable to shareholders of the Company increased by* **125.77%** to **RMB1,384 million** *as compared with that of last year. Basic earnings per share increased by* **76.40%** to **RMB15.7 cents.**

The following table sets out the revenue from each business segment of the Company:

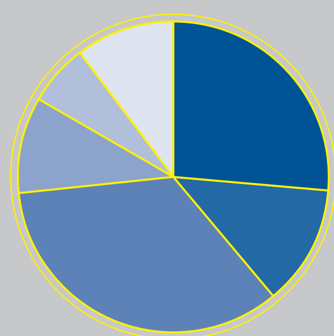
The % of business segment in 2008

Locomotives	23.19%
Passenger carriages	9.30%
Freight wagons	26.93%
Multiple units ("MUs")	16.18%
Rapid transit vehicles	7.34%
Other	17.06%

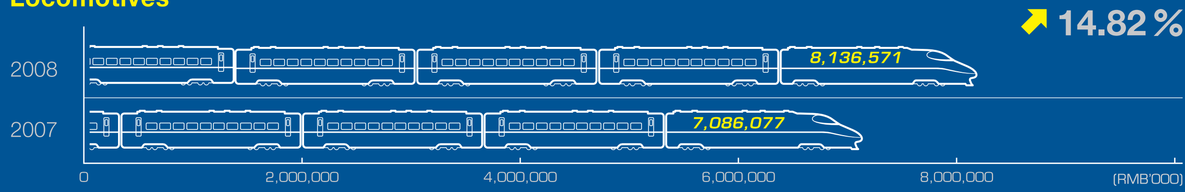


The % of business segment in 2007

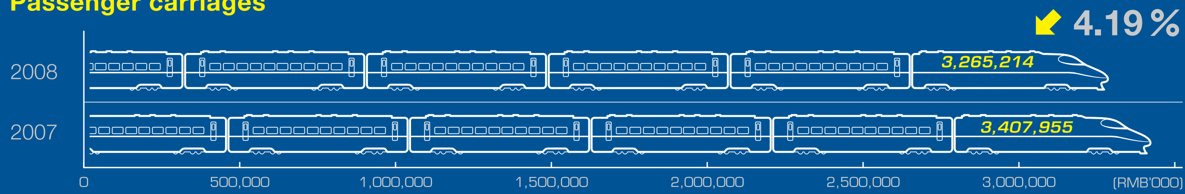
Locomotives	26.44%
Passenger carriages	12.71%
Freight wagons	34.30%
Multiple units ("MUs")	10.00%
Rapid transit vehicles	6.34%
Other	10.21%



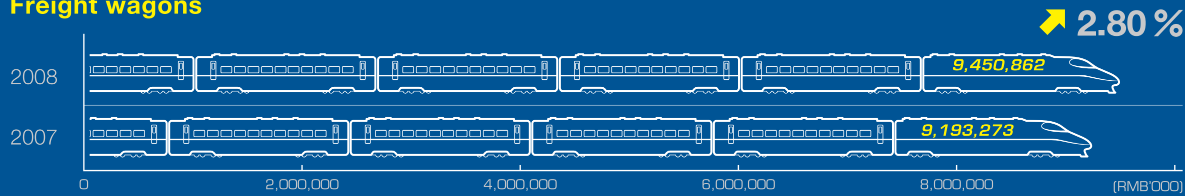
Locomotives



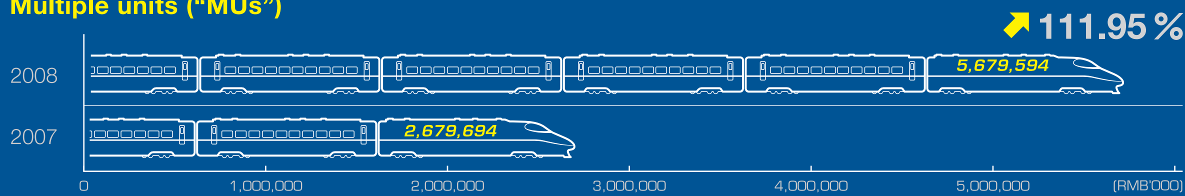
Passenger carriages



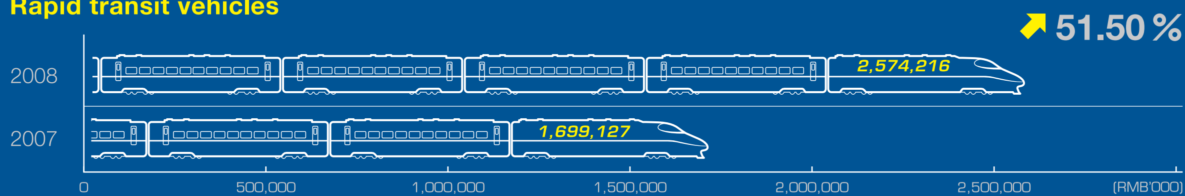
Freight wagons



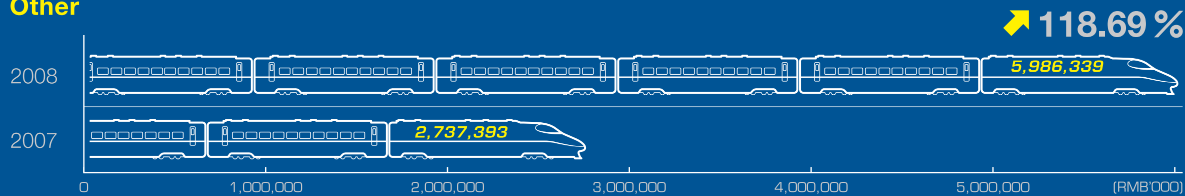
Multiple units ("MUs")



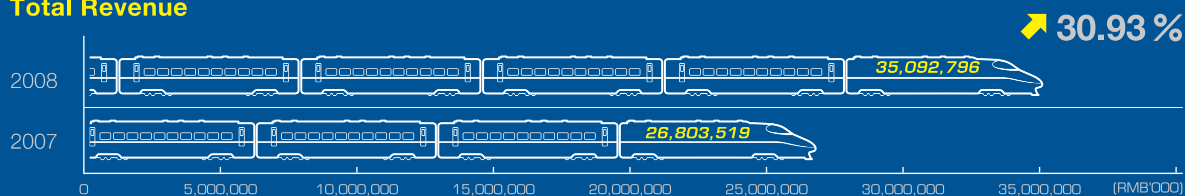
Rapid transit vehicles



Other



Total Revenue



Major financial indicators:

Currency: RMB

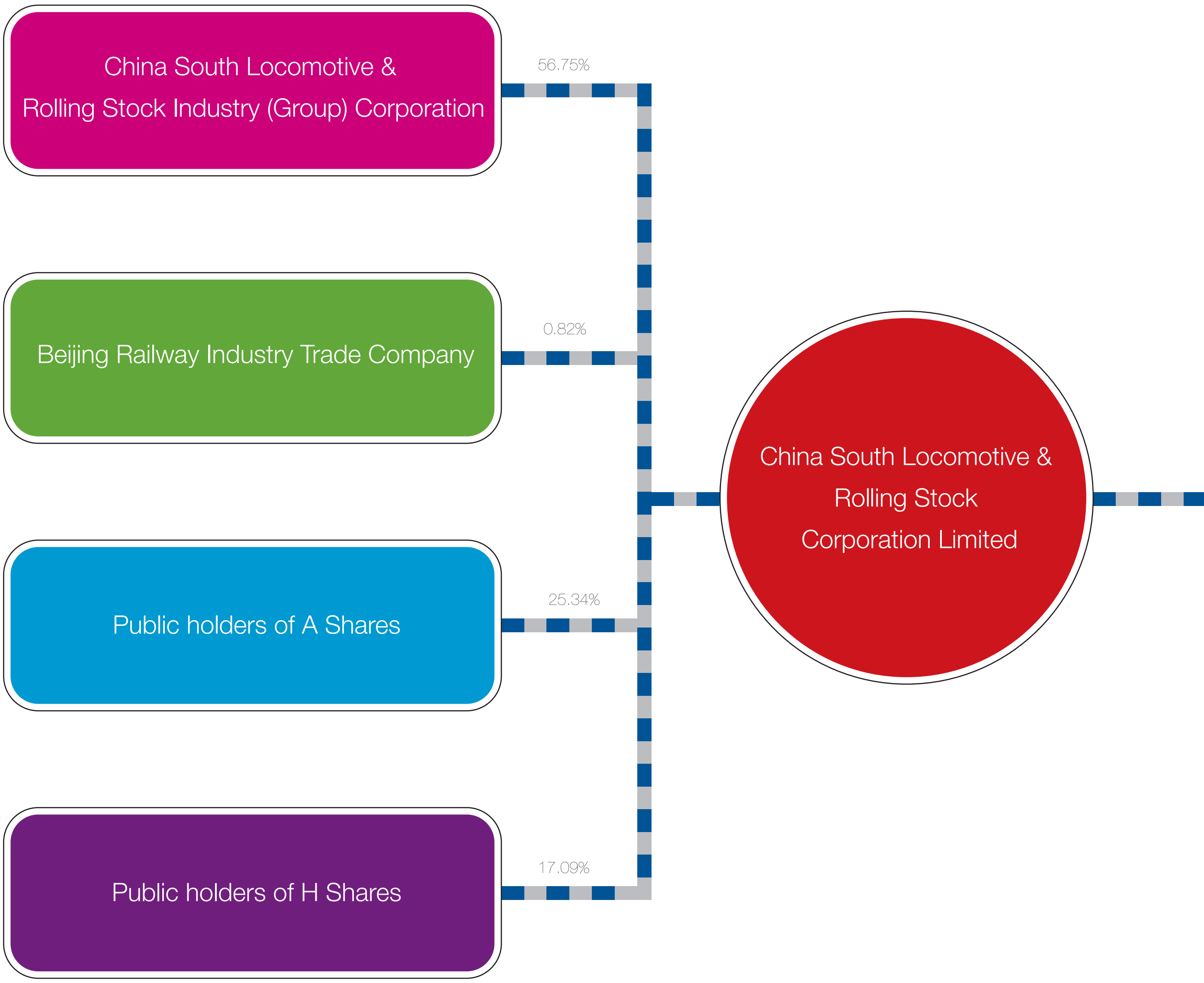
Item	**2008**	2007	Increase/ Decrease %
Revenue *(RMB million)*	**35,093**	26,804	30.93
Profit after tax *(RMB million)*	**1,686**	875	92.69
Profit attributable to equity holders of the parent of the year *(RMB million)*	**1,384**	613	125.77
Basic earnings per share *(cent/share)*	**15.7**	8.9	

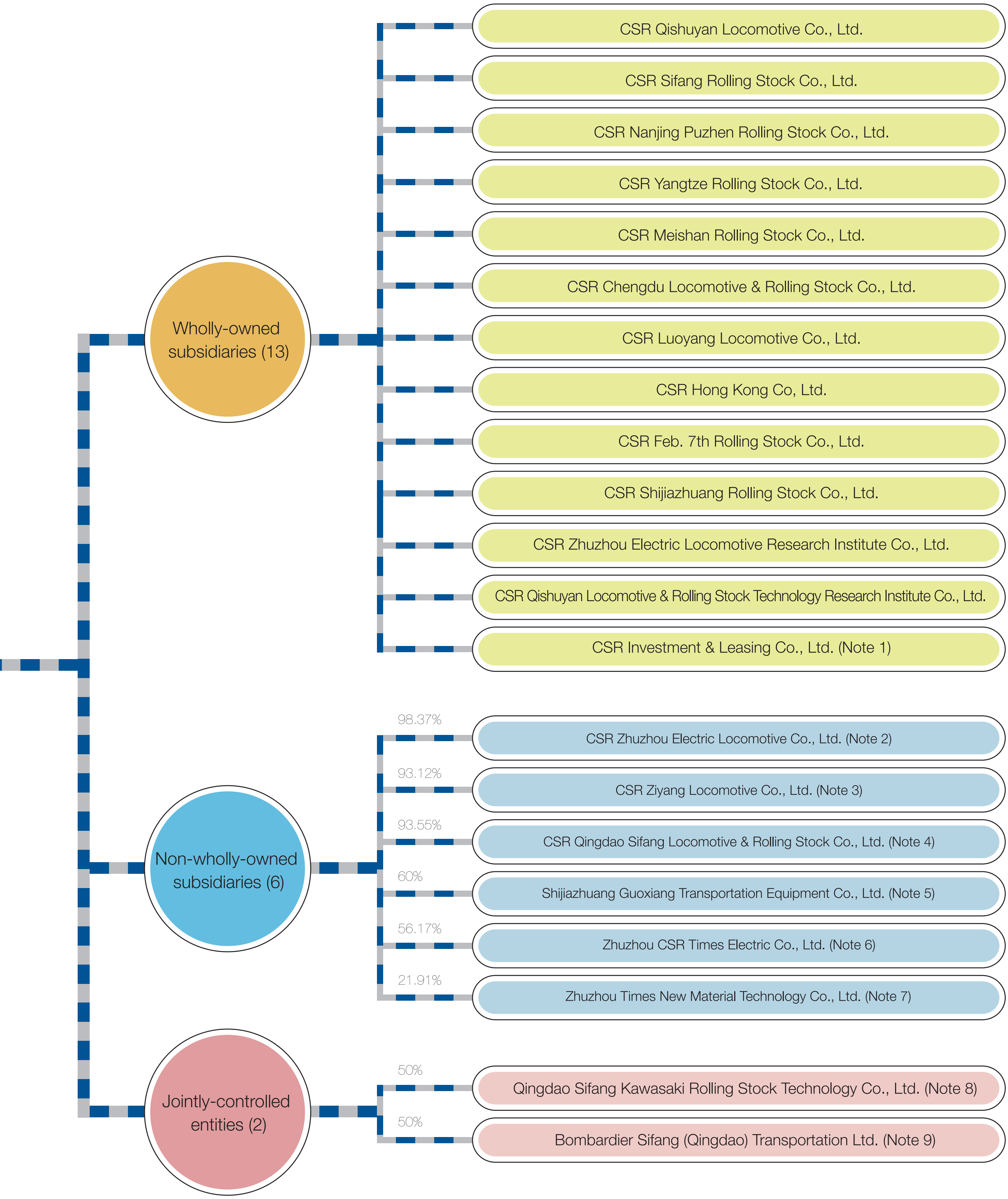
Item	**2008**	2007	Increase/ Decrease %
Total assets *(RMB million)*	**45,516**	32,691	39.23
Total liabilities *(RMB million)*	**26,874**	26,310	2.14
Total equity *(RMB million)*	**18,643**	6,381	192.15
Attributable:			
Equity attributable to equity holders of the parent *(RMB million)*	**16,021**	4,311	271.63
Shareholder interest per share *(RMB/share)*	**1.35**	0.62	

“To own top-grade technologies”

Corporate Structure Chart

AS AT 31 DECEMBER 2008, THE SHAREHOLDING STRUCTURE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES ARE AS FOLLOWS:




Wholly-owned subsidiaries (13)
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 Luoyang Locomotive Co., Ltd.
CSR Hong Kong Co, Ltd.
CSR Feb. 7th Rolling Stock 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. (Note 1)
Non-wholly-owned subsidiaries (6)
98.37%
CSR Zhuzhou Electric Locomotive Co., Ltd. (Note 2)
93.12%
CSR Ziyang Locomotive Co., Ltd. (Note 3)
93.55%
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. (Note 4)
60%
Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. (Note 5)
56.17%
Zhuzhou CSR Times Electric Co., Ltd. (Note 6)
21.91%
Zhuzhou Times New Material Technology Co., Ltd. (Note 7)
Jointly-controlled entities (2)
50%
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd. (Note 8)
50%
Bombardier Sifang (Qingdao) Transportation Ltd. (Note 9)

Note 1: On 2 December 2008, New Leap Transportation Equipment Investment & Leasing Co., Ltd changed its company name into CSR Investment & Leasing Co., Ltd. ("CSR Investment & Leasing Co., Ltd").

Note 2: The Company directly holds 69.01% interest in CSR Zhuzhou Electric Locomotive Co., Ltd ("CSR Zhuzhou")and holds 16.31% and 13.05% equity interest in it through CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. ("CSR ZELRI") and CSR Investment & Leasing Co., Ltd, respectively.

Note 3: The Company directly holds 81.04% interest and holds 12.08% equity interest in CSR Ziyang Locomotive Co., Ltd. ("CSR Ziyang") through CSR Investment & Leasing Co., Ltd.

Note 4: During the year, CSR Sifang Locomotive & Rolling Stock Co., Ltd. changed its company name into CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. ("CSR Sifang Co., Ltd"). The registration of the relevant modification above was completed on 29 December 2008.

Note 5: The Company holds 60% equity interest in CSR Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. through CSR Shijiazhuang Rolling Stock Co., Ltd. ("CSR Shijiazhuang").

Note 6: The Company holds 54.38%, 0.87% and 0.92% equity interest in Zhuzhou CSR Times Electric Co., Ltd. through CSR ZELRI, CSR Investment & Leasing Co., Ltd and CSR Zhuzhou, respectively.

Note 7: The Company holds 16.79%, 2.11%, 1.78% and 1.23% equity interest in Zhuzhou Times New Material Technology Co., Ltd. ("Times New Material") through CSR ZELRI, CSR Zhuzhou, CSR Sifang Rolling Stock Co., Ltd. ("CSR Sifang Ltd.") and CSR Ziyang, respectively. Furthermore, Beijing Railway Industry Trade Company ("BRIT"), the promoter of the Company, and the subsidiaries of China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG" or "CSRG Group"), namely CSR Meishan Rolling Stock Works. CSR Shijiazhuang Rolling

Stock Works, CSR Nanjing Puzhen Rolling Stock Works. and CSR Zhuzhou Rolling Stock Works (collectively referred as "CSRG Shareholders") also hold 11.30%, 1.14%, 1.17%, 1.21% and 1.73% equity interest in Times New Material. Pursuant to shareholders agreements entered into between each of the CSRG Shareholders and the Company respectively on 28 November 2008, each of the CSRG Shareholders agreed to transfer the entire voting rights each of them is entitled to exercise at general meetings of Times New Material to the Company. As at the date of this report, the Company was entitled to exercise over 38% of the total voting rights at any general meeting of Times New Material, being the holder of the largest voting rights as at its general meetings. The resolution in relation to amendments to the Articles of Association and restructuring the composition of the board of directors was duly passed by the shareholders at a general meeting of Times New Material held on 23 December 2008. Upon the amendments to the Articles of Associations, the Company is entitled to control more than one half of the voting rights of the board of directors of Times New Material and the accounts of Times New Material were consolidated into the consolidated financial report of the Company in 2008 in accordance with the IFRS since then. Times New Material became a non-wholly-owned subsidiary of the Company on 23 December 2008 according to the provisions of the Rules Governing the Listing of Securities (the "Hong Kong Listing Rules") on The Stock Exchange of Hong Kong Limited.

Note 8: The Company holds directly 11% interest in Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd. and holds 39% equity interest in it through CSR Sifang Co., Ltd.

Note 9: The Company holds 50% equity interest in it through CSR Sifang Ltd.

Details of each of the subsidiaries and jointly-controlled companies of the Company as at 31 December 2008 were set out in notes 18 and 19 to the financial statements prepared in accordance with IFRS in the annual report.

"Notwithstanding the challenges and harsh conditions lying ahead, all staff of CSR are poised to leap forward with great spirit and confidence to achieve our goal."

Dear Shareholders,

Year 2008 marked an outstanding milestone in the history of CSR's development. During the year, by undergoing reorganization, integration and listing, CSR turned from a wholly state-owned enterprise into a public company. Being the Chairman of CSR, I am delighted that a number of overseas and domestic investment institutions and investors became new shareholders of CSR. Last year has been an extraordinary year but you have chosen to invest in CSR even though the global economy is stricken by the financial crisis and the global economy is facing recession. I am respectful of your courage and professionalism, and thankful for your faith and trust in CSR.

While thankful and respectful, I feel the pressure and responsibility. In the past, financing activities of listed companies in the capital market in the People's Republic of China ("PRC") were perceived by the public as "money looping" and altering such kind of perception has to resort to continuously high investors' return. Most investors may envisage the value of a company, but actual corporate value is usually not revealed in practice. It is the duties and capabilities of outstanding managers to reveal the hidden value of a corporation. I am pleased to say that, throughout the year, the Board and the Senior Management of CSR have gradually realised the importance of unveiling such hidden value of the Company, and tremendous efforts have been placed on taking initiatives in technical innovation, market expansion, resources reallocation, scientific management, talent training and corporate cultural branding which have achieved remarkable results. In this regard, our team and members are comparable to pioneers and gold miners in that our duties are to explore and mine the gold for our investors.

During the year, defying market gravity, our operating revenue and net profit attributable to the parent company increased by 30.93% and 125.77%, respectively. Our efforts were proven in the capital market. As at the end of 2008, the A share price of CSR increased by 97.7% as compared to the offer price whilst that of the H shares increased by 61.9%. Nevertheless, we thoroughly understand that there is still a long way to go and we would not be carried away by such success. It was March 2009 when I wrote this letter, which was at a time when the PRC and global economy were facing the severest financial crisis in a century. Notwithstanding the challenges and harsh conditions lying ahead, all staff of CSR are poised to leap forward with great spirit and confidence to achieve our goal.

Zhaoxiaogang

Zhao Xiaogang
Chairman

April 2009

Financial Summary

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

"To nurture top-grade staff members"

"To offer the most valuable green products to customers"

Changes in Share Capital and Particulars of Shareholders

(I) SHARE CAPITAL STRUCTURE

The Company was promoted and established by CSRG and its wholly owned subsidiary, BRIT, on 28 December 2007. Upon establishment, CSRG and BRIT held 7 billion domestic shares, the total shares in issue of the Company. On 18 August 2008 and 21 August 2008, the Company's A Shares and H Shares were listed on the Shanghai Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), respectively. The over-allotment option was exercised in full on 12 September 2008.

Set out below is the Company's share capital structure immediately after completion of the issue of A Shares, the global offering of H Shares and exercise of the over-allotment option:

Name of Shareholders	Nature	Number of Shares	Approximate percentage of share capital in issue (%)
CSRG	A Shares	6,718,628,571	56.75
BRIT*	A Shares	97,371,429	0.82
Public holders of A Shares	A Shares	3,000,000,000	25.34
Public holders of H Shares**	H Shares	2,024,000,000	17.09
Total		11,840,000,000	100.00

* BRIT is a wholly-owned subsidiary of CSRG.

** Include the shares held by National Council for Social Security Fund.

(II) CHANGES IN SHARE CAPITAL

1. Changes in share capital

As at 31 December 2008, the changes in share capital of the Company were as follows:

Unit: Share

	Before the change		Increase/decrease (+, -)					After the change	
	Quantity	Percentage (%)	New issue	Bonus share issue	Transfer of capital reserve into share capital	Others	Subtotal	Quantity	Percentage (%)
I. Shares subject to trading moratorium									
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned legal person shares	7,000,000,000[1]	100	–	–	–	(184,000,000)[2]	(184,000,000)	6,816,000,000[3]	57.57
3. Other domestic shares	–	–	600,000,000	–	–	(600,000,000)	–	–	–
Domestic non state-owned legal person shares	–	–	600,000,000	–	–	(600,000,000)	–	–	–
Domestic natural person shares	–	–	–	–	–	–	–	–	–
4. Foreign shares	–	–	–	–	–	–	–	–	–
Overseas legal person shares	–	–	–	–	–	–	–	–	–
Overseas natural person shares	–	–	–	–	–	–	–	–	–
Total shares subject to trading moratorium	7,000,000,000	100	600,000,000	–	–	(784,000,000)	(184,000,000)	6,816,000,000	57.57
II. Shares not subject to trading moratorium									
1. Ordinary shares denominated in RMB	–	–	2,400,000,000[4]	–	–	600,000,000[4]	3,000,000,000	3,000,000,000	25.34
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	–	–	1,840,000,000[5]	–	–	184,000,000[2]	2,024,000,000	2,024,000,000	17.09
4. Others	–	–	–	–	–	–	–	–	–
Total shares not subject to trading moratorium	–	–	4,240,000,000	–	–	784,000,000	5,024,000,000	5,024,000,000	42.43
III. Total number of shares	7,000,000,000	100	4,840,000,000	–	–	–	4,840,000,000	11,840,000,000	100

Notes:

(1) The Company was promoted and established by CSRG and its wholly owned subsidiary BRIT on 28 December 2007. Upon establishment, CSRG and BRIT held 6,900,000,000 and 100,000,000 domestic shares of the Company, representing 98.57% and 1.43% of the issued share capital of the Company, respectively.

(2) The Company has issued in total 1.84 billion overseas listed foreign shares (H shares) (upon the full exercise of over-allotment option). In accordance with the relevant provisions of reduction of state-owned shares, the Company's shareholders of state-owned legal person shares, CSRG and BRIT, transferred 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) The State-owned shares held by CSRG and BRIT are subject to a lock-up period of 36 months from the date of A Share listing (18 August 2008).

(4) The Company issued 3 billion A shares in total, among which, 2.4 billion shares are circulating shares not subject to trading moratorium, while the other 600 million domestic shares (A shares under off-line placement) were subject to trading moratorium when issued and such shares were listed on 18 November 2008.

(5) Among the 1.84 billion overseas listed foreign invested shares (H Shares) (upon the full exercise of over-allotment option) issued by the Company, 267,576,000 H Shares were placed to China Life Insurance Company Limited, GE Capital Equity Investments Ltd and Mirae Asset Global Investments (Hong Kong) Limited, which are subject to a moratorium period of 6 months from the date of H Share Listing (21 August 2008). Such shares were listed on 23 February 2009.

2. Approval of changes in share capital

As approved by the China Securities Regulatory Commission ("CSRC") and the Shanghai Stock Exchange, the Company issued 3,000,000,000 A Shares at a price of RMB2.18 per share in August 2008, with a par value of RMB1 each. Such A Shares were listed on the Shanghai Stock Exchange on 18 August 2008.

As approved by the CSRC and the Stock Exchange, 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), with a par value of RMB1 each in August 2008. Such H Shares were listed on the Stock Exchange on 21 August 2008. On 12 September 2008, upon the full exercise of over-allotment option, the Company issued 240,000,000 H Shares at a price of HK$2.6 per share. Upon the full exercise of over-allotment option, the Company has 1,840,000,000 H Shares in issue.

Save as the initial public offerings of A Shares and H Shares in 2008, the total number of shares and the share capital structure has not changed as a result of any bonus issue, capitalisation or share placement during the Reporting Period.

3. Transfer procedures for the changes in share capital

Share registration procedures for the initial public offering of the A Shares referred to above were completed by Shanghai Branch of China Securities Depository and Clearing Corporation Limited in August 2008. Share registration procedures for the 1,600,000,000 shares issued under the initial public offering of the H Shares were completed by Computershare Hong Kong Investor Services Limited in August 2008. Share registration procedures for the 240,000,000 H Shares issued upon the exercise of the over-allotment option were completed by Computershare Hong Kong Investor Services Limited in September 2008.

4. Changes in shares subject to trading moratorium

Name of Shareholders	Number of shares subject to trading moratorium at the beginning of the 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
CSRG Group	–	–	6,718,628,571	6,718,628,571	Promoter shareholder undertook that its A Shares would be subject to a moratorium period of 36 months from the date of A Shares listing	18 August 2011
BRIT	–	–	97,371,429	97,371,429	Promoter shareholder undertook that its A Shares would be subject to a moratorium period of 36 months from the date of A Shares listing	18 August 2011
Offline placement of A shares	–	600,000,000	600,000,000	–	A Shares shall be subject to a moratorium period of 3 months from the date of A Share listing	18 November 2008
Corporate investors of H shares	–	–	267,576,000	267,576,000	H Shares shall be subject to a moratorium period of 6 months from the date of H Share listing	23 February 2009
Total	–	600,000,000	7,683,576,000	7,083,576,000	–	–

(III) ISSUE AND LISTING OF SECURITIES

1. Issue of securities during last three years

Unit: Share

Type of share and its derivative securities	Date of issue	Issue price	Number of 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 full exercise of the over-allotment option on 12 September 2008.

2. Changes in total shares and share capital structure

Save as the initial public offerings of the A Shares and H Shares in 2008, the total number of shares and the share capital structure had not changed as a result of any bonus issue, capitalisation 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.

(IV) PARTICULARS OF SHAREHOLDERS

1. Total number of shareholders

As at the end of the Reporting Period, the Company had 245,020 shareholders in total, including 240,868 holders of A Shares and 4,125 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	Shares pledged or frozen
CSRG Group	State-owned legal person	56.75	6,718,628,571	(181,371,429)	6,718,628,571	Nil
HKSCC NOMINEES LIMITED	Overseas legal person	17.03	2,016,484,000	–	267,576,000	Unknown
Industrial and Commercial Bank of China- South Excellent Performance Growth Stock Investment Fund	Others	1.49	176,575,876	–	–	Unknown
BRIT	State-owned legal person	0.82	97,371,429	(2,628,571)	97,371,429	Nil

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	Shares pledged or frozen
China Construction Bank-China AMC Prime Growth Stock Investment Fund (中國建設銀行－華夏優勢增長股票型證券投資基金)	Others	0.59	69,999,914	–	–	Unknown
Agricultural Bank of China-Dacheng Innovation Growth Mixed Securities Investment Fund	Others	0.51	60,000,000	–	–	Unknown
Industrial and Commercial Bank of China-Universal Balanced Growth Stock Investment Fund	Others	0.44	51,670,945	–	–	Unknown
Industrial and Commercial Bank of China -Universal Growth Focus Stock Investment Fund	Others	0.43	50,449,685	–	–	Unknown
Industrial and Commercial Bank of China-Invesco-Great Wall New Growth Stock Investment Fund (中國工商銀行－景順長城新興成長股票型證券投資基金)	Others	0.34	40,083,860	–	–	Unknown
Bank of China Limited -AIG-Huatai Flourishing China Stock Securities Investment Fund	Other	0.33	39,488,572	–	–	Unknown

Note:

1. H Shares held by HKSCC Nominees Limited were shares held by it on behalf of various customers.

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

3. Industrial and Commercial Bank of China-Universal Balanced Growth Stock Investment Fund and Industrial and Commercial Bank of China -Universal Growth Focus Stock Investment Fund are funds managed by China Universal Asset Management Company Limited. Apart from the above, the Company is not aware of any connections among the aforesaid shareholders.

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	1,748,908,000	Overseas listed foreign invested shares
Industrial and Commercial Bank of China-South Excellent Performance Growth Stock Investment Fund	176,575,876	Ordinary shares denominated in RMB
China Construction Bank -China AMC Prime Growth Stock Investment Fund (中國建設銀行－華夏優勢增長股票型證券投資基金)	69,999,914	Ordinary shares denominated in RMB
Agricultural Bank of China-Dacheng Innovation Growth Mixed Securities Investment Fund	60,000,000	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China-Universal Balanced Growth Stock Investment Fund	51,670,945	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China -Universal Growth Focus Stock Investment Fund	50,449,685	Ordinary shares denominated in RMB

Unit: Share

Name of Shareholders	Number of shares not subject to trading moratorium held	Type of share
Industrial and Commercial Bank of China -Invesco-Great Wall New Growth Stock Investment Fund	40,083,860	Ordinary shares denominated in RMB
Bank of China Limited -AIG-Huatai Flourishing China Open-end Stock Investment Fund	39,488,572	Ordinary shares denominated in RMB
Bank of Communications-China AMC Blue Chip Core Mixed Stock Investment Fund (LOF)	38,522,387	Ordinary shares denominated in RMB
China Construction Bank-First State Cinda Leaders Growth Equity Fund	36,972,199	Ordinary shares denominated in RMB
Connections or parties acting in concert among the aforesaid shareholders	(1) Industrial and Commercial Bank of China-Universal Balanced Growth Stock Investment Fund and Industrial and Commercial Bank of China -Universal Growth Focus Stock Investment Fund are funds managed by China Universal Asset Management Co., Ltd.. (2) China Construction Bank -China AMC Prime Growth Stock Investment Fund and Bank of Communications — China AMC Blue Chip Core Mixed Securities Investment Fund are funds managed by China Asset Management Co., Ltd.. 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 the 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	6,718,628,571	18 August 2011	6,718,628,571	Promoter shareholder undertook that its A Shares would be subject to moratorium period of 36 months from the date of A Shares listing
2.	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.	China Life Insurance Company Limited	89,192,000	23 February 2009	89,192,000	Such H Shares shall be subject to a moratorium period of 6 months from the date of H Share listing
4.	GE Capital Equity Investment Ltd	89,192,000	23 February 2009	89,192,000	Such H Shares shall be subject to a moratorium period of 6 months from the date of H Share listing
5.	Mirae Asset Global Investments (Hong Kong) Limited	89,192,000	23 February 2009	89,192,000	Such H Shares shall be subject to a moratorium period of 6 months from the date of H Share listing

Note: The H Shares held by China Life Insurance Company Limited, GE Capital Equity Investment Ltd and Mirae Asset Global Investments (Hong Kong) Limited were held in the name of HKSCC NOMINEES LIMITED.

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

As at 31 December 2008, 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 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 2008, 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 2008, 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	6,816,000,000	69.44	57.57
Mirae Asset Global Investments (Hong Kong) Limited	Investment Manager	H Shares	Long position	205,294,000	10.14	1.73
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) (upon the full exercise of over-allotment option). In accordance with the relevant provisions of reduction of state-owned shares, the Company's shareholders of State-owned legal person shares, CSRG and BRIT, transferred 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 2008, 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 require to be recorded in the register pursuant to section 336 of Part XV of the SFO, or was otherwise a substantial shareholders (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.

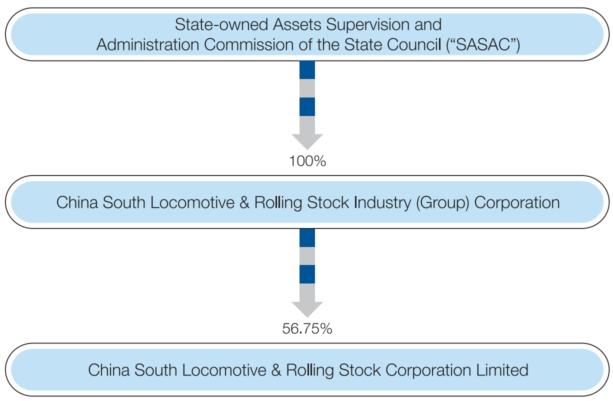
(2) Particulars of corporate ultimate controller

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



(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 2008, and save for the initial public offerings of the A Shares and H Shares, neither the Company nor any its subsidiaries purchased, sold or redeemed any of the Company's securities.

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

Directors, Supervisors and Senior Management

(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 or allowance 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	57	From 27 December 2007 to 26 December 2010	–	–	Yes	57.95	5.19	63.14	No
Zheng Changhong	Vice Chairman Executive Director President	M	53	From 27 December 2007 to 26 December 2010	–	–	Yes	57.95	5.19	63.14	No
Tang Kelin	Executive Director Vice President	M	56	From 27 December 2007 to 26 December 2010	–	–	Yes	49.25	5.19	54.44	No
Liu Hualong	Executive Director	M	46	From 27 December 2007 to 26 December 2010	–	–	Yes	49.25	5.19	54.44	No
Zhao Jibin	Independent non-executive Director	M	56	From 27 December 2007 to 26 December 2010	–	–	Yes	17.30	–	17.30	No
Yang Yuzhong	Independent non-executive Director	M	64	From 27 December 2007 to 26 December 2010	–	–	Yes	17.90	–	17.90	No
Chen Yongkuan	Independent non-executive Director	M	62	From 27 December 2007 to 26 December 2010	–	–	Yes	17.00	–	17.00	No
Dai Deming	Independent non-executive Director	M	46	From 27 December 2007 to 26 December 2010	–	–	Yes	17.60	–	17.60	No

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 or allowance 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
Tsoi, David	Independent non-executive Director	M	61	From 3 March 2008 to 26 December 2010	–	–	Yes	15.60	–	15.60	No
Wang Yan	Chairman of the Supervisory Committee	M	53	From 27 December 2007 to 26 December 2010	–	–	No	–	–	–	Yes
Li Jianguo	Supervisor	M	58	From 27 December 2007 to 26 December 2010	–	–	Yes	32.29	5.19	37.48	No
Qian Yi	Employee Representative Supervisor	M	59	From 27 December 2007 to 26 December 2010	–	–	Yes	31.66	5.19	36.85	No
Zhang Jun	Vice President	M	53	From 27 December 2007 to 26 December 2010	–	–	Yes	49.25	5.19	54.44	No
Fu Jianguo	Vice President	M	45	From 27 December 2007 to 26 December 2010	–	–	Yes	49.25	5.19	54.44	No
Zhan Yanjing	Vice President Chief Financial Officer	F	45	From 27 December 2007 to 26 December 2010	–	–	Yes	49.25	5.19	54.44	No
Shao Renqiang	Secretary to the Board	M	44	From 27 December 2007 to 26 December 2010	–	–	Yes	31.77	4.87	36.64	No

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

Directors

Zhao Xiaogang, has been the General Manager (the legal representative) and the Deputy Party Secretary of CSRG since September 2000. Since December 2007, he has served as the Chairman, an Executive Director and the 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 a Deputy General Manager of CSRG from September 2000 to May 2004, and the Party secretary and the Deputy General Manager of CSRG from May 2004 to December 2007. Since December 2007, he has served as the Vice-Chairman, an Executive Director, the President and the Deputy Party Secretary of the Company, and CSRG's Party Secretary. He is also a part-time professor of Lanzhou University.

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

Liu Hualong, served as the Chairman, the General Manager and the Deputy Party Secretary of CNRG Qiqihar Railway Rolling Stock (Group) Co. Ltd from May 2003 to May 2004, and then a 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, the Deputy Party Secretary, and the Secretary of the Disciplinary Committee of the Company and also the Deputy Party Secretary, the Secretary of the Disciplinary Committee, and the Chairman of the Labor Union of CSRG.

Zhao Jibin, has been the Chairman and the 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 the a Deputy General Manager and a member of the Party Group of China Mobile Communications Corporation since May 2008.

Yang Yuzhong, served as a Deputy General Manager of China Aviation Industry Corporation I, the Head of China Aviation Research Institute, the Chairman of AVIC I Commercial Aircraft Co., Ltd. from July 1997 to July 2006. He has been a consultant of China Aviation Industry Corporation I (now known as China Aviation Industry Corporation) since August 2006, an Independent Non-executive Director of the Company since December 2007 and an Independent Director of China Materials Company Limited since June 2007.

Chen Yongkuan, served as the Party Secretary and a 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 the Vice Chairman of China Communications Construction Group Company Ltd. and China Communications Construction Company Ltd. from July 2006 to December 2007. He has been an Independent Non-executive Director of the Company since December 2007, and also as the Chairman of the board of directors of Zhenhua (Singapore) Engineering Pte. Ltd since May 2003 and an independent director of China Metallurgical Corporation Limited 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 an independent non-executive director of Melco LottVentures Limited since October 2001 and a Director and General Manager of Alliott, Tsoi CPA Limited since September 2004. He had been the Chairman of the Asia-Pacific region of Alliot Group and an independent non-executive director of Wafer Systems Limited. Mr. Tsoi has been an Independent Non-executive Director of the Company since March 2008 and an independent non-executive director of Enviro Energy International Holdings Limited since July 2008.

Supervisors

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 Sifang Co., Ltd. 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 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 date. 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, has served as a Vice Chairman of the CSRG's labor union since December 2000. He has been the employee representative Supervisor elected by the employees of the Company since December 2007. Since January 2008, he has been the Deputy Director of the Labor Union Working Committee of the Company.

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 the Chairman of the Board of Directors and the Party Secretary of CSR Sifang Co., Ltd from July 2002 to May 2004; the Deputy Party Secretary and the Secretary of CSRG's Disciplinary Committee from May 2004 to December 2007; and the 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 Director and a Deputy Party Secretary of CSR Shijiazhuang Rolling Stock Works 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.

Ms. 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 Co. Ltd. from July 2002 to August 2004; a Director, a Deputy General Manager and the Chief Accountant of CSR Sifang Co., Ltd. from August 2004 to November 2007; and the Head of CSRG's Audit Department and a Director of CSR Sifang Co., Ltd. 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 Co., Ltd.

(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	September 2000	–	No
Wang Yan	CSRG	Assistant to General Manager	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
Tang Kelin	Yangtze Company	Chairman	August 2006	October 2008	No
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 I (now known as China Aviation Industry Corporation)	Consultant	August 2006	–	Yes
	China Materials Company Limited	Independent Director	July 2007	–	Yes
Chen Yongkuan	Zhenhua (Singapore) Engineering Pte. Ltd.	Chairman of the Board	May 2003	–	Yes
	China Metallurgical Corporation Limited	Independent Director	November 2007	–	Yes

Name	Name of other entities	Position held	Commencement of term of office	Expiration of term of office	Whether receiving remuneration or allowance
Dai Deming	Renmin University of China	Director of the Accounting Department of the School of Business	October 2001	–	Yes
	China Construction Bank Corporation	External Supervisor	June 2007	–	Yes
	Beijing Northking Technology Co., Ltd.	Independent Director	December 2007	–	Yes
Tsoi, David	Melco LottVentures Limited	Independent Non-executive Director	October 2001	–	Yes
	Alliott, Tsoi CPA Limited	Director and General Manager	September 2004	–	Yes
	Enviro Energy International Holdings Limited	Independent non-executive Director	July 2008	–	Yes
Wang Yan	CSR Sifang Co., Ltd.	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	–	No
	CSR Sifang Ltd.	Chairman of the Supervisory Committee	March 2007	–	No
Shao Renqiang	CSR Sifang Co., Ltd.	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 for Directors and members of the Senior Management. 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.

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. Directors and Supervisors not receiving remuneration or allowance from the Company

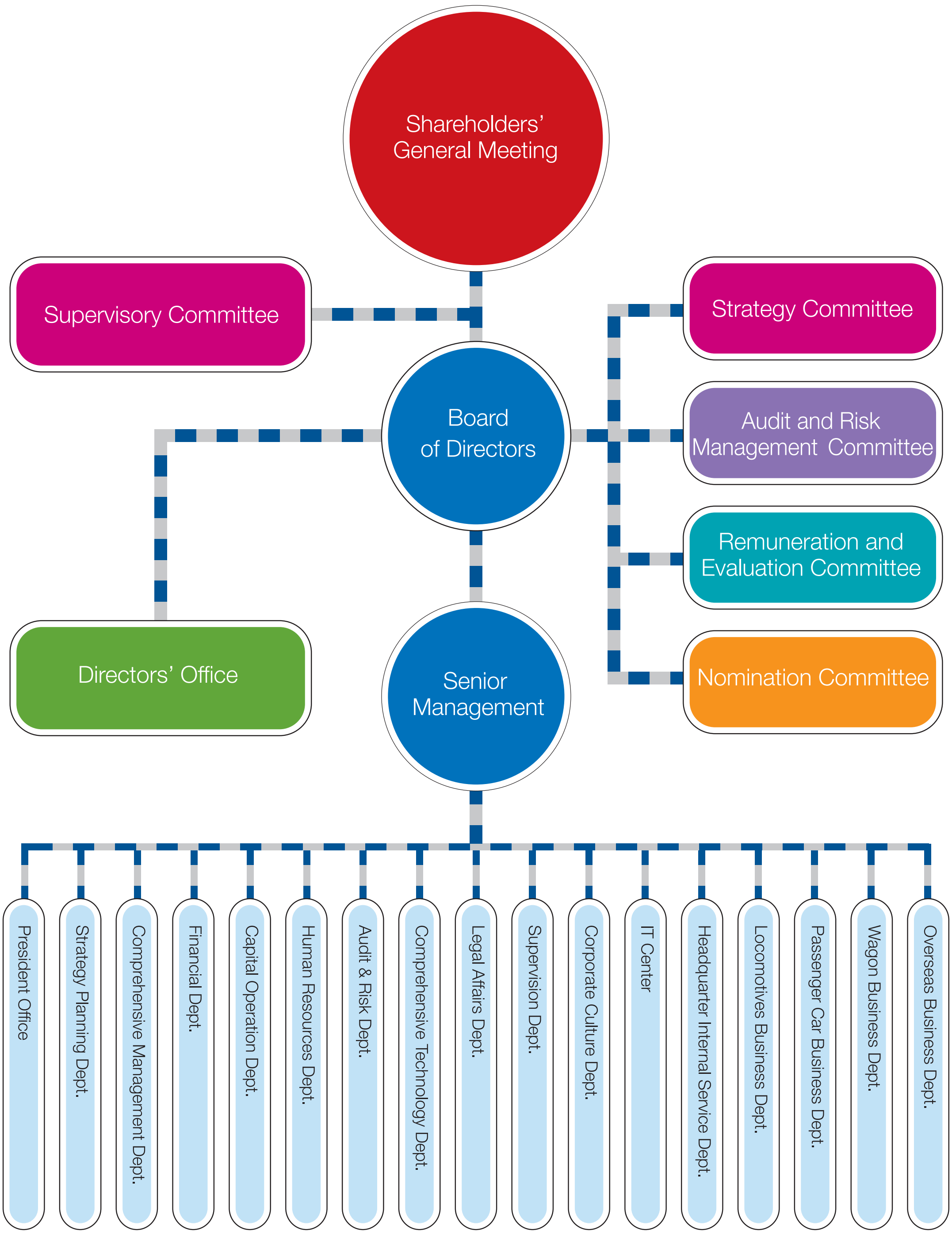
Name of Directors and Supervisors not receiving remuneration or allowance from the Company	Whether receiving remuneration and allowance from shareholders or other related entities
Wang Yan (Supervisor)	Yes

(IV) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company was established in December 2007. During the Reporting Period, none of the Directors and Supervisor resigned and no member of the Senior Management was dismissed.

"To turn the Company into the most socially responsible pioneer in the industry"

THE COMPANY'S OVERALL CORPORATE GOVERNANCE STRUCTURE IS AS FOLLOWS:



(I) CORPORATE GOVERNANCE

During the Reporting Period, as a company listed in both mainland China and Hong Kong, 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, gradually established and improved its corporate governance structure, formulated modern enterprise system, standardized its operations, improved the operation management, did its best endeavor in information disclosure, investor relations management and investor services, and committed to maintain and enhance the good image of the Company in the market. At present, the Company's corporate governance meets the requirements of regulatory documents applicable to listed companies in the PRC and Hong Kong.

During the Reporting Period, the Company effectively implemented the Articles of Association, the Rules of Procedures for General Meetings of China South Locomotive & Rolling Stock Corporation Limited (the "Rules of Procedures for General Meetings"), the Rules of Procedures for the Board Meetings of China South Locomotive & Rolling Stock Corporation Limited (the "Rules of Procedures for the Board Meetings"), the Manual for the Independent Directors of China South Locomotive & Rolling Stock Corporation Limited (the "Independent Directors' Manual"), the Rules of Procedures for the Supervisory Committee's Meetings of China South Locomotive & Rolling Stock Corporation Limited (the "Rules of Procedure for the Supervisory Committee's Meetings") and the Manual for the President of China South Locomotive & Rolling Stock Corporation Limited (the "President's Manual"). The Shareholders' General Meetings, the Board and Supervisory Committee all operated independently and fulfilled their respective rights and obligations.

(II) CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE DOCUMENTS

The codes and regulations on corporate governance practices adopted by the Company include, without limitation to, the following documents:

1. Articles of Association;

2. Rules of Procedures for General Meetings;

3. Rules of Procedures for the Board Meetings;

4. Rules of Procedures for the Supervisory Committee's Meetings;

5. Independent Directors' Manual;

6. President's Manual;

7. Manual for the Strategy Committee of the Board of China South Locomotive & Rolling Stock Corporation Limited (the "Manual for the Strategy Committee of the Board");

8. Manual for the Audit and Risk Management Committee of the Board of China South Locomotive & Rolling Stock Corporation Limited (the "Manual for the Audit and Risk Management Committee of the Board");

9. Manual for the Nomination Committee of the Board of China South Locomotive & Rolling Stock Corporation Limited (the "Working Principles for the Nomination Committee of the Board");

10. Manual for the Remuneration and Evaluation Committee of the Board of China South Locomotive & Rolling Stock Corporation Limited (the "Manual for the Remuneration and Evaluation Committee of the Board");

11. Information Disclosure Management Methods for China South Locomotive & Rolling Stock Corporation Limited (the "Information Disclosure Management Methods");

12. Management Methods on Use of Proceeds for China South Locomotive & Rolling Stock Corporation Limited (the "Management Methods on Use of Proceeds");

13. Connected Transactions Management Methods for China South Locomotive & Rolling Stock Corporation Limited (the "Connected Transactions Management Methods");

14. Investor Relations Management Methods for China South Locomotive & Rolling Stock Corporation Limited (the "Investor Relations Management Methods");

15. Rules on External Guarantees for China South Locomotive & Rolling Stock Corporation Limited (the "Rules on External Guarantees");

16. Regulations and Annual Report Working Procedures for the Audit and Risk Management Committee of the Board of China South Locomotive & Rolling Stock Corporation Limited (the "Regulations and Annual Report Working Procedures");

17. Management Methods on Shares and Changes on the Shareholdings held by Directors, Supervisors and Senior Management of China South Locomotive & Rolling Stock Corporation Limited (the "Management Methods on Shares held by the Directors, Supervisors and Senior Management");

18. Annual Report Working Rules for Independent Directors of China South Locomotive & Rolling Stock Corporation Limited. (the "Annual Report Working Rules for Independent Directors").

(III) THE COMPANY'S INDEPENDENCE FROM ITS CONTROLLING SHAREHOLDER IN TERMS OF ITS BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONS AND FINANCE

Independence in business	The Company is independent from its controlling shareholder in its business and has full power to make decisions and operate independently. The Company has all necessary qualifications and licenses for its business and has adequate funds, equipment, plants, human resources to operate its business independently.
Independence in personnel	All staff are employed independently by the Company. The Company formulates its remuneration systems and paying remuneration independently. None of the Company's Senior Management 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. No funds, assets or other resources of the Company is improperly occupied by 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.

(IV) ESTABLISHMENT OF INTERNAL CONTROL SYSTEM

1. Management and control

The Company has established a complete corporate governance structure and management control system. The Company has set up four board committees under the Board, including the Strategy Committee, Audit and Risk Management Committee, Remuneration and Evaluation Committee and Nomination Committee. There are 18 functional departments in the Company, with the Articles of Association and other internal rules and policies in place.

2. Control on information disclosure

The Company's "Administrative Measures on Information Disclosure" sets out the basic and specific rules on information disclosure including its scope of administration, duties of the parties involved, records and safekeeping system, information communication with investors, analysts and media, confidential measures and punishments in case of violation. Such rules regulate information disclosure in accordance with the applicable regulatory requirements. The implementation of such measures effectively ensures open, just and fair disclosure of information.

3. Production and operation control

The Company has formulated the "Management Rules for Legal Matters" and the "Administrative Measures on Contracts" to regulate contract managements, and has established and completed the contract legal protection system which prioritises the prevention of contractual risks, and supplemented by ongoing control and subsequent salvaging, so as to avoid operation risks and to protect the lawful interests of the Company.

The Company has formulated the “Administrative Measures on Investment” to further regulate its investment administration, which facilitate the establishment of scientific and standard investment decision-making process. The “Administrative Methods for Fixed Asset Investment Project Completion Inspection of China South Locomotive & Rolling Stock Corporation Limited” regulates supervision and management on fixed asset investment projects to ensure project quality. The “Administrative Methods on Investment Project Equipment Procurement” regulates equipment procurement, helping to lower procurement costs. The “Administrative Methods (Provisional) on Investment Project Afterward Assessment” regulates subsequent assessments of investment projects and completes the investment decision-making mechanism and strengthens the project management level as well investment returns.

The Company maintains a series of safety management systems under its safety surveillance framework, which serves to effectively prevent production accidents and protect employees’ life and health and corporate properties.

4. Internal audit control

The Company has established an independent internal audit department to report to the Board and Chairman of the Company regularly. Upon the establishment of the Company and in accordance with requirements for listed companies, the Company has developed 20 rules including the “Audit Work Rules” and 61 work templates including the templates for financial income and expense audit, which define the content and methods of the work of the internal audit department to ensure the effective supervisory function of internal audit.

5. Working plan for establishment of internal control system and its implementation

The Company has formulated and issued the “Guidelines for Management System” which defines the overall framework, target and formality of the internal control and management system, and proposes the basic category of the system. Department level internal control and management rules are drafted in light of such guidelines.

6. Establishment of supervisory departments for internal control

The Company's supervisory departments for internal control consist of the internal audit department, and the supervisory and legal affairs department. The Company's headquarters have established the audit and risk, supervisory and legal affairs unit. The first-tier subsidiaries of the Company have all established their own independent audit and compliance departments, and have their legal management personnel. There are in aggregate 138 audit personnel, 112 supervisory personnel and 39 legal management personnel from all levels of the Company.

7. The Board's arrangements on internal control activities

The Board reviews the internal control system and its operation. The supervisory departments for internal control report their supervisory work on risk management and internal control to the Audit and Risk Management Committee of the Board to enhance internal control and management capability. On 13 May 2008, the "Proposal for Considering CSR 2008 Overall Risk Management Report" was considered and passed by the second meeting of the Audit and Risk Management Committee. 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 personnel responsible for the preparing of financial statements, and discussed the audit matters of the annual report with the accounting firms. The Audit and Risk Management Committee also reviewed the reasonableness and necessity of the major connected transactions.

8. Internal control system relating to financial accounting

Since the establishment of the Company, a series of internal control rules relating to financial accounting have been formulated. The rules set out the regulations for corporate financial accounting so as to truthfully, fairly and consistently reflect various operation activities, and to provide systematic assurance for timely and regular accounting verification, assessment and reporting for the Company. While ensuring capital operation safety, the rules help to avoid operation risks and improve capital utilization rate.

(V) SELF-ASSESSMENT REPORT OF THE BOARD ON INTERNAL CONTROL

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:

The Board and the Management of the Company are responsible for establishing and implementing a complete internal control system. The goal of internal control is to ensure compliance with the laws and regulations in the Company's business operations, to ensure 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 of 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.

In establishing and enforcing the internal control system, the following basic factors have been considered:

(i) Internal environment, which includes governance structure, organization setup and division of powers and responsibilities, corporate culture, human resource policy, internal audit structure and anti-fraud system.

(ii) Risk evaluation, which includes target settings and identification, analysis and handling of risks.

(iii) 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.

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

(v) Supervision and inspection, which includes ongoing supervision on overall internal control setup and enforcement, specialized supervision for certain aspect(s) of internal control, supervision report and specific measures for improvement.

The Board has conducted self-assessment on all the above aspects of internal control in 2008. No material defect in internal control design or enforcement was found during the period from 1 January 2008 to the end of the Reporting Period.

The Board is of the opinion that the internal control system of the Company is generally complete and has been effectively enforced during the period from 1 January 2008 to the end of the Reporting Period.

(VI) 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.

(VII) PERFORMANCE OF SOCIAL RESPONSIBILITY

In 2008, in light of the corporate philosophy of "To manufacture top-grade products, to own top-grade technologies, to nurture top-grade staff members, to offer the most valuable green products to customers, and to turn the Company into the most socially responsible pioneer in the industry", the Company, while pursuing economic benefits in the shareholders' interests, has proactively protected the lawful interests of its creditors and employees, treated its customers and suppliers with honesty, and provided comfortable, safe and reliable green products to the society. The Company emphasizes resource saving and environment protection, and has actively participated in social welfare activities, so as to promote the coordinated and harmonious development of the Company and the society as a whole.

"Qinghai-Tibet Railway Project" and "Heavy Load Transportation Technology and Application for Daqin Railway", the two major projects of the Company, have respectively received special award and first-class award for technology progress from the State. The Company was honoured "The Most Trustworthy Enterprise in the PRC" and was elected one of the top 10 state-owned enterprises for 2008 by Propaganda Department of the CPC Central Committee and SASAC.

In 2008, the Company strengthened its production safety, strictly implemented production safety responsibility system, and established its production safety management system and emergency management system. The Company provides a safe, healthy and clean working environment for its employees. To step up its safety technology upgrade, the Company has invested funds for special safety modification and improvement projects in the sum of RMB20.83 million for the year.

The Company strived to counter the "5.12 earthquake" actively in 2008, by engaging in disaster relief, protection of employees' safety, preservation of production and living order, and minimization of damage from the disaster.

Through technology innovation, process upgrading, enhancing management and product development, the Company enthusiastically embarked on building energy saving enterprise, promoting clean production and developing recycling economy. Special project fund of RMB41.18 million was invested in renovating energy saving and emission reduction project of the subsidiaries. All of the Company's subsidiaries have successfully obtained ISO14001 certifications for their environmental management systems; one of the subsidiaries was honoured the "National Environment Friendly Enterprise", which is the only environment friendly exemplary enterprise in the railway and rolling stock manufacturing sector in the PRC. There was not a single pollution accident among all of the Company's subsidiaries during 2008, and environmental performance is continuously improving. On the 2008 first session of China International Recycling Economic Achievement Exhibition, the Company demonstrated its progress in energy saving and emission reduction by winning the "Excellent Display Award".

The following section headed "(viii) Corporate Governance Report" was made in compliance to the Hong Kong Listing Rules.

(VIII) CORPORATE GOVERNANCE REPORT

The Company has established the systems for corporate governance practice according to the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Hong Kong 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 nearly all 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.

The following describes the major aspects which are more stringent than code provisions set out in the CG Code:

- The Company has established the Strategy Committee alongside the Audit and Risk Management Committee, Remuneration and Evaluation Committee and Nomination Committee;

- All members of the Audit and Risk Management Committee are Independent Non-executive Directors; and

- The Company held 8 Board meetings during the Reporting Period.

I The Board

1. Board composition

The Board comprises nine Directors, including five independent Directors. Through commanding and monitoring the Company's operations, all the Directors as a whole are responsible for advancing the various matters' relating to the development and operations of the Company. Members of the Board possess necessary knowledge, ability and quality for their duty. During the Reporting Period, the Directors attended Board meetings in a conscientious and responsible manner, actively participated in training, and performed relevant rights, obligation and responsibility on a faithful, honest and diligent basis as required by the Articles of Association and the Rules of Procedures for the Board. As at the date of the report, members of the Board are set out below:

Mr. Zhao Xiaogang	Chairman of the Board and Executive Director
Mr. Zheng Changhong	Vice Chairman, Executive Director and President
Mr. Tang Kelin	Executive Director and Vice President
Mr. Liu Hualong	Executive Director
Mr. Zhao Jibin	Independent Non-executive Director
Mr. Yang Yuzhong	Independent Non-executive Director
Mr. Chen Yongkuan	Independent Non-executive Director
Mr. Dai Deming	Independent Non-executive Director
Mr. Tsoi, David	Independent Non-executive Director (as approved by the first EGM of the Company in March 2008, elected as Independent Non-executive Director)

The biographical details of the Directors and connections between them are detailed in the section headed "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 the Independent Non-executive Directors is renewable subject to a limit of not more than six years.

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. The Independent Non-Executive Directors of the Company have extensive expertise and experience. There are five Independent Non-executive Directors (more than 50% of the total number of Directors) of the Company, among whom Dai Deming and Tsoi, David are accounting professionals. The Board is of opinion that all Independent Non-executive Directors make effective independent judgement by participating in making the major decisions to fully exert their oversight and balancing functions and guaranteed the interests of the minority shareholders and the Company as a whole.

2. Duty of the Board

The Board reports to the shareholders' general meeting, and is also responsible for the completeness of the financial data as well as the effectiveness of the internal control system and risk management procedures of the Company. The Board is also responsible for the preparation and review of the financial statements of the Company. All Directors are responsible to exercise their power and duties as members of the Board in the best interests of the Company. The Board also regularly reviews performances in relation to budget and business goals set by the respective operating departments, 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 roles of the Chairman and the President are explicitly differentiated. The position of Chairman is assumed by Mr. Zhao Xiaogang while the position of President is taken up by Mr. Zheng Changhong.

3. Board Meetings

The Board meetings of the Company comprise regular meetings and extraordinary meetings. During the Reporting Period, in accordance with the CG Code, the Board held full board meeting at least once in every quarter and if necessary to make major decisions.

If a Director is connected with the enterprise that is involved in the matter to be resolved by the Board, he/she shall not exercise his/her voting rights for such matters nor exercise voting rights on behalf of any other Directors, and shall abstain from meeting, where appropriate. In the event that the number of non-connected Directors attending the Board meeting is less than three, such matter shall be submitted to the general meeting for consideration.

Minutes shall be made for the matters put to the Board meeting for consideration, on which the Directors, Secretary to the Board and the recorder present at the meeting shall sign. Opinions of the Independent Directors, among others, should be stated in the minutes of Board meeting.

The Company held 8 Board meetings during the Reporting Period. 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	8	0
Mr. Zheng Changhong	7	1
Mr. Tang Kelin	8	0
Mr. Liu Hualong	7	1
Independent Non-executive Director		
Mr. Zhao Jibin	8	0
Mr. Yang Yuzhong	8	0
Mr. Chen Yongkuan	8	0
Mr. Dai Deming	8	0
Mr. Tsoi, David*	6	1

* Mr. Tsoi, David was elected as an Independent Director of the Company in March 2008, which is at a later date than other Directors. Mr. Tsoi, David was therefore required to attend 7 Board meetings only.

4. Board Committees

For the purpose of good corporate governance, the Board has established the Audit and Risk Management Committee, Remuneration and Evaluation Committee, Strategy Committee and Nomination Committee, and specified their respective terms of references in accordance with laws, regulations and principles stipulated by the CG Code. Each committee reports its work to the Board.

(1) 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 5 meetings. The attendance of each Director of the committee is as follows:

Name of Director	Numbers of attendance/ numbers of meeting	Attendance
Dai Deming	5	100%
Yang Yuzhong	5	100%
Tsoi, David	5	100%

The Audit and Risk Management Committee reviewed the relevant information in annual and interim financial statements of the Company and duly reviewed the Chairman's Statement and the Auditors' Report. Further work of the Audit and Risk Management Committee during the Reporting Period is summarised in relevant paragraphs in "X. Reports of the Board" of this annual report.

(2) 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; 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 three meetings. The attendance of each director of the committee during the Reporting Period is as follows:

Name of Director	Numbers of attendance/ numbers of meeting	Attendance
Chen Yongkuan	3	100%
Dai Deming	3	100%
Liu Hualong	3	100%
Tsoi, David	3	100%

During the Reporting Period, the Remuneration and Evaluation Committee prepared the Stock Appreciation Rights Plans of China South Locomotive & Rolling Stock Corporation Limited. The plan was approved by the 9th meeting of the first session of the Board of the Company on 26 December 2008, subject to review by the governing authorities and approval by general meeting of the Company.

The remuneration 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. Further work of the Remuneration and Evaluation Committee during the Reporting Period is summarised in relevant paragraphs in "X. Reports of the Board" of this annual report.

(3) Nomination Committee

The nomination committee of the Company consists of three Directors, namely, Mr. Zhao Jibin (Independent Non-executive Director), Mr. Chen Yongkuan (Independent Non-executive Director) and Mr. Liu Hualong. Mr. Zhao currently serves as the chairman of the Nomination Committee. The primary responsibilities of the 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 three meetings. The attendance of each director of the committee is as follows:

Name of Director	Numbers of attendance/ numbers of meeting	Attendance
Zhao Jibin	3	100%
Chen Yongkuan	3	100%
Liu Hualong	3	100%

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 elected 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. As considered by the 2nd meeting of the first session of the Board and approved by the first EGM of the Company in March 2008, Mr. Tsoi, David was elected as Independent Non-executive Director of the Company.

Further work of the Nomination Committee during the Reporting Period is summarised in relevant paragraphs in "X. Reports of the Board" of this annual report.

(4) Strategy Committee

The Strategy Committee of the Company 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 three meetings. The attendance of each Director is as follows:

Name of Director	Numbers of attendance/ numbers of meeting	Attendance
Zhao Xiaogang	3	100%
Zheng Changhong	2	67%
Yang Yuzhong	3	100%
Zhao Jibin	3	100%
Tang Kelin	3	100%

Further work of the Strategy Committee during the Reporting Period is summarised in relevant paragraphs in "X. Reports of the Board" of this annual report.

II. Director's Responsibilities in respective 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 2008, truly and impartially reporting the financial condition and business results of the Company and the Group, and undertake relevant responsibilities for preparation of the financial statements of the Group.

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

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.

III. Chairman and President

To improve independence, accountability and responsibility, the positions of Chairman and President are assumed by different individuals with distinct roles. The Chairman and the President are two distinctly different positions, with clean division of duties as set out in the Article 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 of the Company sets out in detail the respective duties of the Chairman and the President.

IV. Establishment of Internal Control System

The Board has the ultimate responsibility for the internal control system of the Company and reviews the effectiveness of the system during the year through the Audit and Risk Management Committee. The Board values the establishment and completion of the internal control system, while the Audit and Risk Management Committee, the Management and external auditors are dedicated to improving the system. The Board is aware of its responsibility to ensure stability, completeness and effectiveness of the internal control system which provides reasonable supervision on operation risk of the Company.

The establishment of internal control system is set out in the section headed “(IV) Establishment of Internal Control System” of this chapter.

After reviewing the internal control systems of the Company and its subsidiaries, the Board is of opinion that the Company has basically completed the establishment of the internal control system. The Company will review and improve internal control practice on an ongoing basis, with reference to the Hong Kong Listing Rules and its accumulated experience, shareholder feedback, domestic and international development trend, internal and external risk change.

V. Code of Conduct regarding securities transactions by the Directors and Supervisors

The Company has adopted “Management Method Regarding the Shareholding of Directors, Supervisors and Senior Management” on terms no less exacting than the required standard of dealings 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 compliance with the required standard.

After specific inquiries with all the Directors and Supervisors, the Company confirmed that all the Directors and Supervisors have complied with the relevant codes on securities transactions by Directors and Supervisors 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” as at 31 December 2008.

VI. Auditors

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

The Company has paid Ernst & Young and Ernst & Young Hua Ming RMB12 million as annual professional auditing fees for auditing the financial statements for 2008, which fees are inclusive of operation taxes, business trip costs, accommodation and communication costs. During 2008, the Company has not engaged Ernst & Young or Ernst & Young Hua Ming for any major non-auditing services.

The Audit and Risk Management Committee has resolved to re-engage Ernst & Young and Ernst & Young Hua Ming to conduct the audit work for the financial statements prepared under IFRS and PRC Accounting Standards (2006) for the financial year of 2009. The resolution was approved by the Board, subject to final approval and authorisation by shareholders at the forthcoming 2008 Annual General Meeting.

VII. Investor Relations

The Company undertakes that it shall make impartial disclosure and full and transparent reporting. Since its listing, the Company consistently values efficient communication with investors by ensuring the Board's timely understanding of shareholders' opinions. The Secretary to the Board is responsible for specific information disclosure. Besides, the Company has established the Board Office, a dedicated department for investor relations which is 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 multi-listed companies, the Company performed its information disclosure obligation in accordance with the laws in Mainland China and Hong Kong. Discloseable information was published on a truthful, accurate, complete, timely and effective basis as required through designated newspaper, website and other statutory means, ensuring equal shareholders' access to information of the Company.

The Company will continue to improve its investor relation work to further increase its transparency. Any consultation to the Board can be made via the investor relation hotline (86) 10 5186 2188 or e-mail csr@csrgc.com.cn to the Board Office of the Company.

By order of the Board
Zhao Xiaogang
Chairman

April 2009

Shareholders' General Meeting

(I) ANNUAL GENERAL MEETING

On 4 March 2008, the Company convened the 2007 annual general meeting. The following 11 resolutions were considered and passed at the meeting: Proposal Regarding Exemption from Prior Notice of the 2007 Annual General Meeting, Proposal For Review of the 2007 Annual Report of China South Locomotive & Rolling Stock Corporation Limited, Proposal For Review of the 2008 Annual Operation Plan of China South Locomotive & Rolling Stock Corporation Limited, Proposal For Review of the Final Accounts for 2007 and Financial Budget Plan for 2008 of China South Locomotive & Rolling Stock Corporation Limited, Proposal For Review of the Investment Plan for 2008 of China South Locomotive & Rolling Stock Corporation Limited, Proposal For Review of the Development Strategy of China South Locomotive & Rolling Stock Corporation Limited, Proposal For Review of the Remuneration Plan for Chairman, Chairman of the Supervisory Committee and Independent Directors of China South Locomotive & Rolling Stock Corporation Limited, Proposal For Review of the Amendment to the Scheme of the Undistributed Accumulated Profits before the IPO of China South Locomotive & Rolling Stock Corporation Limited, Proposal For Review of the Distribution of Special Dividends of China South Locomotive & Rolling Stock Corporation Limited, Proposal For Review of the Connected Transactions of China South Locomotive & Rolling Stock Corporation Limited for 2005, 2006 and 2007, and Proposal For Review of the Expected Total Amount of Connected Transactions for 2008 of China South Locomotive & Rolling Stock Corporation Limited.

(II) EXTRAORDINARY GENERAL MEETING

1. On 3 March 2008, the Company convened the first extraordinary general meeting for 2008. Proposal Regarding Exemption from Prior Notice of the First Extraordinary General Meeting for 2008 and Proposal Regarding Election of Mr. Tsoi, David as an Independent Director of the First Board of China South Locomotive & Rolling Stock Corporation Limited were considered and approved at the meeting.

2. On 17 July 2008, the Company convened the second extraordinary general meeting for 2008. Proposal For Review of the Exemption from Prior Notice of the Second Extraordinary General Meeting for 2008, Proposal For Review of the Provision of Guarantee for Subsidiary of the Company and Proposal For Review of the Purchase of Liability Insurance for Directors, Supervisors and Senior Management of the Company were considered and approved at the meeting.

3. On 14 November 2008, the Company convened the third extraordinary general meeting for 2008, the resolutions of which were published on the websites of the Shanghai Stock Exchange, China Securities Journal, Shanghai Securities News and Securities Times and Securities Daily on 17 November 2008.

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 manufacturing. Therefore, the Company's business depends to a large extent on the development landscape as well as the infrastructural investment of rail transportation in the PRC. Over recent years, the State has pressed ahead with the infrastructural investment in rail transportation which put the Company's development on a sound platform. With the more aggressive investment by the State in rolling stock, coupled with the Company's initiatives to develop new business and the overseas markets, the Company's business volume and profitability substantially increased in 2008. Revenue of the Company in 2008 was RMB35,092.8 million, representing an increase of 30.93% when compared with that of last year. Profit before tax was RMB1,930.53 million, representing an increase of 103.65% when compared with that of last year. Profit attributable to equity holders of the Company amounted to RMB1,384.24 million, representing an increase of 125.77% when compared with that of last year. Basic earnings per share were RMB15.7 cents, representing an increase of 76.40% when compared with that of last year.

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 business segments

Comparisons between revenue from all business segments of the Company for 2008 and that of last year are set out in the following table:

Composition and percentage of major segments in revenue

	2008		2007		
Business segment	**Amount**	**Percentage**	Amount	Percentage	Growth rate
	(RMB'000)	**%**	*(RMB'000)*	%	%
Locomotives	**8,136,571**	**23.19**	7,086,077	26.44	14.82
Passenger carriages	**3,265,214**	**9.30**	3,407,955	12.71	(4.19)
Freight wagons	**9,450,862**	**26.93**	9,193,273	34.30	2.80
MUs	**5,679,594**	**16.18**	2,679,694	10.00	111.95
Rapid transit vehicles	**2,574,216**	**7.34**	1,699,127	6.34	51.50
Others	**5,986,339**	**17.06**	2,737,393	10.21	118.69
Total	**35,092,796**	**100.00**	26,803,519	100.00	30.93

Our revenue is mainly derived from locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles 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 as compared with that of last year was primarily attributable to a more earnest market demand arising from the railway development in the PRC and a significant increase in unit price subsequent to product upgrades.

In 2008, revenue generated from the Company's passenger carriage product line decreased as compared with that of last year, primarily due to the decrease in the total revenue from passenger carriage in light of the substitution of locomotive for part of the conventional passenger carriages.

Revenue generated from the Company's freight wagon product line saw a modest growth in 2008 as compared with that of last year, partly attributable to the significant increase in revenue from manufacturing operations given mounting demand for freight wagon products in domestic and overseas markets as well as higher unit price upon technological renovation of freight wagons, which was nonetheless partly offset by a substantial decrease in revenue from refurbishment after shifting to K2 renovation business.

In 2008, revenue generated from MU product line of the Company increased significantly as compared with that of last year. Such significant increase in revenue from MU product line was primarily attributable to soaring market demand as a result of the development of high-speed railways in the PRC, coupled with the increase in unit price because of product upgrades.

Revenue generated from the Company's rapid transit vehicle product line in 2008 increased substantially as compared with that of last year, primarily attributable to the increase in the rapid transit vehicle sales and production of the Company as the rapid development in the rapid transit vehicle industry ushered in a steady upswing of demand.

Revenue from other business includes revenue from those that closely utilize proprietary rolling stock technologies which increased significantly as compared with that of last year, primarily attributable to the increase in revenue from proprietary rolling stock related technologies under the Company's proactive development in this field by means of its technological competence and edges.

(3) Revenue breakdown by regions

Operating revenue from the Company's operations by regions for 2008 and the comparison with that of last year are shown in the following table:

Composition and percentage of revenue by regions

	2008		2007		
Business segment	**Amount**	**Percentage**	Amount	Percentage	Growth rate
	(RMB'000)	**%**	*(RMB'000)*	%	%
Domestic market	**33,458,915**	**95.34**	24,874,349	92.80	34.51
Overseas market	**1,633,881**	**4.66**	1,929,170	7.20	(15.31)
Total	**35,092,796**	**100.00**	26,803,519	100.00	30.93

Revenue from domestic market of the Company increased by 34.51% as compared with that of last year whereas revenue from overseas market decreased by 15.31% as compared with that of last year, mainly because part of overseas sales were channeled to the overseas market by domestic customers and that portion of revenue was not reflected in the revenue from overseas market.

(4) Breakdown of gross profit and gross profit margin

Consolidated gross profit of the Company for 2008 and the comparison with that of last year are shown in the following table:

Consolidated gross profit and gross profit margin

	2008	2007	
Item	**Amount**	Amount	Growth rate
	(RMB'000)	*(RMB'000)*	%
Revenue	**35,092,796**	26,803,519	30.93
Cost of operation	**29,278,774**	22,785,003	28.50
Gross profit	**5,814,022**	4,018,516	44.68
Gross profit margin	**16.57%**	14.99%	

In 2008, the increase in the gross profit and gross profit margin of the Company was primarily attributable to an outpaced growth in revenue against the growth in cost of operation as a result of the Company's reasonable and effective control on costs whilst expanding its business and boosting its revenue, leading to an overall increase in the Company's gross profit and gross profit margin. Meanwhile, improvement in technologies used for products and adjustment to its product mix has elevated the total gross profit and gross profit margin to a certain extent.

(5) Major suppliers and customers

In 2008, the procurement of the Company from its top five suppliers totaled RMB2.189 billion, accounting for 7.98% of the total procurement for the year.

In 2008, the sales of the Company to its top five customers totaled RMB22.09 billion, accounting for 62.96% 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") and all China Railway Bureaus, which accounted for 52.6% of its 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 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 2008, the Company's assets were mainly measured by historical cost convention and partly at fair value. Items of main statements which are measured at fair value include financial assets held-for-trading and available-for-sale 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 of major assets of the Company as at 31 December 2008 are shown in the following table:

Composition and changes of major assets (net)

Item	31 December 2008		31 December 2007		
	Amount	Percentage	Amount	Percentage	Growth rate
	(RMB'000)	%	(RMB'000)	%	%
Total current assets	31,087,693	68.30	21,791,422	66.66	42.66
Of which: cash and cash equivalents	11,065,179	24.31	7,792,483	23.84	42.00
Trade receivables	5,995,583	13.17	4,020,423	12.30	49.13
Prepayment, deposits and other receivables	4,417,719	9.71	3,172,613	9.70	39.25
Inventories	8,389,453	18.43	5,839,556	17.86	43.67
Total non-current assets	14,428,558	31.70	10,899,496	33.34	32.38
Of which: property, plant and equipment	10,242,102	22.50	7,067,638	21.62	44.92
Total assets	45,516,251	100.00	32,690,918	100.00	39.23

As at 31 December 2008, the ratio of current assets to total assets of the Company was 68.30%. The composition of the asset structure of the Company is by large contributed by current assets and less from non-current assets. Such feature is mainly a result of the longer production cycle during the operation of the equipment manufacturing industry and a relatively high level of cash balance from the financing during the year.

The balance of the Company's cash and equivalents is relatively significant, accounting for 24.31% of the total assets as at the end of 2008. Such a high proportion was attributable to the Company's effort in sustaining a suitable amount of cash and bank balance for daily production and operation. In absolute terms, the balance of cash and cash equivalents of the Company as at the end of 2008 increased by 42% as compared with that as at the end of last year mainly because a portion of the fund raised from the Company's public listing in 2008 is still deposited as cash and bank balance in a financial institution in accordance with the progress of projects financed by listing proceeds.

The trade receivables of the Company are mainly contract receivables. In absolute terms, the trade receivables of the Company increased significantly by 49.13% as at the end of 2008 as compared with that as at the end of last year, primarily attributable to the increase in receivables driven by the substantial growth in revenue in 2008. In relative terms, the trade receivables as at the end of 2008 accounted for 13.17% of the total assets of the Company, representing a modest increase as compared with that as at the end of last year.

The prepayment, deposits and other receivables by the Company as at the end of 2008 increased by 39.25% as compared with that as at the end of last year, primarily attributable to the increase in procurement as a result of the increase in the number of technical renovation projects and contractual projects. As at the end of 2008, prepayment steadily accounted for 9.71% of the total assets of the Company.

As at the end of 2008, inventories of the Company increased by 43.67% 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 2008 accounted for 18.43% of the total assets, representing a slight increase as compared with that as at the end of last year.

As at the end of 2008, the property, plant and equipment of the Company increased by 44.92% 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 endeavor to cater for its growing business by expanding production capacity and fostering production and technical upgrades, coupled with considerable growth contributed to the addition of certain new subsidiaries this year. In relative terms, property, plant and equipment as at the end of 2008 accounted for 22.50% of the total assets.

(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 2008 are shown in the following table:

Composition and changes of major liabilities

	31 December 2008		31 December 2007		
Item	**Amount**	**Percentage**	Amount	Percentage	Growth rate
	(RMB'000)	**%**	*(RMB'000)*	%	%
Total current liabilities	**23,652,158**	**88.01**	21,682,672	82.41	9.08
Of which: interest-bearing bank and other borrowings	**3,747,420**	**13.94**	6,278,989	23.87	(40.32)
Bills payables	**3,127,130**	**11.64**	1,612,181	6.13	93.97
Trade payables	**8,415,044**	**31.31**	6,229,873	23.68	35.08
Other payables and accruals	**7,986,766**	**29.72**	7,061,711	26.84	13.10
Total non-current liabilities	**3,221,516**	**11.99**	4,627,319	17.59	(30.38)
Of which: interest-bearing bank and other borrowings	**664,996**	**2.47**	2,086,368	7.93	(68.13)
Refined benefit obligations	**2,141,570**	**7.97**	2,251,750	8.56	(4.89)
Total liabilities	**26,873,674**	**100.00**	26,309,991	100.00	2.14

As at 31 December 2008, the current liabilities of the Company accounted for 88.01% of the total liabilities. The structure of the Company's liabilities is featured by a high proportion of current liabilities, which echoes with the high proportion of current assets.

The short-term interest-bearing bank and other borrowings of the Company are mainly used for accommodating the needs for liquidity during its operation. In absolute terms, the short-term interest-bearing bank and other borrowings of the Company as at the end of 2008 dropped by 40.32%, representing a substantial decrease as compared with that as at the end of last year. In relative terms, the proportion of short-term interest-bearing bank and other borrowings among the total liabilities of the Company decreased significantly as compared with that as at the end of last year, which was mainly attributable to the repayment of part of the short-term borrowings by drawing an amount of RMB2.14 billion out of the raised proceeds to replenish temporary working capital upon the approval at the shareholders' meeting, with a view to lowering financing costs.

The bill payables of the Company are mainly bills issued to suppliers for liquidity. As at the end of 2008, the bill payables of the Company increased significantly by 93.97% 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 are mainly outstanding amount payable to suppliers of raw materials, machinery and equipment and outstanding construction amount. As at the end of 2008, the trade payables of the Company increased significantly by 35.08% as compared with that as at the end of last year, which was mainly attributable to the increase in procurement given the increase in business scale and business volume of the Company.

As at the end of 2008, other payables and accruals increased by 13.1% as compared with that as at the end of last year, which was mainly attributable to the increase in advanced receipt in relation to product sales given the increase in business scale and business volume of the Company.

As at the end of 2008, the long-term interest-bearing bank and other borrowings of the Company decreased significantly by 68.13% as compared with that as at the end of last year which was mainly attributable to the decrease in the borrowings for payment of expenses of construction projects this year.

As at the end of 2008, the Company's provision for supplemental pension subsidies and early retirement benefits remained relatively stable as compared with that as at the end of last year, accounting for a stable ratio.

As at 31 December 2008, the financial leverage of the Company was 43%. Details are set out in note 44 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 2008, the financial figures such as administrative expenses of the Company and year-on-year changes thereof are shown in the following table:

Item	2008 Amount (RMB'000)	2007 Amount (RMB'000)	Growth rate %
Selling and distribution costs	**787,350**	641,067	22.82
Administrative expenses	**3,382,117**	2,633,676	28.42
Finance costs	**430,630**	314,448	36.95
Share of profits and losses of associate companies and jointly-controlled entities	**178,374**	192,318	(7.25)
Tax	**244,929**	73,235	234.44

In 2008, the selling and distribution costs of the Company increased as compared with that of last year, which was attributable to the increase in fees arising from 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 related fees arising from the increase in business volume and research and development expenses for the year. The increase in the finance costs of the Company as compared with that of last year was mainly attributable to the increase in business volume for the year, leading to an increase in corresponding finance costs. Share of profits and losses of associate companies and jointly-controlled entities of the Company amounted to RMB178,374,000, representing a slight decrease of 7.25% as compared with that of last year. The tax of the Company was RMB244,929,000, representing an increase of 234.44% as compared with that of last year, mainly attributable to the overall increase in profit from operations of the year as well as the payment of income tax by certain subsidiaries for this year which was exempted from paying tax last year.

5. Breakdown of cash flow during the Reporting Period

The cash flow of the Company in 2008 and year-on-year changes thereof are set out in the following table:

Item	**2008 Amount *(RMB'000)***	2007 Amount *(RMB'000)*	Growth rate %
Net cash flow from operating activities	**1,365,318**	1,438,794	(5.11)
Net cash flow from investing activities	**(3,049,428)**	(2,349,293)	29.80
Net cash flow from financing activities	**5,817,557**	2,502,634	132.46

In 2008, the net cash flow from operating activities of the Company decreased by 5.11% as compared with that of last year, which was mainly attributable to the increase in receivables and inventories during the year which surpassed the increase in payables. Net cash flow from investing activities of the Company recorded a deficit of RMB3,049,428,000, representing an increase of RMB700,135,000 or 29.8% as compared with the deficit of last year, mainly attributable to the increase in expenses from investment in projects funded by listing proceeds. Net cash flow from financing activities of the Company was RMB5,817,557,000, representing an increase of 132.46%, the source of which was the proceeds raised from the share offerings.

6. Significant capital expenses in the Reporting Period

The significant capital expenses of the Company in 2008 are set out in the following table:

Item	2008 Amount (RMB million)	2007 Amount (RMB million)
Property, plant and equipment	**3,576**	1,622
Lease prepayments	**343.4**	179.7
Total capital expenses	**3,919.4**	1,801.7

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

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

Operating status of major subsidiaries of the Company is set out in the following table:

Name of subsidiaries	Principal operations	Registered capital (RMB0'000)	Total assets as at the end of the year (RMB'000)	Net assets attributable to the parent company as at the end of the year (RMB'000)	Net profit attributable to the parent company 2008 (RMB'000)	Operating revenue in 2008 (RMB'000)
CSR Zhuzhou	Research and development and manufacture of railway electric locomotives, MUs and rapid transit vehicles	61,302.58	6,641,113	1,294,906	193,525	4,150,091

Name of subsidiaries	Principal operations	Registered capital (RMB0'000)	Total assets as at the end of the year (RMB'000)	Net assets attributable to the parent company as at the end of the year (RMB'000)	Net profit attributable to the parent company 2008 (RMB'000)	Operating revenue in 2008 (RMB'000)
CSR Sifang Co., Ltd	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	135,892.27	5,627,158	1,571,015	257,188	7,308,439
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	238,171.00	7,341,194	2,774,856	231,205	3,843,630

Name of subsidiaries	Principal operations	Registered capital *(RMB0'000)*	Total assets as at the end of the year *(RMB'000)*	Net assets attributable to the parent company as at the end of the year *(RMB'000)*	Net profit attributable to the parent company 2008 *(RMB'000)*	Operating revenue in 2008 *(RMB'000)*
CSR Yangtze	Research and development, manufacture and maintenance of railway freight wagon	170,741.83	4,290,205	1,755,003	143,585	4,552,706
CSR Qishuyan Locomotive Co., Ltd. ("CSR Qi Shuyan")	Research and development, manufacture and refurbishment of diesel locomotives	65,610.50	2,071,032	689,451	48,598	2,053,846

8. Assets in relation to fair value measurement

Unit: RMB'000

Item	Amount at the beginning of the period	Gain or loss in changes of fair value in the period	Accumulated changes in fair value recognized in equity	Impairment in provision for the period	Increase/ decrease in the period	Amount as at the end of the period
Financial assets						
of which: 1. Changes in financial assets accounted for the profit and loss during the period at fair value	–	–	–	–	100,000	100,000
of which: Derivative financial assets	–	–	–	–	100,000	100,000
2. Available-for-sale financial assets	49,156	–	(8,175)	–	(33,235)	7,746
Sub-total of financial assets	49,156	–	(8,175)	–	66,765	107,746
Financial liabilities						
Investment Property						
Biological assets for production						
Others						
Total	49,156	–	(8,175)	–	66,765	107,746

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 in changes of fair value in the period	Accumulated changes in fair value recognized in equity	Impairment in provision for the period	Increase/ decrease in the period	Amount as at the end of the period
Financial assets						
of which: 1. Changes in financial assets accounted for the profit and loss during the period at fair value						
of which: Derivative financial assets						
2. Loans and other receivables	378,955	–	–	–	4,012,688	4,391,643
3. Available-for-sale financial assets						
4. Investment held-to-maturity						
Sub-total of financial assets	378,955	–	–	–	4,012,688	4,391,643
Financial liabilities	756,539	–	–	–	(594,753)	161,786

10. Introduction of the research and development results of the Company

The Company embarked in year 2008 to launch more than 300 new scientific research projects, with 20 projects which passed the identification and evaluation by the State or provincial level authorities, 1 awarded the National Advanced Science and Technology Supreme Prize (國家級科技進步獎特等獎), 1 awarded the National Advanced Science and Technology Prize - Grade 1 (一等獎) as well as 14 provincial Technological Achievement (省部級科技進步獎) awards. The Company also made 674 applications for national patents and was granted 464 new patents.

The Company's national engineering laboratory for integration of high-speed train system (高速列車系統集成國家工程實驗室), whose operation was entrusted to CSR Sifang Co. Ltd., was approved by the National Development and Reform Commission of the PRC. CSR Zhuzhou, CSR Sifang Co., Ltd., CSR Meishan, CSR Feb.7th Rolling Stock Co., Ltd. ("CSR Feb.7th"), CSR Shijiazhuang , CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. ("CSR Qishuyan Institute") have been awarded the Advanced Technology Enterprise (高新技術企業) certification. Besides, in an attempt to strengthen the integration of industry, university and research (產學研), the Company had entered into strategic cooperation agreements with Beijing Jiaotong University and Southwest Jiaotong University, respectively.

11. Staff of the Company

Total number of staff	80,454	Number of people whose retirement expenses to be undertaken by the Company	52,502

Note: The above resigned and retired staff had been subjected to actuary 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 actuary treatment.

The staff structure was as follows:

1. By profession

Category of profession	Number of persons
Production personnel	53,591
Engineering and technical personnel	10,406
Operation and management personnel	7,194
Other personnel	9,263
Total	80,454

2. By education

Category of education	Number of persons
Doctor	42
Master	710
Undergraduate	10,755
Tertiary	16,553
Secondary	14,972
High School and under	37,422
Total	80,454

The training schemes for staff were as follows:

The Company spared no effort in improving the deployment of talents and made great effort to nurture key personnel by fostering the hiring and reviewing mechanism for chiefs and management members of all sections. It also 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 plans, and focused on seeking talents for backup and key positions, with a view to increasing overall staff quality, skills and international competitiveness. During the year, a total throughput of approximately 60,000 staff attended the training sessions, approximately 12,000 of which attended management training sessions, approximately 9,000 attended expertise training sessions and approximately 40,000 attended technical training sessions.

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

12. Particulars of pledge of assets of the Company

As at 31 December 2008, the following assets of the Group (with a total book value of RMB1,639,280,000) were charged to obtain bank loans, including houses and buildings of RMB135,798,000, other intangible assets of RMB15,869,000, cash and bank balance of RMB657,593,000, inventories of RMB47,039,000 and other assets of RMB782,981,000.

13. Particulars of contingent liabilities of the Company

Save as the guarantees provided by the Company as stated in Significant Events under Chapter 12 of this annual report, the Company has no other material 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, over 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 realize 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 2008, over 40 cities in the PRC are constructing or preparing to construct rapid transit facilities system such as subway systems and light rail cars. 15 urban plannings have been approved which involve the construction of 1,700 km of rapid transit system by 2015 with an aggregate investment amounting to more than RMB600 billion. Hence, demand for metro cars is expected to increase steadily.

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 internationalization 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

On development, sound 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 urbanization, particularly the rapid regional economic development revolving around the three major economic circles namely. The Yangtze River Delta, the Pearl River Delta and Bohai, 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, both the globalization and the gradual integration of China's economy into the world economy will translate to technical improvement and structural adjustment in the rolling stock industry, promoting the internationalization of the business operation of enterprises. Fifthly, 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, more stiff challenges to expansion of rolling stock overseas and other businesses that utilize proprietary rolling stock technologies are expected as a result of the dampening impact brought by the U.S. sub-prime crisis and the global financial crisis upon the economy which will also have impact on the Company's export of rolling stock and other businesses that utilize proprietary rolling stock technologies. Secondly, more demanding requests from users and changing market dynamics will be the headwind to the sustainable development of the Company. Thirdly, as at the end of 2008, the ongoing appreciation of Renminbi will increase the Company's exposure to exchange rate risk as its advantage on pricing has been weakened by cost hikes of exports. Fourthly, a volatile demand for transportation equipment is to be expected as a result of the adverse impact of global economic crisis on domestic railway transportation, especially on rail freight.

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 level of rolling stock designs, manufacturing and products has been up to the current advanced international standards and has 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 business segments:

Locomotive operation: According to 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. In the principle of 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 and passenger carriage operation: MU is a stronghold in future development. The Company will increase the capacity, enhance the performance and optimize the product mix of MU and passenger carriage operation and to unify their planning in order to capitalize their advantages.

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, automobile turbocharger, engine and parts, motors, etc. to diversify the Company's income stream for higher profitability and comprehensive competitiveness.

4. Business blueprint for the new year

The Company will embark on year 2009 to maintain rapid momentum. The operating revenue is expected to increase by more than 20%. As such, the Company will focus on achieving the following tasks in 2009:

(1) Expand business presence to ensure revenue target is met.

(2) Strengthen profitability to secure efficiency.

(3) Increase manufacturing capacity to ensure contracts completed as scheduled.

(4) Foster innovation to improve quality of products in full scale.

(5) Press ahead with innovative management to perfect operation in a comprehensive manner.

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

In view of the business development and operating needs of the Company, the development capital of the Company will be principally used in the purchase of equipments and land and construction of plants, implementing necessary technical innovation and reform in the segments of locomotives, passenger carriages, freight wagons, rapid transit vehicles, MUs, critical components and proprietary rolling stock related technologies which are regarded as the core business of the Company according to the development strategy of the Company.

Save for the remaining balance of the raised proceeds and the internal resources, the outstanding balance of the fund will be financed through debt financing, such as 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 cyclical fluctuation

In retrospect, the development of the PRC national economy was characterized by cyclical fluctuations. The rolling stock industry, to which the Company belongs, is one of the fundamental stones of the national economy. The development of the industry is highly correlated to the prosperity of the national economy. When the economy develops rapidly, 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 changes in industry policies

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.

3 Risk of technical innovation

Since the incorporation of the Company, achievements have been made in technical innovation yet further progress is still needed. The need for constant upgrades and modernization of 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.

(2) Counter-measures of the Company

1 Further strengthen its risk control system and relevant mechanisms to enhance its risk prevention ability.

2 Put greater efforts on scientific research, capitalize on existing edges, expedite technological advancements.

3 Improve operational standards by reinforcing the management. The Company will further speed up forming a network of domestic suppliers and creating a domestic ancillary platform of core components supply through developing a first-class product portfolio and enhancing product quality and productivity.

B. REPORT OF INVESTMENT DURING THE REPORTING PERIOD

1. Use of proceeds

Use of proceeds raised from H share offering

As at 19 September 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 off relevant issuing expenses. As at 31 December 2008, a total of approximately HK$316 million of proceeds raised from the H shares offering were used, of which approximately HK$190 million were used to acquire advanced foreign research and development, manufacturing and laboratory equipments; approximately HK$54 million were used to import critical components which facilitate the domestic production of complete rolling stock units; approximately HK$15 million were used to import key foreign technologies for rail vehicles and HK$57 million were used as listing expenses. At year end, the balance of proceeds raised from the H shares offering in the designated proceeds account of the Company amounted to HK$4.332 billion, including HK$3.334 billion and US$129 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 an aggregate proceeds of RMB6.54 billion from the initial public offering of A Shares in August 2008; net proceeds after netting off issuing expenses amounted to RMB6.36941 billion. During 2008, a total of RMB6.37951 billion of proceeds raised from the A Share offering and the interest accrued from bank deposits were used (including interest of RMB10.10 million). As at 31 December 2008, the balance of proceeds raised from the A Share offering in the designated proceeds account of the Company aggregated RMB5.23 million (being interest from the proceeds). Details of the use of proceeds are as follows: during the period between 1 August 2008 and 31 December 2008, RMB2,222.77 million were invested in the projects financed by such proceeds. As considered and approved at the seventh meeting of the first session of the Board, the Company utilized RMB2.01474 billion out of the proceeds to replace its own funds on 25 September 2008 which were previously invested in the projects. As considered and approved at the seventh meeting of the first session of the Board, the fourth meeting of the first session of the Supervisory Committee and the third extraordinary general meeting of the Company, in September 2008, the Company utilized RMB2.142 billion in aggregate out of the proceeds to temporarily supplement the working capital for a period up to six months. On 17 March 2009, the Company repaid RMB630 million with its internal resources before due date. As at 31 December 2008, the balance of proceeds in the designated proceeds account of the Company aggregated to RMB5.23million. The balance will continue to be used on investment projects funded by proceeds undertaken by the Company.

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

In 2008, the Company's investment not funded by proceeds from the share offerings amounted to RMB853 million, mainly comprising construction project of the national engineering laboratory for high-speed train of CSR Sifang Co., Ltd., large size semiconductors research and development and industrialization project of CSR Times Electric and modification and expansion project of the manufacturing centre of Times New Material etc.

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 corrections of accounting policies, accounting estimates or material accounting errors of the Company.

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

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

E. DAILY WORK OF THE BOARD

1. Board Meetings and Resolutions

During the Reporting Period, the Company held 8 Board meetings. The convening and voting procedures for the Board meetings were in compliance with relevant regulations of the Articles of Association. Details of the Board meetings are as follows:

(1) On 3 March 2008, the Company convened the second meeting of the first session of the Board, at which the following three proposals were considered and approved: "Proposal Regarding Convening the First Extraordinary General Meeting of China South Locomotive & Rolling Stock Corporation Limited for 2008", "Proposal Regarding the Election of Mr. Tsoi, David as an Independent Director of the first Session of the Board of China South Locomotive & Rolling Stock Corporation Limited" and "Proposal Regarding the Exemption from Prior Notice of the First Extraordinary General Meeting for 2008".

(2) On 4 March 2008, the Company convened the third meeting of the first session of the Board, at which the following 17 proposals were considered and approved: "Proposal For Review of the 2007 Annual Report of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Relevant Financial Application Documents for Initial Public Offering of A Shares of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Operation Plan of China South Locomotive & Rolling Stock Corporation Limited for 2008", "Proposal For Review of the Financial Final Results for 2007 and the Financial Budget Plan for 2008 of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Investment Plan for 2008 of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Development Strategy of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Remuneration Plan for Management of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Remuneration Plan for Directors and Supervisors of China South Locomotive & Rolling Stock Corporation Limited", "Proposal Regarding the Appointment of Mr. Wang Gongcheng as Representative of Securities Affairs of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Amendment to the Scheme of the Undistributed Accumulated Profits before the IPO of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Distribution of Special Dividends during the Establishment of China South Locomotive & Rolling Stock Corporation Limited", "Proposal Regarding Convening

of the 2007 Annual General Meeting of China South Locomotive & Rolling Stock Corporation Limited", "Proposal Regarding the Exemption from Prior Notice of 2007 Annual General Meeting", "Proposal For Review of the Connected Transactions of China South Locomotive & Rolling Stock Corporation Limited for 2005, 2006 and 2007", "Proposal For Review of the Expected Total Amount of Daily Connected Transactions of China South Locomotive & Rolling Stock Corporation Limited for 2008", "Proposal For Review of Rules of Internal Audit of China South Locomotive & Rolling Stock Corporation Limited" and "Proposal For Review of Establishment of CSR (Hong Kong) Company Limited".

(3) "Proposal For Review of the Amendment to the Scheme of the Undistributed Accumulated Profits before the IPO of China South Locomotive & Rolling Stock Corporation Limited" and "Proposal For Review of the Distribution of Special Dividends of China South Locomotive & Rolling Stock Corporation Limited" were approved at the 2007 annual general meeting of the Company.

According to the relevant financial policies and the resolutions passed at the general meeting, the Company made a special distribution in respect of the increased net assets arising from the profits recorded for the period from asset valuation date (30 June 2007) to the date on which the Company was incorporated (28 December 2007) and the period from 28 December 2007 to 31 December 2007 to CSRG Group, the controlling shareholder of the Company. According to the consolidated financial statements prepared in accordance with PRC GAAP as audited by Ernst & Young Hua Ming, the increased net assets arising from the profits recorded for the period from 30 June 2007 to 31 December 2007 was RMB328 million. In 2008, such special dividend was distributed to CSRG Group, the controlling shareholder of the Company.

According to the resolutions passed at the general meeting, the accumulated undistributed profit for the period from 1 January 2008 until the initial public offering of the A Shares shall be shared by both new and old holders of A Shares and H Shares after the initial public offerings of the A Shares and H Shares. If the H Share offering is completed within three months after the A Share offering, the Company would not make profit distribution for the net profit generated during the period from the A Share offering date to the H Share offering date. Upon completion of the H Share offering, the old and new shareholders of the Company would share the accumulated undistributed profits before the offerings based on their respective shareholdings after the H Share offering. A Shares and H Shares of the Company were successfully issued on 18 August 2008 and 21 August 2008 respectively. The Company did not make distribution in respect of the accumulated profits in 2008. In 2009, it intends to distribute the accumulated profits for the period from 1 January 2008 to 31 December 2008 by certain proportion, based on the shares held by the shareholders after the H Share offering.

(4) The Company convened the fourth meeting of the first session of the Board by written resolution during the period from 10 July 2008 to 15 July 2008, at which the "Proposal For Review of the Relevant Financial Application Documents for Initial Public Offering of A Shares of China South Locomotive & Rolling Stock Corporation Limited" was considered and approved.

(5) The fifth meeting of the first session of the Board (long Board meeting) was convened on 17 July 2008, at which the relevant resolutions in relation to the issue of the Company's shares in Hong Kong were considered and approved.

(6) On 17 July 2008, the Company convened the sixth meeting of the first session of the Board, at which the following 12 proposals were considered and approved: "Proposal For Review of the Provision of Guarantee for Holding Subsidiaries by the Company", "Proposal For Review of the Provision of Guarantee for Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. by the Company and its subsidiary CSR Shijiazhuang Rolling Stock Co., Ltd.", "Proposal For Review of the Banking Credit Facilities for 2008 and Authorization of the Management to Sign Relevant Legal Documents for Opening Bank Account, Comprehensive Banking Credit Facilities, Bank Loans and Bank Factoring Business", "Proposal For Review of the Annual Report Work Rules of the Independent Directors of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Work Rules for Reviewing Annual Financial Report by the Audit and Risk Management Committee of the Board of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Management Methods on Shares held

by Directors, Supervisors and Senior Management of China South Locomotive & Rolling Stock Corporation Limited and Changes thereof", "Proposal For Review of the Relevant Matters in relation to Final Accounts for 2007 of China South Locomotive & Rolling Stock Corporation Limited", "Proposal For Review of the Purchase of Liability Insurance for the Directors, Supervisors and Senior Management of the Company", "Proposal For Review of the Establishment of CSR's Representative Office in India", "Proposal For Review of the Work Report of President of China South Locomotive & Rolling Stock Corporation Limited for the First Half of 2008", "Proposal for Convening the Second Extraordinary General Meeting of China South Locomotive & Rolling Stock Corporation Limited for 2008" and "Proposal Regarding the Exemption from Prior Notice of Second Extraordinary General Meeting for 2008".

(7) The seventh meeting of the first session of the Board was held on 19 September 2008, the resolutions of which were published on the website of the Shanghai Stock Exchange, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily on 22 September 2008.

(8) The eighth meeting of the first session of the Board was convened on 24 October 2008, at which the "Proposal For Review of 2008 Third Quarterly Report of China South Locomotive & Rolling Stock Corporation Limited" was considered and approved. The meeting materials were filed with the Shanghai Stock Exchange on 24 October 2008.

(9) The ninth meeting of the first session of the Board was held on 26 December 2008, the resolutions of which were published on the website of the Shanghai Stock Exchange, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily on 29 December 2008.

2. Summary Report on Performance of Duties of Strategy Committee of the Board

During the Reporting Period, the Strategy Committee strictly complied with requirements of Working Principles 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 held 3 meetings, at which 6 proposals were considered which included "Proposal For Review of the 2008 Annual Operation Plan of the Company", "Proposal For Review of the Company's Final Accounts for 2007 and Financial Budget Plan for 2008", "Proposal For Review of 2008 Investment Plan of the Company", "Proposal For Review of the Development Strategy of the Company", "Proposal for Making the Adjustments to the Capital Commitments of Certain Projects to be Financed by the Proceeds from the A Share Offering" and "Proposal for Cancellation of CSR Xiangfan Locomotive Co., Ltd.".

In order to timely understand the Company's development, the Strategy Committee arranged special meeting for the purpose of knowing the Company's development and progress in major investments, international mergers and acquisitions, business integrations in the first half of 2008, progress of major research and development projects, and earthquake damages suffered by the three enterprises in Sichuan.

3. Summary Report on Performance of Duties of Audit and Risk Management Committee of the Board

During the Reporting Period, the Audit and Risk Management Committee strictly complied with the Rules of Procedures for Board Meetings and Working Principles for the Audit and Risk Management Committee of the Board, independently and objectively performed its duties, and performed necessary procedures in respect of the 2008 Annual Report.

(1) Performing duties in respect of 2008 Annual Report

1 Issuing review opinion on the 2008 financial report. The members of the Audit and Risk Management Committee reviewed the annual financial report prepared by the Company with their expertise and experience. In accordance with the relevant requirements of CSRC, the Audit and Risk Management Committee issued review opinions on annual financial report of the Company twice: a) It issued a written opinion on the unaudited financial report. 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, consenting to submit the audited 2008 financial report of the Company to the Board for consideration.

2 Supervision of the audit work of the auditors. The Audit and Risk Management Committee communicated with auditors for annual audit in respect of 2008 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 2008. Upon the commencement of audit by annual auditors, the 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.

3 Summary Report on the annual audit work performed by the auditors. During the 2008 annual audit of the Company, Ernst & Young Hua Ming and Ernst & Young earnestly implemented audit for 2008 financial report of the Company strictly in compliance with audit regulations and standards, with responsible certified accountants going to the subsidiaries of the Company for financial data collection. The audit work was conducted in a prudent and sincere manner and the audit results give 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 audit work for 2008 financial statement of the Company at a good standard.

4 Proposal for re-appointment of Ernst & Young Hua Ming and Ernst & Young as external auditors of the Company for 2009. Considering its knowledge about existing accounting firms and after communications with certified accountants in charge and the main responsible persons, the Audit and Risk Management Committee is of the opinion that the auditors 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.

(2) Supervising the Company's internal audit system and its implementation

The Audit and Risk Management Committee had heard reports on internal audit work for several times, and communicated with the internal audit department of the Company by interview, telephone and emails, as well as by making requests and supervision of work.

(3) Auditing the Company's financial information and its disclosure

The Audit and Risk Management Committee had reviewed and studied the financial information disclosed in the reports and the financial statements of the Company for a number of times, and earnestly reviewed relevant proposals relating to the financial report of the Company. It considered and approved the "Proposal For Review of 2007 Annual Report of China South Locomotive & Rolling Stock Corporation Limited".

(4) Inspecting the Company's internal control system and its operations

The Company's supervisory departments for internal control reported their supervisory work on risk management and internal control to the Audit and Risk Management Committee of the Board to enhance internal control and improve management capability in a continuous manner. On 13 May 2008, the "Proposal for Considering CSR 2008 Overall Risk Management Report" was considered and passed at the second meeting of the Audit and Risk Management Committee. In the internal control assessment process, the Audit and Risk Management Committee communicated with the Chief Financial Officer of the Company, the Head of financial department and the personnel preparing statements, and communicated the annual report audit affairs with the accounting firm. The Audit and Risk Management Committee also reviewed the rationality and necessity of the major connected transactions.

4. Summary Report on Performance of Duties of Remuneration and Evaluation Committee of the Board

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 held 3 meetings in total and considered and passed 3 proposals including "Share Appreciation Rights Plan of China South Locomotive & Rolling Stock Corporation Limited".

5. Summary Report on Performance of Duties of Nomination Committee of the Board

During the Reporting Period, the Nomination Committee strictly complied with requirements of Work Principles for Nomination Committee of the Board, independently and objectively performed its duties. The committee held 3 meeting, at which 4 proposals including "Proposal Regarding the Appointment of Mr. Wang Gongcheng as Representative of Securities Affairs of China South Locomotive & Rolling Stock Corporation Limited" were considered and passed.

6. Investigation and Survey by the Independent Non-executive Directors

In order to further understand the operation and management of the Company, the Independent Directors strengthened their investigations on the Company. They visited the first tier subsidiaries of the Company and investigated their production and internal management, and inspected the merger and acquisition projects of the Company. Having learned more information about the Company, they put forward important guidelines for further improving the management standards of the Company. (1) On 17 July 2008, the Independent Directors visited CSR Sifang Co., Ltd. and CSR Sifang Ltd., two subsidiaries of the Company, to investigate and survey the production of MUs and rapid transit vehicles; (2) On 18 September 2008, the Independent Directors visited CSR Puzhen, CSR Qishuyan and CSR Qishuyan Institute, three subsidiaries of the Company, to investigate and survey the production of passenger carriages and locomotives as well as the investment of new projects financed by the proceeds raised; (3) In November 2008, some Independent Directors went to the United Kingdom to inspect the progress of acquisition of Dynex Power Inc. by Zhuzhou CSR Times, a subsidiary of the Company.

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

According to the Company Law of the PRC (the "PRC Company Law"), 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 approximately 30.41% of distributable profit of the Company for 2008 (being not less than the 25% undertaken in the Prospectus), with RMB0.32 (tax inclusive) for every ten shares (RMB0.032 for each share). The distribution proposal is subject to consideration and approval at the general meeting of the Company.

G. DISTRIBUTIONS FOR THE LAST THREE YEARS

According to the CSR Promotion Agreement entered into by the promoters of the Company, namely CSRG Group and BRIT, as well as the shareholders' meeting resolution 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 (30 June 2007) of the Company to the date on which the Company was incorporated (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 (29 December 2007) to 31 December 2007 were distributed to CSRG Group. According to the financial data in the audited consolidated financial report prepared by Ernst & Young Hua Ming under CAS, 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 RMB328 million, and the distribution was completed in April 2008.

H. TAX AND TAX RELIEF

Holders of H Shares

According to the relevant tax regulations in the PRC, foreign individuals holding H shares are exempted from paying personal income tax for dividends (bonus) obtained from companies incorporated in the PRC which issued such H shares. In the event that such PRC domestic enterprises distribute annual dividends for the year 2008 and afterwards to their overseas H Share holders who are non-resident enterprises (including any H Shares of the Company registered in the name of HKSCC Nominees Limited, other institutional agencies and trustees, or other organization and group, shall be treated as shares held by non-resident enterprise shareholders), such PRC domestic enterprises shall withhold the enterprise income tax thereon at a unified rate of 10%. Any natural person investors whose H Shares are registered under the name of any such non-individual shareholders and who do not wish to have any enterprise income tax to be withheld by the Company may consider transferring the legal title of the relevant H Shares into his or her name and lodge all transfer documents together with the relevant H Share certificates with the H Share Registrar of the Company for transfer.

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 shall pay tax and/or enjoy tax relief in accordance with the aforementioned regulations.

I. CONNECTED TRANSACTIONS

(I) Connected Transactions of the Company during the Reporting Period

The major connected transactions of the Group in 2008 under the Hong Kong Listing Rules are as follows:

Non-Exempt Continuing Connected Transactions

With the continued development of the Group and the increase in demand for the Group's locomotive and rolling stock products, the original annual caps for the non-exempt continuing connected transactions for 2008 were not sufficient to meet the requirements of the Group. Therefore, on 28 December 2008, the Company published an announcement on "Revision of Annual Caps for Certain Continuing Connected Transactions for the Year ended 31 December 2008" and revised the annual caps of the following continuing connected transactions for 2008:

1. Product Mutual Provision Framework Agreement with CSRG Group:

(i) The aggregate value for the supply of ancillary products by CSRG Group or its associates to the Company in 2008; and

(ii) The aggregate value for the sale of products by the Group to CSRG Group or its associates in 2008.

2. The aggregate amount of purchase for 2008 under the Components Supply Framework Agreement with Xi'an Kaitian Railway Traction Electric Apparatus Co., Ltd. ("Xi'an Kaitian").

3. The aggregate amount of purchase for 2008 under the Aluminum Supply Framework Agreement with Jilin Midas Aluminum Industries Co. Ltd. ("Jilin Midas").

4. The aggregate amount of purchase for 2008 under the MU Component Supply Framework Agreement with KTK Group Co., Ltd. ("KTK").

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

Unit: RMB million

Connected Parties and Transaction		Original Annual Caps for 2008	Revised Annual Caps for 2008	Actual Transaction Amount in 2008
1	Aggregate procurement value of the Group under Product Mutual Provision Framework Agreement with CSRG	337.3	495	483
	Aggregate sales of the Group under Product Mutual Provision Framework Agreement with CSRG	119.6	169.2	167
2	Components Supply Framework Agreement with Xi'an Kaitian	57.5	80.6	66.6
3	Aluminum Supply Framework Agreement with Jilin Midas	140	157.1	121.2
4	MU Components Supply Framework Agreement with KTK	175.4	244.6	241

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

(1) Product Mutual Provision Framework Agreement with CSRG

CSRG Group is a substantial shareholder and promoter of the Company. After the restructuring, CSRG Group 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 Group or its associates for processing into rolling stock components, while CSRG Group or its associates re-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 Group 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.

The annual cap for (1) the provision of products by CSRG Group or its associates to the Group for the year ended 31 December 2008 was RMB495 million, and the actual amount was RMB483 million. (2) The annual cap for the sales of products to CSRG Group or its associates by the Group for the year ended 31 December 2008 was RMB169.2 million, and the actual amount was RMB167 million.

(2) Components Supply Framework Agreement with Xi'an Kaitian

Xi'an Kaitian has 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 annual cap for the procurement of products from Xi'an Kaitian or its associates by the Group for the year ended 31 December 2008 was RMB80.6 million, and the actual amount was RMB66.6 million.

(3) Aluminum Supply Framework Agreement with Jilin Midas

Jilin Midas is a wholly-owned subsidiary of Midas Holdings Limited, which has 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 annual cap for the procurement of products from Jilin Midas or its associates by the Group for the year ended 31 December 2008 was RMB157.1 million, and the actual amount was RMB121.2 million.

(4) MU Components Supply Framework Agreement with KTK

KTK is the holding company (holding 60% equity interest in Jiangsu Pengyuan Electronics Co., Ltd.) of a substantial shareholder of Nanjing Puzhen Haitai EMU Co., Ltd., a sub-subsidiary of the Company. KTK is a connected person of the Company under the Hong Kong Listing Rules. 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 annual cap for the procurement of products from KTK or its associates by the Group for the year ended 31 December 2008 was RMB244.6 million, and the actual amount was RMB241 million.

In respect of the annual caps and actual annual amounts for the transactions under Product Mutual Provision Framework Agreement, Components Supply Framework Agreement, Aluminum Supply Framework Agreement and MU Components Supply Framework Agreement, each of the applicable percentage ratios (as defined in the Hong Kong Listing Rules, other than profit ratio) is below 2.5%. Therefore, the aforesaid transactions are exempt from the independent shareholders' approval requirements, 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 in normal commercial terms, 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
- on the terms of the relevant transaction agreements, 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 amount incurred during the year did not surpass annual caps of transactions disclosed in the announcement of the Company.

Continuing Connected Transactions with Times New Material

The Company respectively holds 16.79%, 2.11%, 1.78% and 1.23% equity interest in Times New Material through its subsidiaries CSR ZELRI, CSR Zhuzhou, CSR Sifang Ltd. and CSR Ziyang. Besides, BRIT, a promoter of the Company, and CSRG's subsidiaries including CSR Meishan Rolling Stock Works, CSR Shijiazhuang Rolling Stock Works, CSR Nanjing Puzhen Rolling Stock Works and CSR Zhuzhou Rolling Stock Works (collectively, "CSRG Shareholders") also hold 11.30%, 1.14%,1.17%,1.21% and 1.73% equity interests in Times New Material, respectively. In accordance with certain shareholder agreements entered into by each of CSRG Shareholders and the Company on 28 November 2008, each of the CSRG Shareholders respectively agreed to confer all the voting rights which could be exercised by it at the general meetings of Times New Material to the Company. As at the date hereof, the Company controls more than 38% voting rights at the general meetings of Times New Material and is the shareholder that can exercise the most voting rights at the general meeting of Times New Material. On 23 December 2008, Times New Material duly amended its articles of association and changed the composition of the board of directors by way of a shareholders' resolution. As a result, the Company was able to control more than half of the voting rights of the board of directors of Times New Material, and accordingly, Times New Material was consolidated into the Company's 2008 consolidated financial statements pursuant to the IFRS. Under the Hong Kong Listing Rules, Times New Material has become a non wholly-owned subsidiary of the Company since 23 December 2008. As BRIT, a promoter and a connected person of the Company at the listed issuer level, is a substantial shareholder of Times New Material, also holding 11.30% equity interest therein, Times New Material therefore becomes a connected person of the Company under the Hong Kong Listing Rules.

Times New Material is an A Share company incorporated in the PRC and listed on the Shanghai Stock Exchange, which is mainly engaged in the production and sales activities of polymeric shock-absorbing and noise-reducing elastic cells, polymeric modified materials, special coating and new insulating materials for industries including railway and rolling stock for rapid transit systems. Times New Material 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 Material, the Company entered into the Product Purchase Framework Agreement with Times New Material 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 Material 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 amount of connected transactions actually accrued in the product purchase from Times New Material in 2008 from 23 December 2008, the day that Times New Material became a connected person of the Company, to 31 December 2008 was minimum, with each of the applicable percentage ratios (as defined in the Hong Kong Listing Rules, other than the profit ratio) less than 0.1%. According to the Hong Kong Listing Rules, the 2008 annual continuing connected transactions between the Group and Times New Material were exempted from all reporting, announcement and independent shareholders' approval requirements.

Non-Competition Agreement

CSRG Group stated that in 2008 it did not violate the commitment 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 Group with the Non-Competition Agreement and considered that CSRG Group had not violated the requirements of the agreement in 2008.

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 11 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 VI "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 2008.

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 2008.

Donations

The Group's charitable and other donations amounted to approximately RMB5.20 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 the Director or Supervisor of the Company held, either directly or indirectly, any material interests for the year ended 31 December 2008. The Company or its subsidiaries did not provide the Directors 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.

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 2.4 and 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 Supervisory Committee have observed the principle of fidelity and diligently performed supervisory duties to protect the shareholders' interests and the corporate interests in accordance with relevant requirements of the PRC Company Law, the Articles of Association and the Rules of Procedures for the Supervisory Committee's Meeting.

I. OPERATION OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

In 2008, the Supervisory Committee convened four meetings in total, details of which are as follows:

The second meeting of the first Supervisory Committee was held on 3 March 2008, at which the "Proposal" For Review of the 2007 Annual Report of China South Locomotive & Rolling Stock Corporation Limited was considered and approved.

The third meeting of the first Supervisory Committee was held on 17 July 2008, at which Mr. Xu Weifeng, the Vice Chief Accountant and Head of the Finance Department of the Company, reported the financial situations of the Company for the first half of 2008.

The fourth meeting of the first Supervisory Committee was held on 18 September 2008, at which the following proposals were considered and approved: (1) the proposal for consideration of supplementing the working capital by the proceeds of RMB630 million from the A Share offering ; (2) the proposal for consideration of the utilization of RMB2.6 billion in aggregate out of the proceeds from the A Share offering to temporarily supplement the working capital; (3) the proposal for consideration of the adjustments to amounts of certain projects financed by proceeds from the A Share offering; (4) the "Proposal for consideration of the 2008 Interim Report of China South Locomotive & Rolling Stock Corporation Limited" (prepared under IFRS).

The announcement of the resolutions passed at such meeting was published on the website of the Shanghai Stock Exchange (www.sse.com.cn), China Securities Journal, Shanghai Securities News and Securities Times on 22 September 2009.

The fifth meeting of the first Supervisory Committee was held on 23 October 2008, at which the 2008 Third Quarterly Report of China South Locomotive & Rolling Stock Corporation Limited was considered and approved.

II. OPINIONS OF SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2008

During the Reporting Period, members of the Supervisory Committee, who are accountable to all shareholders, earnestly performed their duties as required by the relevant laws and regulations, proactively carried out work and supervised relevant matters including the Company's standard operation, financial position, use of proceeds and internal control by attending the general meetings and the Board meetings, as well as conducting inspections and visits, thereby forming the following opinions:

1. The lawful operation of the Company. During the Reporting Period, the Board carefully performed the rights and duties as required by the Company Law and the Articles of Association, made timely decisions on significant events including production and operation plans and growth targets, diligently executed the resolutions passed at the general meetings and the Board meetings; the management operated the Company in strict compliance with the laws; and the Directors and the Senior Management have duly performed their obligations of fidelity, without any behaviors in contravention to the laws and the Articles of Associations or in prejudicial to the interest of the shareholders.

2. Inspection of the Company's financial position. Having inspected the Company's financial systems and financial position during the Reporting Period, the Supervisory Committee is of the view that the Company has sound financial systems, standardized financial operation and favourable financial position, and the 2008 annual audit report gives a truthful, accurate and complete view of the Company's financial position, operating results and cash flow.

3. Actual use of the raised proceeds. During the Reporting Period, the Company has duly adopted the procedures of internal decision-making and public information disclosure as required under the laws in respect of the changes in the use of proceeds from the A Share issue, and has utilized the proceeds in accordance with its commitments. The Supervisory Committee is of the view that the utilisation 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 will continue to supervise and inspect the progress of relevant projects.

4. Asset Acquisition and disposals by the Company. During the Reporting Period, the transaction prices of asset acquisitions or disposals were fair and reasonable. No insider dealing or any behaviour detrimental to the interests of the shareholders that may cause any loss to the Company's assets was found.

5. Connected transactions of the Company. During the Reporting Period, the connected transactions among the Company and the connected parties were in compliance with relevant regulations of the Stock Exchange and the Shanghai Stock Exchange. The transaction prices were fair, just and reasonable. No behaviour in prejudice to the interests of the Company and non-related shareholders was found.

6. Preparation and consideration of the annual report of the Company. The preparation and consideration of the 2008 annual report of the Company were in compliance with relevant provisions under the laws, the regulations, the Articles of Association and the internal management systems. The content and format are in compliance with various requirements of the CSRC and the stock exchanges. No behaviour of the personnel participating in the preparation and review of the annual report was found to be in contravention to the confidentiality requirements

   In the coming year, the Supervisory Committee will continue to arduously perform the duties of supervision and inspection, strive to improve CSR's overall competitiveness and sustainable profitability and protect the interests of the shareholders and the Company.

Chairman of the Supervisory Committee
Wang Yan

April 2009

(I) MATERIAL LITIGATION AND ARBITRATION

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

(II) MATTERS RELATED TO BANKRUPTCY AND REORGANISATION

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

(III) EXPLANATIONS ON OTHER SIGNIFICANT EVENTS AND INFLUENCE THEREFROM AND SOLUTION THEREON

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

Unit: RMB0'000

Stock Code	Abbreviated Name	Initial Investment Amount	Percentage of the Company's Equity (%)	Carrying Amount at the End of the Reporting Period	Gain and Loss Occurred in the Reporting Period	Changes in the Owner's Equity During the Reporting Period	Accounting Items	Source of equity interest
601328	Bank of Communications	99.00	0.0018	409.81	11.4	(1,025.99)	Financial assets available-for-sale	Purchase
600335	Dingsheng Tiangong	340.25	0.29	364.80	3,103.65	(2,911.03)	Financial assets available-for-sale	Set-off of debts

2. Shares in other listed companies traded by the Company

	Stock Name	Number of Shares at the Beginning of the Reporting Period *(Shares)*	Number of Shares Bought/Sold at the Reporting Period *(Shares)*	Number of Shares at the End of the Reporting Period *(Shares)*	Amount of Funds Used *(RMB)*	Investment Income *(RMB)*
Sell	Dingsheng Tiangong	1,898,400	1,498,399	800,002	2,039,349.21	31,036,514.85

Notes: As Dingsheng Tiangong increased its share capital through bonus share distribution on the basis of 1 bonus share together with 9 shares transferred from capital reserve for every 10 existing shares held in 2008. The remaining shares held by the Company after the sale were increased from 400,001 shares to 800,002 shares.

(IV) ASSET TRANSACTIONS

1. Acquisition of Assets

On 29 August 2008, Zhuzhou CSR Times Electric Co., Ltd. ("CSR Times Electric"), a subsidiary of the Company, entered into an arrangement agreement with Dynex Power Inc. ("Dynex") in respect of the proposed acquisition ("Acquisition") of 75% of the outstanding ordinary shares of Dynex at a price of Canadian Dollar $0.55 per share from the holders of such ordinary shares, totaling a consideration of RMB107,317,000. The acquisition was published on the websites of the Shanghai Stock Exchange and the Stock Exchange on 1 September 2008, and the Acquisition was completed on 31 October 2008. Upon completion of the Acquisition, the Company held 75% equity interest in Dynex through CSR Times Electric. The Acquisition has contributed RMB2.18 million to the net profits of the Company from the date of the Acquisition till the end of the Reporting Period, representing 0.13% of the Company's net profits.

2. Save as disclosed above, the Company was not involved in other material acquisitions or disposals, replacement of assets or merger by absorption during the Reporting Period.

(V) MATERIAL CONTRACTS AND THE PERFORMANCE

1. Trust, contracts and leases

(1) Trust

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

(2) Contract

The Company did not act as 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	3,110,362
Total guarantee balance provided to the Company's subsidiaries at the end of the Reporting Period	2,398,064
Aggregate guarantee amount provided by the Company (including guarantee provided by the Company in favour of its subsidiaries)	
Total guarantee amount	2,398,064
Percentage of total guarantee amount to net assets of the Company *(%)*	12.84
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%	1,345,023
Portion of the total guarantee amount in excess of 50% of net assets	–
Total amount of the three above-stated guarantees	1,345,023

As at 31 December 2008, the Company's external guarantee amounted to RMB3,110,362,000, including the guarantee of RMB2,410,053,000 provided for its wholly-owned subsidiaries and the guarantee of RMB700,309,000 provided for its holding subsidiaries. Actual guarantee balance amounted to RMB2,398,064,000 as at the end of the Reporting Period, representing 12.84% of the unaudited net assets of the Company as at the end of the Reporting Period.

During the Reporting Period, the Company did not provide any guarantees for its shareholders, ultimate controller, their related parties and the Company's connected persons (as defined in the Hong Kong Listing Rules); and all guarantees provided were for its wholly-owned subsidiaries and holding subsidiaries. As at the end of the Reporting Period, the guarantee balance provided by the Company for its wholly-owned and holding subsidiaries with gearing ratio over 70% was RMB1,345,023,000. Approval procedures were duly performed 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 holding subsidiaries with gearing ratio over 70%.

3. Entrusted Investment

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

(VI) 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:

CSRG and its associates:

- will not compete with the Group, directly or indirectly, whether on its own or jointly with other entities in any activities or businesses which directly or indirectly compete with the Group's core businesses including future businesses that the Group may develop, whether inside or outside the PRC;

- shall not invest in and shall procure that any other company in which CSRG is a controlling shareholder (as defined in the Hong Kong Listing Rules), will not invest in projects which are the same as or similar to the projects invested by the Group or any such replacement projects; and

- will not invest in any enterprises engaged in the same or similar business as the Group, or engage in any production operations which are the same as or similar to the business of the Group.

Under the Non-Competition Agreement, CSRG has granted the Company options and pre-emptive rights to acquire those parts of the retained operations which may compete with the Group. It provides, among other things, that during the period of the Non-Competition Agreement, the Company has the following rights:

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

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

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

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

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

2. BRIT, a shareholder of the Company, made the following lock-up undertakings in the Prospectus in respect of the shares it held in the Company:

Within 36 months from the date of the listing of the Company's A Shares on the Shanghai Stock Exchange, BRIT will not transfer or authorize others to manage its shareholdings in the Company, nor will the Company acquire such shares.

During the Reporting Period, BRIT, the shareholder of the Company, complied with its undertakings as mentioned above.

3. 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 (representing 7.85% of the total gross floor area of the properties occupied by the Company). Of these 326 properties, 125 properties 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. The remaining 201 properties with a gross floor area of 195,396.80 m^2 (representing 5.44% of the total gross floor area of the properties included in the listing scope) have not yet obtained proper property ownership certificates due to the fact that the relevant planning procedures or construction procedures have not yet been completed. As the land use rights of such 201 properties belong to CSRG, there would be no disputes in its operation and use. For the properties without property ownership certificates, CSRG has undertaken in the Restructuring Agreement that, in respect of the assets injected by CSRG into the Company including properties without proper ownership certificates due to incomplete planning or construction procedures, such properties should meet the requirement for the Company's production and operational use and that it should assume all the responsibilities to compensate and indemnify the Company for all the financial losses incurred in relation to such properties.

In respect of the 4 properties with a total gross floor area of 21,223.04 m^2 leased by the Company, its subsidiaries and joint ventures in the PRC, the lessors have not yet been granted property ownership certificates. For the properties of which the lessors have not yet been granted property ownership certificates, CSRG undertook, at the Company's establishment, to compensate the Company for all losses (if any) arising from the failure to obtain the property ownership certificates of those properties rented from CSRG. For properties rented by the Company from any third parties other than CSRG, CSRG undertook to settle all disputes related to the leases of such properties, to bear all expenses related to the settlements of such disputes and to compensate the Company for all losses (if any) suffered therefrom.

During the Reporting Period, the Company and the lessors of the properties leased by the Company have been actively applying for property ownership certificates for the properties without ownership certificates.

4. The Company's explanation on whether the profit forecast on the Company's assets or projects which covers the Reporting Period has been met and reasons therefor.

At the beginning of 2008, the Company expected to achieve a net profit of RMB1.36 billion (attributable to the parent company) taking full consideration of the Company's actual fundamental and operating capabilities, market demands as well as national macro economic policy environment of the year in light of the Company's annual business growth and investment plan. The Company smoothly achieved the target of profit estimates and recorded a net profit (attributable to the parent company) of RMB1.384 billion.

(VII) APPOINTMENT AND REMOVAL OF THE AUDITORS

During the Reporting Period, the Company did not change its auditors and continued the appointment of Ernst & Young Hua Ming and Ernst & Young as the Company's domestic and overseas auditors for its 2008 financial reports respectively. The auditors' total remuneration amounted to RMB12.00 million, inclusive of operating taxes and costs on travel, accommodation and communication. The auditors have been providing audit services to the Company since the establishment of the Company in 2007.

(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

In light of the projects financed by the raised proceeds, the Company unilaterally increased the capital of its wholly-owned and holding subsidiaries and adjusted the shareholding structure of the subsidiaries by leveraging certain proceeds raised and certain self-financing funds. As at the end of the Reporting Period, 13 subsidiaries completed the registration of changes procedures with the State Administration of Industry and Commerce. CSR Zhuzhou and CSR Ziyang completed such procedures on 12 January 2009 and 3 February 2009 respectively. Relevant capital increase procedures for CSR (Hong Kong) Company Limited ("CSR Hong Kong") completed on 31 March 2009.

The capital increase and shareholding structure adjustments are as follows:

1. CSR Yangtze: the registered capital of CSR Yangtze was increased from RMB436,960,080 to RMB1,707,418,300, in which CSR still holds 100% equity interest.

2. CSR Zhuzhou: after unilateral capital increase by CSR, the registered capital of CSR Zhuzhou was increased from RMB613,025,800 to RMB1,444,025,800, among which, the shareholding of CSR was changed from 69.01% to 86.84%, the shareholdings of CSR ZELRI, CSR Investing & Leasing Co., Ltd. and Zhuzhou Lince Group Co. Ltd were changed from 16.31% to 6.93%, from 13.05% to 5.54%, and from 1.63% to 0.69% respectively.

3. CSR Ziyang: its original registered capital was RMB662,420,607. After supplementing capital reserve and undistributed profit, its registered capital was changed to RMB44,356,334 . Following the unilateral capital increase by CSR, its registered capital was changed to RMB593,356,334, among which, the shareholding of CSR was changed from 81.00% to 98.58%; the shareholdings of CSR Investing & Leasing Co., Ltd and Ziyang State-owned Assets Supervision & Administration Commission were changed from 12.03% to 0.90%, and from 6.97% to 0.52% respectively.

4. CSR Qishuyan Locomotive Co., Ltd.: the registered capital was increased from RMB369,065,636.28 to RMB656,104,957.44, in which CSR still holds 100% equity interest.

5. CSR Sifang Co., Ltd.: the company's name was changed to CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.. Its original registered capital was RMB550,061,200, which was changed to RMB880,097,800 following the transfer of capital reserve into registered capital, with the original shareholding structure remaining unchanged. After completion of the unilateral capital increase by CSR, its registered capital was increased to RMB1,358,922,700, among which, the shareholding of CSR was changed from 90.04% to 93.55%; the shareholding of Qingdao Ultimate Transportation Equipment Co., Ltd was changed from 4.73% to 3.06%; the shareholding of China Railway Materials Commercial Corporation was changed from 2.95% to 1.91%; the shareholding of Guangzhou Zhongche Railway Sales & Leasing Co., Ltd was changed from 1.18% to 0.77%; and the shareholdings of Fujian Haipeng Trading Co., Ltd., Southwest Jiaotong University and Zhongtie Science & Technology Development Corp. were changed from 0.94% to 0.61%, from 0.12% to 0.08% and from 0.04% to 0.02%, respectively.

6. CSR Sifang: the registered capital of CSR Sifang was increased from RMB212,095,500 to RMB287,095,500, in which CSR still holds 100% equity interest.

7. CSR Nanjing Puzhen Rolling Stock Co., Ltd.: its registered capital was increased from RMB77,020,200 to RMB796,660,000, in which CSR still holds 100% equity interest.

8. CSR Meishan: its registered capital was increased from RMB103,281,100 to RMB270,508,600, in which CSR still holds 100% equity interest.

9. CSR Chengdu Locomotive & Rolling Stock Co., Ltd.: its registered capital was increased from RMB234,591,900 to RMB338,971,940.75, in which CSR still holds 100% equity interest.

10. CSR Luoyang Locomotive Co., Ltd.: following the merger of CSR Xiangfan Locomotive Co., Ltd., the registered capital of CSR Luoyang Locomotive Co., Ltd. was RMB27,689,000. After the capital increase by CSR, its registered capital was changed to RMB255,689,000, in which CSR still holds 100% equity interest.

11. CSR Feb. 7th: the registered capital of CSR Feb. 7th was increased from RMB197,671,068 to RMB379,305,828, in which CSR still holds 100% equity interest.

12. CSR Shijiazhuang: the registered capital of CSR Shijiazhuang was increased from RMB78,394,000 to RMB195,854,000, in which CSR still holds 100% equity interest.

13. CSR ZELRI: the registered capital of CSR ZELRI was increased from RMB2,000,000,000 to RMB2,381,710,000, in which CSR still holds 100% equity interest.

14. CSR Qishuyan Institute: the registered capital of CSR Qishuyan Institute was increased from RMB210,000,000 to RMB680,000,000, in which CSR still holds 100% equity interest.

15. New Leap Transportation Equipment Investment & Leasing Co., Ltd.(新力搏交通裝備投資租賃有限公司): its name was changed to CSR Investing & Leasing Co., Ltd.(南車投資租賃有限公司).

16. CSR Hong Kong was established in Hong Kong and wholly-owned by CSR with an original registered capital of HK$10,000,000. CSR increased the capital of CSR Hong Kong by HK$490,000,000 and upon completion of the capital increase, the registered capital of CSR Hong Kong was increased to HK$500,000,000. CSR holds 100% equity interest in CSR Hong Kong. The Relevant procedures for capital increase in CSR Hong Kong were completed on 31 March 2009.

Independent Auditors' Report

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安 永

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

(Incorporated 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 130 to 267, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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 ("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
(Incorporated 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 2008 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 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	**35,092,796**	26,803,519
Cost of sales		**(29,278,774)**	(22,785,003)
Gross profit		**5,814,022**	4,018,516
Other income and gains	5	**525,131**	430,140
Selling and distribution costs		**(787,350)**	(641,067)
Administrative expenses		**(3,382,117)**	(2,633,676)
Other expenses, net	6	**13,102**	(103,823)
PROFIT FROM OPERATIONS		**2,182,788**	1,070,090
Finance costs	7	**(430,630)**	(314,448)
Share of profits and losses of associates and jointly-controlled entities		**178,374**	192,318
PROFIT BEFORE TAX	6	**1,930,532**	947,960
Tax	10	**(244,929)**	(73,235)
PROFIT FOR THE YEAR		**1,685,603**	874,725
DISTRIBUTIONS AND DIVIDENDS	12	**378,880**	1,657,670
Attributable to:			
Equity holders of the parent	11	**1,384,240**	613,031
Minority interests		**301,363**	261,694
		1,685,603	874,725
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
— Basic	13	**15.7 cents**	8.9 cents
— Diluted		**15.7 cents**	8.9 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**10,242,102**	7,067,638
Lease prepayments	15	**3,112,164**	2,804,055
Goodwill	16	**48,115**	3,150
Other intangible assets	17	**363,156**	296,547
Interests in jointly-controlled entities	19	**517,384**	409,565
Interests in associates	20	**27,419**	163,490
Available-for-sale investments	21	**30,640**	82,346
Deferred tax assets	10	**60,507**	19,765
Other non-current assets		**27,071**	52,940
Total non-current assets		**14,428,558**	10,899,496
CURRENT ASSETS			
Inventories	22	**8,389,453**	5,839,556
Trade receivables	23	**5,995,583**	4,020,423
Bills receivable	24	**399,650**	487,309
Prepayments, deposits and other receivables	25	**4,417,719**	3,172,613
Financial assets at fair value through profit or loss	26	**100,000**	—
Tax recoverable		**62,516**	—
Pledged deposits	27	**657,593**	479,038
Cash and cash equivalents	27	**11,065,179**	7,792,483
Total current assets		**31,087,693**	21,791,422

	Notes	2008 RMB'000	2007 RMB'000
CURRENT LIABILITIES			
Trade payables	28	**8,415,044**	6,229,873
Bills payable	29	**3,127,130**	1,612,181
Other payables and accruals	30	**7,986,766**	7,061,711
Interest-bearing bank and other borrowings	31	**3,747,420**	6,278,989
Defined benefit obligations	32	**200,970**	252,280
Tax payable		**34,133**	54,478
Provision for warranties	33	**86,901**	127,005
Government grants	34	**53,794**	66,155
Total current liabilities		**23,652,158**	21,682,672
NET CURRENT ASSETS		**7,435,535**	108,750
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,864,093**	11,008,246
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**664,996**	2,086,368
Defined benefit obligations	32	**2,141,570**	2,251,750
Provision for warranties	33	**82,571**	—
Government grants	34	**317,495**	268,480
Deferred tax liabilities	10	**10,066**	10,525
Other non-current liabilities		**4,818**	10,196
Total non-current liabilities		**3,221,516**	4,627,319
NET ASSETS		**18,642,577**	6,380,927
EQUITY			
Equity attributable to equity holders of the parent		**16,021,128**	4,311,021
Minority interests		**2,621,449**	2,069,906
Total equity		**18,642,577**	6,380,927

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Attributable to equity holders of the parent						
	Share capital *RMB'000*	Capital reserve *RMB'000*	Available-for-sale investment revaluation reserve *RMB'000*	Owners' equity *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2007	–	–	–	3,461,143	3,461,143	1,923,192	5,384,335
Changes in fair value of available-for-sale investments	–	–	45,581	–	45,581	–	45,581
Deferred tax liability on changes in fair value of available-for-sale investments	–	–	(10,525)	–	(10,525)	–	(10,525)
Total income and expense recognised directly in equity	–	–	35,056	–	35,056	–	35,056
Profit for the year	–	–	–	613,031	613,031	261,694	874,725
Total income and expense for the year	–	–	35,056	613,031	648,087	261,694	909,781
Distribution to China South Locomotive and Rolling Stock Industry (Group) Corporation ("CSRG") *(i)*	–	–	–	(1,329,912)	(1,329,912)	–	(1,329,912)
Capital contribution from minority shareholders	–	–	–	–	–	66,710	66,710
Capital contribution from a promoter *(ii)*	100,000	–	–	–	100,000	–	100,000
Capital contribution of lease prepayments *(iii)*	–	–	–	1,769,821	1,769,821	–	1,769,821
Special distribution *(iv)*	–	–	–	(327,758)	(327,758)	–	(327,758)
Acquisition of a subsidiary	–	–	–	–	–	3,441	3,441
Acquisition of additional interests in subsidiaries	–	–	–	–	–	(141,358)	(141,358)
Excess of the cost of acquisition of additional interests in a subsidiary over the acquirer's additional interests in carrying value of identifiable net assets	–	–	–	(10,360)	(10,360)	–	(10,360)
Disposals of subsidiaries	–	–	–	–	–	(1,237)	(1,237)
Dividends paid to minority shareholders	–	–	–	–	–	(42,536)	(42,536)
Capitalisation pursuant to Reorganisation *(v)*	6,900,000	(2,724,035)	–	(4,175,965)	–	–	–
At 31 December 2007	7,000,000	(2,724,035)	35,056	–	4,311,021	2,069,906	6,380,927

Year ended 31 December 2008

	Attributable to equity holders 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
Changes in fair value/disposal of available-for-sale investments	–	–	(39,370)	–	–	–	–	(39,370)	–	(39,370)
Deferred tax liability on changes in fair value/disposal of available-for-sale investments	–	–	9,335	–	–	–	–	9,335	–	9,335
Exchange realignment	–	–	–	–	(7,809)	–	–	(7,809)	(8,480)	(16,289)
Total income and expense recognised directly in equity	–	–	(30,035)	–	(7,809)	–	–	(37,844)	(8,480)	(46,324)
Profit for the year	–	–	–	–	–	1,384,240	–	1,384,240	301,363	1,685,603
Total income and expense 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)

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2008

	Attributable to equity holders 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 interest	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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

Notes

(i) As part of the restructuring of CSRG as described in note 1.2 below(the "Reorganisation"), certain assets and liabilities historically associated with the research and development, manufacturing, sale and refurbishment for and of locomotives, passenger carriages, freight wagons, multiple units and metro cars, as well as other businesses that utilise proprietary rolling stock technologies (the "Relevant Businesses") were retained by CSRG and treated as a deemed distribution upon completion of the Reorganisation.

(ii) On 28 December 2007, Beijing Railway Industry Trade Company ("BRIT") made a capital contribution of RMB100 million in cash into the Company.

(iii) Pursuant to an approval document issued by the relevant authorities of the government of the People's Republic of China ("PRC") on 28 December 2007, lease prepayments in an aggregate amount of approximately RMB1,769.8 million were injected into the Group as owner's equity.

(iv) The Group has made a profit distribution to CSRG. Further details of which are set out in note 12 to the financial statements.

(v) Upon the incorporation of the Company on 28 December 2007 and the effective transfer of the net asset of the Relevant Businesses to the Company by CSRG pursuant to an asset transfer agreement dated 30 December 2007, the historical net asset value of the Relevant Businesses was converted into the Company's share capital of RMB6,900 million with all the then existing reserves (except for the available for sale investment revaluation reserve) eliminated and the differences between the amount of share capital and the historical net asset value of the Relevant Businesses transferred to the company was presented in the reserves of both the Group and the Company. Separate classes of reserves, including retained profits of the Group prior to incorporation of the Company were not separately disclosed as all of these reserves, except for the available for sale investment revaluation reserve, had been capitalised and incorporated in the capital reserves of the Group and the Company pursuant to the Reorganisation.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,930,532**	947,960
Adjustments for:			
Depreciation of items of property, plant and equipment	6	**666,980**	654,170
Impairment of items of property, plant and equipment	6	**343**	4,812
Amortisation of lease prepayments	6	**65,917**	9,340
Amortisation of other intangible assets	6	**60,601**	54,764
Impairment of available-for-sale investments	6	**950**	—
Loss on disposal of items of property, plant and equipment, net	6	**23,250**	12,727
Loss/(gain) on disposal of other intangible assets, net	6	**(2,200)**	76
Provision/(reversal of provision) against obsolete inventories	6	**42,127**	(23,150)
Impairment of trade receivables	6	**44,547**	52,072
Impairment of other receivables	6	**8,574**	7,807
Interest income	5	**(97,910)**	(115,926)
Dividend income	5	**(349)**	(6,147)
Finance costs	7	**430,630**	314,448
Share of profits and losses of associates and jointly-controlled entities		**(178,374)**	(192,318)
Gain on disposal of subsidiaries, net	5	**(19)**	(53)
Realised losses on derivative financial instrument transactions	6	**8,998**	—
Gain on disposal of available-for-sale investments	5	**(32,169)**	(18,477)
		2,972,428	1,702,105

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Working capital adjustments:			
Increase in other non-current assets		–	(12,536)
Increase in inventories		**(2,218,382)**	(582,724)
Increase in trade receivables, bills receivable and prepayments, deposits and other receivables		**(2,697,240)**	(2,465,993)
(Increase)/decrease in pledged deposits		**(178,555)**	35,728
Increase in trade payables, bills payable and other payables and accruals		**3,873,358**	2,860,553
Decrease in defined benefit obligations		**(161,490)**	(204,430)
Increase in provision for warranties		**42,467**	31,846
Cash generated from operations		**1,632,586**	1,364,549
Interest received		**97,910**	115,926
Income tax paid		**(365,178)**	(41,681)
Net cash inflow from operating activities		**1,365,318**	1,438,794

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment, excluding interest capitalised		**(3,529,568)**	(1,675,976)
Acquisition of lease prepayments	15	**(343,440)**	(173,691)
Purchases of other intangible assets	17	**(104,140)**	(104,624)
Investments in associates		**(2,470)**	(18,414)
Investments in jointly-controlled entities		**(639)**	—
Purchases of available-for-sale investments		**(3,200)**	(4,227)
Purchases of financial assets at fair-value through profit or loss		**(100,000)**	—
Purchases of financial instruments classified as other receivables		**(300,000)**	—
Acquisition/consolidation of subsidiaries	36	**111,767**	(10,551)
Dividends received from associates		**—**	2,361
Dividends received from a jointly-controlled entity		**61,000**	21,488
Dividends received from available-for-sale investments		**868**	6,147
Interest on financial instruments included in other receivables		**31,205**	—
Proceeds from disposal of interests in associates		**12,502**	17,831
Disposal of subsidiaries	37	**(1,920)**	(1,255)
Proceeds from disposal of lease prepayments		**42,006**	—
Proceeds from disposal of items of property, plant and equipment		**91,105**	301,614
Proceeds from disposal of other intangible assets		**6,160**	1,895
Proceeds from disposal of available-for-sale investments		**36,821**	53,139

	Notes	2008 RMB'000	2007 RMB'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		**860,751**	(879,523)
Receipt of government grants		**90,762**	114,493
Net cash outflow from investing activities		**(3,049,428)**	(2,349,293)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(14,426,791)**	(7,087,191)
Capital contributions from minority shareholders		**47,383**	69,721
Capital contributions from a promoter		**24,470**	100,000
Increase of paid-up capital in a subsidiary		**3,030**	—
Purchase of minority interests		**(12,128)**	(150,563)
Dividends paid to minority shareholders		**(120,530)**	(42,757)
Interest paid		**(452,149)**	(277,561)
Proceeds from issuance of shares		**10,737,126**	—
Share issue expenses		**(387,433)**	—
Distribution to CSRG		**—**	(1,030,619)
Proceeds from bank and other borrowings		**10,404,579**	10,921,604
Net cash inflow from financing activities		**5,817,557**	2,502,634
Net increase in cash and cash equivalents		**4,133,447**	1,592,135
Cash and cash equivalents at beginning of year		**6,899,460**	5,307,325
Cash and cash equivalents at end of year	27	**11,032,907**	6,899,460

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**9,463**	10,008
Other intangible assets	17	**722**	379
Interests in subsidiaries	18	**15,590,951**	10,552,866
Available-for-sale investments	21	**678**	678
Total non-current assets		**15,601,814**	10,563,931
CURRENT ASSETS			
Trade receivables	23	**30,000**	—
Prepayments, deposits and other receivables	25	**2,092,468**	2,707,884
Pledged deposits	27	**7,401**	—
Cash and cash equivalents	27	**5,984,588**	2,100,000
Total current assets		**8,114,457**	4,807,884
CURRENT LIABILITIES			
Other payables and accruals	30	**1,811,880**	1,426,798
Interest-bearing bank and other borrowings	31	**1,630,000**	3,334,547
Defined benefit obligations	32	**1,460**	1,840
Government grants	34	**500**	500
Total current liabilities		**3,443,840**	4,763,685
NET CURRENT ASSETS		**4,670,617**	44,199
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,272,431**	10,608,130

	Notes	2008 *RMB'000*	2007 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**600,000**	1,900,000
Defined benefit obligations	32	**19,322**	19,651
Total non-current liabilities		**619,322**	1,919,651
Net assets		**19,653,109**	8,688,479
EQUITY			
Share capital	35	**11,840,000**	7,000,000
Capital reserve	35	**7,222,642**	1,688,479
Reserve funds	35	**59,047**	—
Retained earnings	35	**531,420**	—
Total equity		**19,653,109**	8,688,479

1. CORPORATE INFORMATION AND REORGANISATION

1.1 Corporate information

As part of the Reorganisation mentioned below, the Company was incorporated in the PRC on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. The 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").

1.2 Reorganisation

Pursuant to the Reorganisation in 2007, CSRG transferred its core businesses and operations to the Company, which include research and development, manufacturing, sale and refurbishment of locomotives, passenger carriages, freight wagons, multiple units and metro cars, as well as other businesses that utilise proprietary rolling stock technologies.

1. CORPORATE INFORMATION AND REORGANISATION (CONTINUED)

1.2 Reorganisation (Continued)

The Relevant Businesses transferred to the Company pursuant to the Reorganisation in 2007 also included CSRG's 100% equity interest in CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. ("Zhuzhou Institute") and CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. ("Qishuyan Institute"). Prior to the Reorganisation, CSRG owned a 51% equity interest in each of Zhuzhou Institute and Qishuyan Institute, and pursuant to the Reorganisation, the SASAC transferred the 49% equity interest in each of Zhuzhou Institute and Qishuyan Institute (collectively the "Two Institutes") held by China Northern Locomotive & Rolling Stock Industry (Group) Corporation ("CNRG") to CSRG at nil consideration. Accordingly, CSRG's equity interests in the Two Institutes were increased to 100%, and such 100% equity interests in the Two Institutes comprised part of the Relevant Businesses transferred to the Company pursuant to the Reorganisation. CNRG is also a state-owned enterprise under the control and supervision of the SASAC.

Pursuant to the Reorganisation, CSRG retained the non-core and social function businesses, such as hotels, schools, hospitals, etc. These businesses and operations retained by CSRG represent distinct and identifiable activities under separate management personnel. In addition, certain assets and liabilities with a net asset value of RMB1,329,912,000 historically associated with the Relevant Businesses were also retained by CSRG upon the Reorganisation.

The net asset value of the Relevant Businesses as at 30 June 2007 was RMB8,588,478,600 as appraised by a PRC valuer, and pursuant to the Reorganisation. This net asset value was converted into the Company's share capital of RMB6,900 million owned by CSRG in consideration for CSRG transferring the Relevant Businesses to the Company upon the Company's establishment.

The other promoter, BRIT, contributed cash of RMB100 million into the Company as share capital upon its establishment.

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 requirement 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.

CSRG controlled the Relevant Businesses before the Reorganisation and continues to have control over the Group after the Reorganisation. In addition, the Relevant Businesses are ultimately controlled by the SASAC both before and after the Reorganisation. Therefore, the Reorganisation has been accounted for as a Reorganisation of entities under common control in a manner similar to the pooling of interests method. As a result, the Group's consolidated financial statements have been prepared on the basis as if the Relevant Businesses had been transferred to the Company by CSRG at the beginning of the accounting period presented in these financial statements. Accordingly, the assets and liabilities comprising the Relevant Businesses transferred to the Company have been stated at historical amounts in the Group's consolidated financial statements.

In particular, the Group's consolidated financial statements included the 100% equity interests in the Two Institutes throughout the year ended 31 December 2007 since the SASAC ultimately controlled the 100% equity interests in the Two Institutes both before and after the Reorganisation, and the 100% equity interests in the Two Institutes were transferred to the Company pursuant to the Reorganisation in 2007.

The businesses, operations, assets and liabilities historically associated with the Relevant Businesses that were retained by CSRG have been included in the financial statements up to the date when such businesses, operations, assets and liabilities have been carved out from the Relevant Businesses in 2007 and at the same time dealt with as a distribution to CSRG in the financial statements.

2.1 BASIS OF PREPARATION (Continued)

The financial statements of businesses and operations historically not associated with the Relevant Businesses have not been included in the financial statements throughout the relevant accounting period as they are distinct and identifiable businesses under separate management personnel and were not transferred to the Group pursuant to the Reorganisation.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008 and 2007. Except for the Reorganisation which has been accounted for as a combination of businesses under common control in a manner similar to the pooling of interests method as described in note 1.2 above, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The pooling of interests method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs in relevant accounting period as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using their existing book values. No amount is recognised in respect of goodwill or any excess of the acquirer's interests in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

The purchase method of accounting involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Under the purchase method of accounting, the results of subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All 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.

2.2 IMPACT OF NEW AND REVISED IFRSs

The principal accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the accountants' report included in the Company's prospectus dated 8 August 2008, except that the Group has adopted the following new interpretations and amendments to IFRSs during the year. Adoption of these new interpretations and amendments has had no significant effect on these financial statements of the Group. They did however give rise to additional disclosures.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets*
IFRIC-Int 11	IFRS 2 — *Group and Treasury Share Transactions*
IFRIC-Int 12	*Service Concession Arrangements*
IFRIC-Int 14	IAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction.*

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

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures-Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial assets classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

2.2 IMPACT OF NEW AND REVISED IFRSs (Continued)

(a) Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures-Reclassification of Financial Assets (Continued)

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situation described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 IMPACT OF NEW AND REVISED IFRSs (Continued)

(b) IFRIC-Int 11 /IFRS 2 — *Group and Treasury Share Transactions*

IFRIC-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The adoption of this interpretation has had no material impact on the financial position and results of operations of the Group.

(c) IFRIC-Int 12 — *Service Concession Arrangements*

IFRIC-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, the interpretation has had no impact on the financial position or results of operations of the Group.

(d) IFRIC-Int 14/IAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC-Int 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. The adoption of this interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 1 (Revised)	*First-time Adoption of IFRSs*[2]
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*[1]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based payment — Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments — Disclosures*[1]
IFRS 8	*Operating Segments*[1]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
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*[1]
IAS 39 Amendment	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
IFRIC-9 and IAS 39 Amendments	Amendments to IFRIC-9 — *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments Recognition and Measurement — Embedded Derivatives*[2]
IFRIC-Int 13	*Customer Loyalty Programmes*[3]
IFRIC-Int 15	*Agreements for the Construction of Real Estate*[1]
IFRIC-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
IFRIC-Int 17	*Distribution of Non-cash Assets to Owners*[2]
IFRIC-Int 18	*Transfer of Assets from Customers*[5]

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

Apart from the above, the IASB has also issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for the annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 October 2008

5 Effective for transfers of assets from customers received on or after 1 July 2009

* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

IFRS 1 (Revised) has an improved structure that does not contain any changes to the substance of accounting and this standard does apply to the Group.

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment 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 Group expects to adopt the IAS 27 Amendment from 1 January 2009. The amendments have 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.

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 Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have significant implications on its accounting for share-based payments.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

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 Effect of Changes in Foreign Exchange Rate*, 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 future acquisitions, loss of control and transactions with minority interests.

The amendments to IFRS 7 are made to enhance disclosures about fair value measurement and liquidity risk. The Group expects to adopt the amendments to IFRS 7 from 1 January 2009.

IFRS 8, which will replace IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the 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 Group expects to adopt IFRS 8 from 1 January 2009.

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 will include 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 expects to adopt IAS 1 (Revised) from 1 January 2009.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

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 fulfil a number of specified features. 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.

The amendment to IAS 39 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 hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The amendment to IFRIC-9 and IAS 39 are made in response to the earlier amendments to IAS 39 and IFRS 7 regarding reclassification of financial assets. The Group expects to adopt the amendments to IFRIC-9 and IAS 39 from 1 July 2009.

IFRIC-Int 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 credits scheme, IFRIC-Int 13 is not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

IFRIC-Int 15 will replace Interpretation 3 Revenue — *Pre-completion Contracts for the Sale of Development Properties*. It 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 currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRIC-Int 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 the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

IFRIC-Int 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 Balance Sheet Date* 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 18 applies to all entities that receive from customers of an item of property, plants and equipments or cash for the acquisition or construction of such items. These assets must then be used to connect the customer to a network or to provide ongoing access to a supply of goods or services, or both. The Group expects to apply the interpretation from 1 July 2009 prospectively.

Improvements to IFRSs

In May 2008 the IASB issued its first improvements to IFRSs which set out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2009. 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.

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 income statement 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

(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.

Jointly-controlled entities

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

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

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement 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.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, jointly-controlled entities and associates, after reassessment, is recognised immediately in the income statement.

The excess for associates and jointly-controlled entities is included in the Group's share of the associates' and jointly-controlled entities' profits or losses in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill (Continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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 the income statement in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

2.4 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 the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

Where parts of an item of 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 balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Construction in progress represents buildings, plants, machinery and equipment under construction or pending installation, which are stated at cost less any impairment losses, and are 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.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

All research costs are charged to the income statement as incurred.

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

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

Lease prepayments

Lease prepayments represent prepayments made for the land use rights and are expensed in the income statement on the straight line basis over the lease terms or when there is an impairment, the impairment is expensed in the income statement.

Operating leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.4 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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with interest rate and foreign currency fluctuations. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Government grants

Government grants are recognised 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.

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 contracts for 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 discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

2.4 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 charged to the income statement as and when incurred.

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

In addition, the Group also pays supplemental pension subsidies to 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 the consolidated income statements 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 plans for each of the relevant accounting periods.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Termination and early retirement benefits

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. 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.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, 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

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, 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, 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; and

(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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Employee retirement benefits

The Group has recognised the employee retirement benefits obligations as a liability. The 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, growth rate of the benefits and other factors. The deviation from the actual result and actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amount of employee retirement benefits obligation. The carrying amount of employee retirement benefits at 31 December 2008 was RMB2,342,540,000 (2007: RMB2,504,030,000).

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 2008 was RMB60,507,000 (2007: RMB19,765,000).

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 2008 were RMB5,995,583,000 (2007: RMB4,020,423,000) and RMB4,417,719,000 (2007: RMB3,172,613,000) 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 2008 was RMB8,389,453,000 (2007: RMB5,839,556,000).

4. SEGMENT INFORMATION

Segment information is required by IAS 14 *Segment Reporting* to be presented by way of two segment formats: (1) on a primary segment reporting basis, which the Group has determined to be by business segment; and (2) on a secondary segment reporting basis, which the Group has determined to be by geographical segment.

4. SEGMENT INFORMATION (CONTINUED)

The Group is principally engaged in the manufacturing, maintenance, upgrading and refurbishment of mainline rail vehicles, including locomotives, passenger carriage, freight wagons, multiple units as well as key components used in these vehicles. All of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single business segment. In addition, the Group's revenue, expenses, profits, assets and liabilities and capital expenditures are principally attributable to a single geographical region, which is the PRC. Therefore, no analysis by business or geographical segment is presented.

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	**2008** ***RMB'000***	2007 *RMB'000*
Revenue			
Sales of goods and services		**35,092,796**	26,803,519
Other income			
Interest income		**97,910**	115,926
Dividend income		**349**	6,147
Profit from sales of scrap materials		**47,285**	23,095
Value-added tax refunds		**130,487**	115,124
Government grants	34	**190,983**	129,835
Total		**467,014**	390,127
Gains			
Gain on disposal of subsidiaries	37	**19**	53
Gain on disposal of available-for-sale investments		**32,169**	18,477
Others		**25,929**	21,483
Total		**58,117**	40,013

6. PROFIT BEFORE TAX

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

	Notes	**2008** **RMB'000**	2007 RMB'000
Cost of inventories sold		**29,278,774**	22,785,003
Depreciation of items of property, plant and equipment	14	**666,980**	654,170
Amortisation of lease prepayments	15	**65,917**	9,340
Amortisation of other intangible assets	17	**60,601**	54,764
Provision/(reversal of provision) against obsolete inventories *		**42,127**	(23,150)
Auditors' remuneration		**12,000**	—
Provision for warranties	33	**168,985**	152,512
Minimum lease payments under operating leases:			
Plant and machinery		**19,865**	9,832
Land and buildings		**22,097**	7,961
Research and development costs		**1,005,111**	489,156
Less: amount capitalised		**(69,874)**	(10,601)
		935,237	478,555
Staff costs (including directors' and supervisors' remuneration)			
Wages, salaries and other employees' benefits		**3,500,879**	2,788,444
Contribution to government-operated pension schemes		**413,478**	383,769
Contribution to annuity pension schemes		**57,213**	43,694
Defined benefit obligations — interest costs		**94,540**	89,220
		4,066,110	3,305,127

6. PROFIT BEFORE TAX (CONTINUED)

	Notes	2008 RMB'000	2007 RMB'000
Included in other expenses, net:			
Impairment of trade receivables	23	**44,547**	52,072
Impairment of other receivables	25	**8,574**	7,807
Impairment of available-for-sale investments		**950**	—
Exchange losses/(gains), net		**(97,564)**	26,329
Loss on disposal of items of property, plant and equipment, net		**23,250**	12,727
Loss/(gain) on disposal of items of other intangible assets, net		**(2,200)**	76
Realised losses on derivative financial instrument transactions		**8,998**	—
Impairment of items of property, plant and equipment	14	**343**	4,812
		(13,102)	103,823

* Included in "Cost of sales" on the face of the consolidated income statements for the year ended 31 December 2007 and 31 December 2008.

7. FINANCE COSTS

	Group 2008 RMB'000	Group 2007 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**457,271**	311,845
Interest on bills discounted	**330**	2,970
Less: Interest capitalised in construction in progress	**(26,971)**	(367)
Total	**430,630**	314,448

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	
	2008	2007
	RMB'000	*RMB'000*
Fees	**854**	—
Other emoluments:		
Salaries	**1,601**	1,409
Performance-related bonuses	**1,526**	1,072
Social security contribution other than pension*	**203**	175
Pension scheme contributions**	**161**	147
	3,491	2,803

* The social security contributions other than pension represented the Company's statutory contribution 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 contribution to a defined contribution pension scheme organised by the PRC government, and is 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 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)

	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 2007						
Executive directors:						
Mr. Zhao Xiaogang	–	164	291	25	21	501
Mr. Zheng Changhong	–	164	291	25	21	501
Mr. Tang Kelin	–	135	245	25	21	426
Mr. Liu Hualong	–	135	245	25	21	426
	–	598	1,072	100	84	1,854
Independent non-executive directors:						
Mr. Zhao Jibin	–	–	–	–	–	–
Mr. Yang Yuzhong	–	–	–	–	–	–
Mr. Chen Yongkuan	–	–	–	–	–	–
Mr. Dai Deming	–	–	–	–	–	–
Mr. Tsoi, David	–	–	–	–	–	–
	–	–	–	–	–	–
Supervisors:						
Mr. Wang Yan	–	282	–	25	21	328
Mr. Li Jianguo	–	267	–	25	21	313
Mr. Qian Yi	–	262	–	25	21	308
	–	811	–	75	63	949
	–	1,409	1,072	175	147	2,803

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	
	2008	2007
	RMB'000	*RMB'000*
Salaries	**612**	588
Performance-related bonuses	**2,770**	2,599
Social security contribution other than pension	**101**	70
Pension scheme contributions	**90**	61
	3,573	3,318

9. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

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

	Number of employees	
	2008	2007
RMB500,001 to RMB1,000,000	**5**	5
	5	5

10. TAX

The major components of income tax expense in the consolidated income statement are:

	Group	
	2008	2007
	RMB'000	*RMB'000*
— Current income tax	**282,317**	63,493
— Deferred income tax	**(37,388)**	9,742
Total tax charge for the year	**244,929**	73,235

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 year ended 31 December 2008 (year ended 31 December 2007: 33%), except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the years. The effect of the changes has been reflected in the calculation of deferred income tax at 31 December 2007.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2008.

10. TAX (CONTINUED)

A reconciliation of the income tax expense applicable to profit before tax using 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			
	2008		2007	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**1,930,532**		947,960	
Tax at the applicable tax rate	**482,633**	**25.0**	312,827	33.0
Entities subject to lower statutory income tax rates	**(161,642)**	**(8.4)**	(182,721)	(19.3)
Changes in the PRC statutory tax rate	**–**	**–**	928	0.1
Adjustments in respect of current tax of previous year	**2,620**	**0.1**	90	0.0
Profit and losses of associates and jointly-controlled entities	**(34,778)**	**(1.8)**	(56,960)	(6.0)
Expenses not deductible for tax (note 1)	**53,268**	**2.8**	64,095	6.8
Prior year tax losses utilised	**(2,884)**	**(0.1)**	(1,130)	(0.1)
Income not subject to tax (note 2)	**(15,784)**	**(0.8)**	(12,988)	(1.4)
Tax losses not recognised	**42,808**	**2.2**	39,211	4.1
Others (note 3)	**(121,312)**	**(6.3)**	(90,117)	(9.5)
	244,929	**12.7**	73,235	7.7
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 income statement	**6,335**		4,637	

10. TAX (CONTINUED)

Notes:

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

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

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

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

	Group			
	Consolidated balance sheet		Consolidated income statement	
	As at 31 December		Year ended 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred income tax assets				
Defined benefit obligations	**–**	–	**–**	44,079
Warranty claim provision	**23,990**	19,765	**(4,225)**	(10,625)
Assets impairment	**4,344**	–	**(4,344)**	1,657
Wages payable	**1,711**	–	**(1,711)**	26,303
Accrued expenses	**10,590**	–	**(10,590)**	–
Government grants	**19,872**	–	**(19,872)**	–
Gross deferred income tax assets	**60,507**	19,765		
Deferred income tax liabilities				
Provision for staff welfare	**–**	–	**–**	(51,672)
Fair value adjustments arising from available-for-sale financial assets	**(1,190)**	(10,525)	**(9,335)**	10,525
Fair value adjustments arising from acquisition of subsidiaries	**(8,876)**	–	**8,876**	–
Gross deferred income tax liabilities	**(10,066)**	(10,525)		
			(41,201)	20,267

10. TAX (CONTINUED)

		Group			
		Consolidated balance sheet		Consolidated income statement	
		As at 31 December		Year ended 31 December	
		2008	2007	**2008**	2007
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Represented by:					
Deferred income tax charged/ (credited) to the income statement	*Note*			**(37,388)**	9,742
Deferred tax charged/(credited) to equity during the year				**(9,335)**	10,525
Acquisition of subsidiaries	36			**6,876**	—
Exchange realignment				**(1,354)**	—
				(41,201)	20,267

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of RMB590,467,000 which has been dealt with in the financial statements of the Company (note 35).

12. DISTRIBUTIONS AND DIVIDENDS

The distributions and dividends for the year ended 31 December 2008 and 2007 are set out below:

	Note	**2008** **RMB'000**	2007 RMB'000
Distribution to CSRG			
— Cash and bank balances		**–**	1,030,619
— Non-cash net assets	38	**–**	299,293
Special distribution*		**–**	327,758
Proposed final — RMB3.2 cents (2007: Nil) per ordinary share		**378,880**	—
		378,880	1,657,670

Note:

* In accordance with the "Provisional Regulation Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment" notice issued by the Ministry of Finance (財政部關於印發《企業公司制改建有關國有資本管理與財務處理的暫行規定》的通知), the Company is required to make a pre-incorporation profit distribution to CSRG which represents an amount equal to the Group's combined net profit attributable to shareholders, as determined based on the Accounting Standards for Business Enterprise issued by the Ministry of Finance on 15 February 2006 and other related regulations (collectively "PRC GAAP"), generated during the period from 30 June 2007 (the asset valuation date) to 28 December 2007 (the date of incorporation of the Company) by the relevant businesses to CSRG. In addition, the Company has agreed with BRIT that profit for the period from 30 June 2007 to 31 December 2007 amounting to RMB327,758,000 was recognised as a special distribution payable to CSRG by the Group. This payable to CSRG has been settled subsequently in April 2008.

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 EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on:

	2008	2007
	RMB'000	*RMB'000*
Earnings		
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	**1,384,240**	613,031
Shares		
Weighted average number of domestic shares in issue during the year used in the calculation of basic earnings per share	**8.8 billion**	6.9 billion

The Company's weighted average number of domestic shares in issue during the year ended 31 December 2007 used in the basic earnings per share calculation is determined on the assumption that the 6,900 million domestic shares of RMB1.00 each issued as a result of the Reorganisation had been in issue throughout year ended 31 December 2007 and as adjusted to add the 100 million domestic shares of RMB1.00 each issued to the other promoter upon the establishment of the Company on 28 December 2007.

No diluted earnings per share have been disclosed as no diluting events existed during the year ended 2007 and 2008.

14. PROPERTY, PLANT AND EQUIPMENT

		Group					
	Notes	Buildings	Plant, machinery and equipment	Motor vehicles	Computer equipment and others	Construction in progress	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2008							
At 31 December 2007 and 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	36	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	37	(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)

		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 2007							
At 1 January 2007:							
Cost		4,567,812	5,107,978	464,466	762,971	627,661	11,530,888
Accumulated depreciation and impairment		(1,419,114)	(2,098,711)	(260,458)	(368,252)	(1,658)	(4,148,193)
Net carrying amount		3,148,698	3,009,267	204,008	394,719	626,003	7,382,695
At 1 January 2007, net of accumulated depreciation and impairment		3,148,698	3,009,267	204,008	394,719	626,003	7,382,695
Additions		62,289	153,527	81,614	67,689	1,256,840	1,621,959
Transfer from construction in progress		420,517	541,992	20,034	57,807	(1,040,350)	–
Acquisition of subsidiaries		29,737	34,027	639	647	1,850	66,900
Disposals		(137,441)	(116,538)	(12,906)	(23,540)	(29,944)	(320,369)
Disposal of subsidiaries	37	–	(500)	(26)	–	–	(526)
Depreciation	6	(149,843)	(380,728)	(36,448)	(87,151)	–	(654,170)
Impairment	6	(153)	(3,437)	(272)	(950)	–	(4,812)
Distribution to CSRG pursuant to the Reorganisation	38	(770,983)	(159,679)	(10,084)	(38,392)	(44,901)	(1,024,039)
At 31 December 2007, net of accumulated depreciation and impairment		2,602,821	3,077,931	246,559	370,829	769,498	7,067,638
At 31 December 2007:							
Cost		3,782,693	5,151,830	494,901	725,600	771,156	10,926,180
Accumulated depreciation and impairment		(1,179,872)	(2,073,899)	(248,342)	(354,771)	(1,658)	(3,858,542)
Net carrying amount		2,602,821	3,077,931	246,559	370,829	769,498	7,067,638

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Company Computer equipment and others *RMB'000*
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
At 1 January 2007, net of accumulated depreciation and impairment	—
Transfer to the Company by CSRG pursuant to the Reorganisation	10,008
At 31 December 2007, net of accumulated depreciation and impairment	10,008
At 31 December 2007:	
Cost	20,334
Accumulated depreciation and impairment	(10,326)
Net carrying amount	10,008

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, capitalisation rates ranging between 5.8% to 7.2% have been applied to the expenditure on the individual assets.

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

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

15. LEASE PREPAYMENTS

		Group	
		2008	2007
	Notes	***RMB'000***	*RMB'000*
Carrying amount at 1 January, net of accumulated amortisation		**2,804,055**	940,864
Additions		**343,440**	1,949,540
Acquisition of subsidiaries	36	**72,592**	6,444
Disposals		**(42,006)**	—
Amortisation	6	**(65,917)**	(9,340)
Distribution to CSRG pursuant to the Reorganisation	38	**—**	(83,453)
Carrying amount at 31 December		**3,112,164**	2,804,055

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	
		2008	2007
	Notes	***RMB'000***	*RMB'000*
Cost, net of accumulated impairment:			
At beginning of year		**3,150**	3,150
Acquisition of subsidiaries	36	**54,719**	—
Disposal of subsidiaries	37	**(3,150)**	—
Exchange realignment		**(6,604)**	—
At end of year		**48,115**	3,150
Cost		**48,115**	3,150
Net carrying amount		**48,115**	3,150

17. OTHER INTANGIBLE ASSETS

		Group			
		Purchased patents and technical know-how	**Computer software**	**Deferred development costs**	**Total**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2008:					
At 1 January 2008, net of accumulated amortisation and impairment		216,008	69,938	10,601	296,547
Additions		41,364	30,457	32,319	104,140
Acquisition of subsidiaries	36	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		241,024	79,212	42,920	363,156
At 31 December 2008:					
Cost		397,004	129,831	42,920	569,755
Accumulated amortisation and impairment		(155,980)	(50,619)	–	(206,599)
Net carrying amount		241,024	79,212	42,920	363,156

17. OTHER INTANGIBLE ASSETS (CONTINUED)

		Group			
	Notes	Purchased patents and technical know-how *RMB'000*	Computer software *RMB'000*	Deferred development costs *RMB'000*	Total *RMB'000*
31 December 2007:					
At 1 January 2007:					
Cost		299,406	71,240	–	370,646
Accumulated amortisation and impairment		(95,323)	(23,163)	–	(118,486)
Net carrying amount		204,083	48,077	–	252,160
At 1 January 2007, net of accumulated amortisation and impairment		204,083	48,077	–	252,160
Additions		53,397	40,626	10,601	104,624
Acquisition of subsidiaries		–	109	–	109
Disposals		–	(1,971)	–	(1,971)
Amortisation	6	(40,725)	(14,039)	–	(54,764)
Distribution to CSRG pursuant to the Reorganisation	38	(747)	(2,864)	–	(3,611)
At 31 December 2007, net of accumulated amortisation and impairment		216,008	69,938	10,601	296,547
At 31 December 2007:					
Cost		350,266	103,205	10,601	464,072
Accumulated amortisation and impairment		(134,258)	(33,267)	–	(167,525)
Net carrying amount		216,008	69,938	10,601	296,547

17. OTHER INTANGIBLE ASSETS (CONTINUED)

	Company Computer software RMB'000
31 December 2008:	
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
31 December 2007:	
At 1January 2007, net of accumulated depreciation and impairment	—
— Transfer to the Company by CSRG pursuant to the Reorganisation	379
At 31 December 2007, net of accumulated depreciation and impairment	379
At 31 December 2007:	
Cost	406
Accumulated depreciation and impairment	(27)
Net carrying amount	379

18. INTERESTS IN SUBSIDIARIES

	Company 2008 RMB'000	Company 2007 RMB'000
Unlisted investments, at cost	**15,296,951**	9,865,866
Loans to subsidiaries	**294,000**	687,000
	15,590,951	10,552,866

The loans to the subsidiaries are unsecured, interest-bearing at relevant market rates and repayable within two years. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries of the Company at 31 December 2008 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
Subsidiaries					
CSR Zhuzhou Electric Locomotive Co., Ltd 南車株洲電力機車有限公司	PRC 31 August 2005	RMB1,203,385,800	84.2	15.0	Manufacturing, selling and repairing of locomotives
CSR Ziyang Locomotive Co., Ltd 南車資陽機車有限公司	PRC 12 May 2006	RMB303,749,193	97.2	1.8	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	RMB1,358,922,700	93.6	–	Manufacturing ,selling and repairing of locomotives

18. INTERESTS IN SUBSIDIARIES (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 & 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	–	Manufacturing, selling and repairing of rolling stock

18. INTERESTS IN SUBSIDIARIES (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	–	Manufacturing ,selling and repairing of 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	RMB796,660,000	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	RMB270,508,600	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	RMB656,104,957	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	HKD10,000,000	100.0	–	Investment company

18. INTERESTS IN SUBSIDIARIES (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 株州南車時代電氣股份有限公司	PRC 26 September 2005	RMB1,084,255,637	–	56.2	Manufacturing of train-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. (ii)	Canada	CAD15,051,123	–	75.0	Manufacturing and selling of power semiconductors and integrated circuit products

(i) Zhuzhou Times New Material Technology Co., Ltd. became a subsidiary of the Group during the year ended 31 December 2008. Further details are set out in note 36.

(ii) Dynex Power Inc became a subsidiary of the Group during the year ended 31 December 2008. Further details are set out in note 36.

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.

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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 2008. 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	
	2008	2007
	RMB'000	*RMB'000*
Share of net assets	**517,384**	409,565

Particulars of the principal jointly-controlled entities of the Group as at 31 December 2008 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 & 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

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (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	Percentage of equity interests attributable to the Company Indirect	Principal activities
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	37.5	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	–	49.8	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 jointly-controlled entities 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 2008. 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:

	2008	2007
	RMB'000	*RMB'000*
Share of the jointly-controlled entities' net assets:		
Current assets	**2,767,789**	1,539,049
Non-current assets	**237,473**	282,851
Current liabilities	**(2,487,728)**	(1,412,335)
Non-current liabilities	**(150)**	—
Net assets	**517,384**	409,565
Share of the jointly-controlled entities' revenue and profit:		
Revenue	**1,341,726**	1,417,758
Expenses	**(1,163,932)**	(1,234,001)
Profit before tax	**177,794**	183,757
Tax	**(5,978)**	(3,104)
Profit for the year	**171,816**	180,653

20. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	RMB'000	*RMB'000*
Share of net assets	**27,419**	163,490

Particulars of the principal associate of the Group as at 31 December 2008 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
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 names has been registered.

The above table lists the associate 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 2008. 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:

	2008	2007
	RMB'000	*RMB'000*
Share of the associates' net assets:		
Current assets	**35,079**	233,327
Non-current assets	**12,884**	62,130
Current liabilities	**(12,477)**	(122,082)
Non-current liabilities	**(5,028)**	(7,706)
Minority interests	**(3,039)**	(2,179)
Net assets	**27,419**	163,490
Share of the associates' revenue and profit:		
Revenue	**75,211**	201,876
Expenses	**(67,977)**	(188,493)
Profit before tax	**7,234**	13,383
Tax	**(357)**	(1,533)
	6,877	11,850
Minority interests	**(319)**	(185)
Profit for the year	**6,558**	11,665

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at cost less impairment	**22,894**	33,190	**678**	678
Listed equity investments, in the PRC, at fair value	**7,746**	49,156	**—**	—
	30,640	82,346	**678**	678

Unlisted equity investments

Unlisted equity investments of the Group and the Company are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market, the range of reasonable fair 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	
	2008	2007
	RMB'000	*RMB'000*
Cost, net of provision		
Raw materials	**3,762,912**	2,136,963
Work in progress	**3,295,828**	2,117,142
Finished goods	**1,330,713**	1,585,451
	8,389,453	5,839,556

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 Group generally requires its customers to make payment before or upon delivery, however, the Group granted certain credit periods to those long standing customers with bulk purchases and a good payment history. The credit period of individual customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate. However, in the opinion of the directors, the Group has effectively granted an average credit period of around two to three months to the customers after taking into account the practice of the industry in which the Group conducted its business. The Group seeks to maintain strict control over its outstanding receivables and to closely monitor on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

23. TRADE RECEIVABLES (CONTINUED)

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**6,288,692**	4,288,521	**30,000**	—
Impairment	**(293,109)**	(268,098)	**—**	—
	5,995,583	4,020,423	**30,000**	—

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**5,044,384**	3,294,087	**30,000**	—
6 months to 1 year	**563,816**	413,402	**—**	—
Over 1 year	**387,383**	312,934	**—**	—
	5,995,583	4,020,423	**30,000**	—

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB98,172,000 (2007: RMB88,442,000) with a carrying amount of RMB107,239,000 (2007: RMB387,148,000). The individually impaired trade receivables relate to customers that were in financial difficulties.

23. TRADE RECEIVABLES (CONTINUED)

An aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired, is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**5,062,735**	2,651,117	**—**	—
Past due but not impaired				
— Less than 3 months past due	**127,078**	48,012	**—**	—
— 3 to 6 months past due	**11,765**	34,822	**—**	—
— Over 6 months past due	**22,307**	11,194	**—**	—
	5,223,885	2,745,145	**—**	—

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

		Group		Company	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January		**268,098**	236,782	**—**	—
Impairment loss recognised	6	**44,547**	52,072	**—**	—
Acquisition of subsidiaries		**15,301**	—		
Amount written off as uncollectible		**(34,837)**	(13,349)	**—**	—
Disposal of subsidiaries		**—**	(52)	**—**	—
Distribution to CSRG pursuant to the Reorganisation		**—**	(7,355)	**—**	—
At 31 December		**293,109**	268,098	**—**	—

23. TRADE RECEIVABLES (CONTINUED)

	Group	
	2008	2007
	RMB'000	*RMB'000*
Trade receivables denominated in:		
United States Dollars	**205,216**	274,955
Hong Kong Dollars	**3,769**	4,388
Euros	**2,426**	4,168
	211,411	283,511

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
— CSRG and its subsidiaries, excluding the Group (the "CSRG Group")	**48,729**	44,069
— Jointly-controlled entities	**124,042**	81,972
	172,771	126,041

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

The Group has pledged trade receivables of approximately RMB781,781,000 and RMB617,938,000 as at 31 December 2008 and 2007 respectively for securing bank facilities granted to the Group.

24. BILLS RECEIVABLE

The maturity profiles of the bills receivable of the Group as at each of the balance sheet dates during the years are as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Within 6 months	**399,650**	475,717
6 months to 1 year	**—**	11,592
	399,650	487,309

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**3,555,793**	2,343,505	**79**	—
Deposits and other receivables	**861,926**	829,108	**2,092,389**	2,707,884
	4,417,719	3,172,613	**2,092,468**	2,707,884

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Movements in provision for impairment of prepayments, deposits and other receivables are as follows:

		Group		Company	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January		**59,497**	142,116	**13,592**	—
Impairment loss recognised	6	**8,574**	7,807	**—**	13,592
Acquisition of subsidiaries		**698**	—	**—**	—
Written off		**(15,178)**	(64,459)	**(13,592)**	—
Disposal of subsidiaries		**(115)**	(9)	**—**	—
Distribution to CSRG pursuant to the Reorganisation		**—**	(25,958)	**—**	—
At 31 December		**53,476**	59,497	**—**	13,592

Included in other receivables at 31 December 2008 are investments in short term maturity financial instruments with principal repayment guaranteed by banks aggregating to RMB300 million (as at 31 December 2007:Nil). These financial instruments are due from January 2009 to March 2009, and have interest returns ranging from 7.20% per annum to 7.47% per annum.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
— CSRG Group	**160,880**	284,301	**84,021**	240,517
— Jointly-controlled entities	**125,253**	—	**—**	—
— Associates	**—**	89,738	**—**	—
— Subsidiaries	**—**	—	**1,355,117**	2,407,353
	286,133	374,039	**1,439,138**	2,647,870

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	
	2008	2007
	RMB'000	*RMB'000*
Deposit and investment with embedded derivatives	**100,000**	—

The principal of the above deposit and investment amounting to RMB100 million at 31 December 2008 (31 December 2007: Nil) are guaranteed by banks with a repayment due date of one year. The return thereon will change in response to the changes in certain commodity price indexes and inflation indexes, and hence constitute embedded derivatives to the deposit and investment. The entire deposit and investment including the related embedded derivatives are accounted for as financial assets designated at fair value through profit or loss.

No changes in fair value was recognised in the income statement for the year ended 31 December 2008 because the aggregate changes of fair values of these financial assets were immaterial since their respective acquisition dates.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**11,722,772**	8,271,521	**5,991,989**	2,100,000
Less: Pledged time deposits	**(657,593)**	(479,038)	**(7,401)**	—
Cash and cash equivalents in the consolidated balance sheets	**11,065,179**	7,792,483	**5,984,588**	2,100,000
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(32,272)**	(893,023)	**—**	—
Cash and cash equivalents in the consolidated cash flow statements	**11,032,907**	6,899,460	**5,984,588**	2,100,000
Cash and bank balances and time deposits denominated in				
— RMB	**7,545,201**	8,176,077	**2,173,260**	2,100,000
— United States dollars	**1,034,098**	62,829	**878,532**	—
— Hong Kong dollars	**3,054,778**	5,618	**2,940,197**	—
— Other currencies	**88,695**	26,997	**—**	—
	11,722,772	8,271,521	**5,991,989**	2,100,000

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.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

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 which are set out in note 31 below.

28. TRADE PAYABLES

An aged analysis of trade payables as at the balance sheet date, based on the invoice date is as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Within 6 months	**7,621,457**	5,459,776
6 months to 1 year	**460,652**	500,448
Over 1 year	**332,935**	269,649
	8,415,044	6,229,873

28. TRADE PAYABLES (CONTINUED)

	Group	
	2008	2007
	RMB'000	*RMB'000*
Trade payables denominated in:		
Japanese yen	**67,823**	5,935
United States dollars	**12,041**	9,002
Euros	**403**	99
	80,267	15,036

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
CSRG Group	**34,268**	72,480
Jointly-controlled entities	**55,115**	64,730
	89,383	137,210

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 as at each of the balance sheet dates during the years is as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 6 months	**3,127,130**	1,605,261
6 months to 1 year	**—**	6,920
	3,127,130	1,612,181

The amounts due to the related parties of the Group included in bills payable can be analysed as follows:

	2008	2007
	RMB'000	*RMB'000*
— CSRG Group	**6,410**	16,770
— Jointly-controlled entities	**—**	9,150
	6,410	25,920

The above balances are unsecured, interest-free and repayable on similar credit terms to those offered by major suppliers of the Group.

As at 31 December 2008 and 2007, bills payable of the Group amounting to RMB158,036,000 and RMB122,463,000 respectively, were secured by its bank balances.

30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other payables	**1,390,908**	1,565,850	**1,802,974**	813,288
Advances from customers	**6,252,075**	5,148,881	**—**	—
Accruals	**343,783**	346,980	**8,906**	613,510
	7,986,766	7,061,711	**1,811,880**	1,426,798

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

	2008	2007
	RMB'000	*RMB'000*
— CSRG Group	**9,133**	567,280
— Jointly-controlled entities	**56,533**	—
— Associates	**—**	60,341
	65,666	627,621

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**	**2008**	Effective interest rate per annum	Maturity	2007
	(%)		***RMB'000***	*(%)*		*RMB'000*
Current						
Bank loans						
— Secured	**3.84-8.59**	**2009**	**893,641**	5.00 - 7.96	2008	707,339
— Unsecured	**4.37-8.96**	**2009**	**2,853,525**	3.00 - 8.02	2008	4,777,103
Other loans						
— Unsecured	**Interest free**	**2009**	**254**			—
			3,747,420			5,484,442
Short term bonds						
— Unsecured	**—**	**—**	**—**	2.67	2008	794,547
			3,747,420			6,278,989
Non-current						
Bank loans						
— Secured	**4.74-6.56**	**2013-2015**	**3,585**	—	—	—
— Unsecured	**Interest free -7.56**	**2009-2035**	**661,260**	0.2-6.57	2009-2035	2,086,368
Other loans						
— Unsecured	**Interest free**	**2010-2011**	**151**			—
			664,996			2,086,368
			4,412,416			8,365,357

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	Company					
	Effective interest rate per annum	**Maturity**	**2008**	Effective interest rate per annum	Maturity	2007
	(%)		***RMB'000***	*(%)*		*RMB'000*
Current						
Bank loans						
— Unsecured	**4.37-6.72**	**2009**	**1,630,000**	5.43-6.56	2008	2,540,000
Short term bonds						
— Unsecured	**–**	**–**	**–**	2.67	2008	794,547
			1,630,000			3,334,547
Non-current						
Bank loans						
— Unsecured	**7.18-7.49**	**2017-2022**	**600,000**	5.99-6.50	2017-2022	1,900,000
			2,230,000			5,234,547

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**3,747,167**	5,484,442	**1,630,000**	2,540,000
In the second year	**1,889**	105,000	**–**	–
In the third to fifth years, inclusive	**47,287**	71,785	**–**	–
Beyond five years	**615,668**	1,909,583	**600,000**	1,900,000
	4,412,011	7,570,810	**2,230,000**	4,440,000
Short term bonds repayable:				
within one year	**–**	794,547	**–**	794,547
Other borrowings repayable:				
Within one year or on demand	**253**	–	**–**	–
In the second year	**138**	–	**–**	–
In the third to fifth years, inclusive	**14**	–	**–**	–
Beyond five years	**–**	–	**–**	–
	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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Property, plant and equipment	**135,798**	139,982	**–**	–
Other intangible assets	**15,869**	–	**–**	–
Time deposits and bank balances	**657,593**	479,038	**–**	–
Inventories	**47,039**	–	**–**	–
Other assets	**782,981**	617,938	**–**	–
	1,639,280	1,236,958	**–**	–

	Group	
	2008	2007
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings denominated in:		
Euros	**33,073**	717,882
United States dollars	**24,327**	23,620
Great British pounds	**11,248**	–
	68,648	741,502

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans				
— secured	**3,585**	—	**3,638**	—
— unsecured	**661,260**	2,086,380	**706,414**	1,977,857
Other loans				
— unsecured	**151**	—	**135**	—
	664,996	2,086,380	**710,187**	1,977,857

The fair value of the Company's unsecured bank loans (non-current portion) with a carrying amount of RMB600,000,000 (2007: RMB1,900,000,000) was RMB650,818,000 (2007: RMB1,821,149,000)

The fair value of non-current 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 balance sheets represent the present value of the unfunded obligations.

Pursuant to the Reorganisation, the Group has terminated the supplemental pension subsidies to its employees who retired at normal retirement ages on 1 July 2007 and thereafter. In addition, the Group did not have any early retirement benefit plan available for its present employees subsequent to 30 June 2007.

The movements in the supplemental pension subsidies and early retirement benefit obligations recognised in the balance sheets are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of the year	**2,504,030**	2,708,460	**21,491**	—
Interest cost recognised in administrative expenses	**94,540**	89,220	**833**	21,491
Amount paid	**(256,030)**	(293,650)	**(1,542)**	—
At end of the year	**2,342,540**	2,504,030	**20,782**	21,491

32. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

The provision for supplemental pension subsidies and early retirement benefits recognised in the balance sheets is determined as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Present value of unfunded obligations	**2,320,670**	2,351,120	**17,272**	20,421
Unrecognised net actuarial gain	**21,870**	152,910	**3,510**	1,070
Defined benefit liabilities recognised	**2,342,540**	2,504,030	**20,782**	21,491
Portion classified as current liabilities	**(200,970)**	(252,280)	**(1,460)**	(1,840)
Non-current portion	**2,141,570**	2,251,750	**19,322**	19,651

The net expenses recognised in the consolidated income statements of the Group are analysed as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Interest cost	**94,540**	89,220

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 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:

	2008	2007
	%	%
Discount rate adopted	**3.00%**	4.25%
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	
	2008	2007
	RMB'000	*RMB'000*
Increase in effect on the interest cost	**1,240**	1,680
Decrease in effect on the interest cost	**(1,040)**	(1,360)
Increase in effect on the defined benefit obligations	**41,320**	39,550
Decrease in effect on the defined benefit obligations	**(34,590)**	(31,880)

33. PROVISION FOR WARRANTIES

		Group	
		2008	2007
	Note	***RMB'000***	*RMB'000*
At beginning of year		**127,005**	95,159
Charged for the year	6	**168,985**	152,512
Utilised during the year		**(126,518)**	(120,666)
At end of year		**169,472**	127,005
Portion classified as:			
current liabilities		**86,901**	127,005
non-current portion		**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	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year		**334,635**	152,981	**500**	—
Transfer to the Company by CSRG pursuant to the Reorganisation		**—**	—	**—**	500
Received during the year		**227,637**	311,489	**—**	—
Recognised as other income and gains during the year	5	**(190,983)**	(129,835)	**—**	—
At end of year		**371,289**	334,635	**500**	500
Current portion		**(53,794)**	(66,155)	**(500)**	(500)
Non-current portion		**317,495**	268,480	**—**	—

35. EQUITY

	Company			
	2008		2007	
		RMB'000		*RMB'000*
	Number	Nominal	Number	Nominal
Share capital	**of shares**	**value**	of shares	value
Registered and fully paid				
– State-owned shares of RMB1.00 each	**6,816,000,000**	**6,816,000**	7,000,000,000	7,000,000
– A shares of RMB1.00 each	**3,000,000,000**	**3,000,000**	–	–
– H shares of RMB1.00 each	**2,024,000,000**	**2,024,000**	–	–
	11,840,000,000	**11,840,000**	7,000,000,000	7,000,000

Upon the establishment of the Company in December 2007, CSRG and BRIT contributed cash of RMB2,000 million and RMB100 million respectively into the Company as its initial share capital. The cash contributed by CSRG into the Company represented part of the transfer of the net assets of the Relevant Businesses to the Company by CSRG.

The capital verification in respect of this capital contribution was completed in December 2007 and according to the Company's business license issued by relevant government authorities on 28 December 2007, the initial share capital of the Company was RMB2,100 million.

For the transfer of the remaining net assets of the Relevant Businesses to the Company, CSRG and the Company entered into an asset transfer agreement on 30 December 2007 pursuant to which CSRG agreed to transfer the relevant net assets comprising the Relevant Businesses to the Company as capital contribution, and the Company effectively owned and controlled the relevant net assets comprising the Relevant Businesses starting from the date of this asset transfer agreement. CSRG also agreed to procure the early completion of the relevant asset transfer registration procedures.

35. EQUITY (CONTINUED)

The directors are of the view that CSRG has effectively transferred the net assets of the Relevant Businesses to the Company for capital contribution purposes on 30 December 2007, accordingly, the aggregate net asset value of the Relevant Businesses of RMB8,588,478,600 effectively transferred to the Company was recognised as capital contribution on that date in the Company's accounts and as at 31 December 2007, the Company's share capital owned by CSRG recognised in the Company's accounts was increased to RMB6,900 million. The excess of net asset contribution by CSRG of RMB8,588,478,600 over the Company's registered share capital of RMB6,900 million owned by CSRG of RMB1,688,478,600 was recorded as capital reserve. As at 31 December 2007, the share capital recognised in the Company's accounts was RMB7,000 million, which included share capital owned by CSRG and BRIT of RMB6,900 million and RMB100 million respectively.

In January 2008, BRIT further contributed cash of RMB24.5 million to the Company in settlement of the remaining consideration payable for the shares issued to it, and this cash contribution of RMB24.5 million was recorded as capital reserve in the Company's accounts for the year ended 31 December 2008.

The capital verification was completed subsequently in January 2008, and according to the business licence of the Company issued by the relevant PRC government authorities upon the completion of legal formalities on 28 January 2008, the share capital of the Company was increased from RMB2,100 million to RMB7,000 million.

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 a 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.

35. EQUITY (CONTINUED)

As approved by 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 National Council for Social Security Fund ("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 an additional 240,000,000 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 listed on the HKSE on 19 September 2008. The issue price of the H shares was HK$2.60 per shares and the net proceeds on the issuance of 1,840,000,000 H shares amounted to RMB3,980 million (after deducting the offering expenses).

Equity movement

	Share capital *RMB'000*	Capital reserve *RMB'000*	Company Common statutory reserve fund *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Capitalisation as a result of Reorganisation	7,000,000	1,688,479	—	—	8,688,479
At 31 December 2007	7,000,000	1,688,479	—	—	8,688,479
Capital contribution from a promoter	—	24,470	—	—	24,470
Issue of shares	4,840,000	5,509,693	—	—	10,349,693
Profit for the year	—	—	—	590,467	590,467
Transfer from profit	—	—	59,047	(59,047)	—
At 31 December 2008	11,840,000	7,222,642	59,047	531,420	19,653,109

35. EQUITY (CONTINUED)

Equity movement (Continued)

Capital reserve of the Company at 31 December 2007 represents the excess of the net asset value of the Relevant Businesses transferred to the Company by CSRG pursuant to the Reorganisation over the amount of the Company's share capital owned by CSRG. Further details are set out in note 1.2 above.

In accordance with the PRC Company law and articles of association of the Company, the Company has transferred RMB59,047,000 to the common statutory reserve fund for the year ended 31 December 2008. This amount represented the Company's 10% after-tax profit determined under PRC GAAP.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRS. Under the PRC Company Law and the Company's articles of association, net profit after tax can only be distributed as dividends after allowances have been made for the following:

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

(ii) 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. This profit differs from those dealt with in these financial statements which are prepared in accordance with IFRS.

36. BUSINESS COMBINATION

During the year ended 31 December 2008, the Group had the following acquisition/consolidation of subsidiaries.

During the year ended 31 December 2008, CSRG group ceded its voting rights in Zhuzhou Times New Material Technology Co., Ltd. ("ZTNM") (株洲時代新材料科技股份有限公司), a company listed in the PRC, to CSR whereby the voting rights in shareholder meeting of ZTNM held by the Group was increased from 21.79% to 38.34%. In addition, the Group has also obtained a majority in the board of directors of ZTNM during the year. Accordingly, the directors are of the opinion that the Group obtained de facto control over ZTNM and hence ZTNM is a subsidiary of the Group. Accordingly, ZTNM has been consolidated into the Group's financial statements during the year ended 31 December 2008. ZTNM was accounted for as an associate in the prior year financial statements of the Group.

Upon consolidation, Zhuzhou Times New Material Technology Co., Ltd. contributed RMB1,045,813,000 to the Group's revenue and RMB47,565,000 to the Group's profit attributable to equity holders of the parent for the year ended 31 December 2008.

On 30 April 2008, a subsidiary of the Group acquired an additional 20% equity interest in Changzhou RIMAN Turbo-charging Precision Casting Co., Ltd (常州瑞盟增壓器精密鑄造有限公司), an associate of the Group, at a consideration of RMB6,118,000, increasing the Group's interest from 40% to 60% as a result of which Changzhou RIMAN Turbo-charging Precision Casting Co., Ltd became a subsidiary of the Group.

Since the date of acquisition, Changzhou RIMAN Turbo-charging Precision Casting Co., Ltd. has contributed RMB7,720,000 to the Group's revenue and RMB2,134,000 of loss to the Group's profit attributable to equity holders of the parent for the year ended 31 December 2008.

36. BUSINESS COMBINATION (CONTINUED)

On 31 October 2008, the Group acquired a 75% equity interest in Dynex Power Inc. for a cash consideration of RMB107,317,000 and thereafter Dynex Power Inc., became a subsidiary of the Group.

Since the date of acquisition, Dynex Power Inc. has contributed RMB35,517,000 to the Group's revenue and RMB917,000 to the Group's profit attributable to equity holders of the parent for the year ended 31 December 2008.

During the year ended 31 December 2008, the memorandum and articles of association of Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. (石家莊國祥運輸設備有限公司) were changed granting the Group the power to appoint of the majority directors of Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. The Group owns a 60% equity interest in Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. Accordingly, the Group obtained control over Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. and Shijiazhuang Guoxiang Transportation Equipment Co., Ltd. was changed from a jointly-controlled entity to a subsidiary of the Group.

Had all the business combinations taken place on 1 January 2008, the Group's revenue and profit attributable to equity holders of the parent would have been RMB35,398,223,000 and RMB1,407,615,000 respectively.

36. BUSINESS COMBINATION (CONTINUED)

The fair values of the identifiable assets and liabilities and contingent liabilities of the subsidiaries acquired/consolidated as at the dates of acquisition/consolidation and the corresponding carrying amounts immediately before the acquisition were as follows:

		Group	
	Notes	**Fair value recognised on acquisition/ consolidation** *RMB'000*	**Previous carrying amount** *RMB'000*
Property, plant and equipment	14	393,940	382,739
Lease prepayments	15	72,592	69,079
Goodwill	16	2,312	2,312
Available-for-sale investments		9,655	9,655
Other intangible assets	17	30,730	3,523
Deferred tax assets	10	3,354	3,354
Other non-current assets		3,663	3,663
Inventories		381,499	387,127
Trade receivables		295,819	294,267
Bills receivable		75,861	75,861
Prepayment, deposits and other receivables		63,873	63,873
Cash and cash equivalents		225,203	225,203
Trade payables		(310,743)	(312,738)
Bills payable		(67,658)	(67,658)
Other payables and accruals		(175,587)	(175,587)
Deferred tax liabilities	10	(10,230)	—
Interest-bearing bank and other borrowings		(315,391)	(315,391)
Tax payable		(1,309)	(1,309)
Net assets acquired at the dates of acquisition		677,583	647,973

36. BUSINESS COMBINATION (CONTINUED)

		Group	
		Fair value recognised on acquisition/ consolidation	**Previous carrying amount**
	Notes	*RMB'000*	*RMB'000*
Minority interests		(419,519)	
Goodwill on acquisition	16	52,407	
		310,471	
Satisfied by:			
Cash		113,436	
Interest in an associate		101,179	
Interest in a jointly-controlled entity		95,856	
		310,471	

36. BUSINESS COMBINATION (CONTINUED)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition/consolidation of subsidiaries is as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Cash consideration paid and payable	**(113,436)**	(44,543)
Less: cash consideration payable	**–**	10,298
Cash consideration paid	**(113,436)**	(34,245)
Cash and cash equivalents acquired	**225,203**	23,694
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition/consolidation of subsidiaries in the consolidated cash flow statements	**111,767**	(10,551)

37. DISPOSAL OF A SUBSIDIARY

In 2008, minority interest has increased its shareholding in CSR Zhuzhou Times Hi-tech Industry Guarantee & Investment Co.,Ltd (株洲南車時代高新投資擔保有限責任公司), a subsidiary of the Group. This resulted in the dilution of the Group's equity interest in CSR Zhuzhou Times Hi-tech Industry Guarantee & Investment Co., Ltd. to 50% which became a jointly-controlled entity of the Group.

	Notes	2008 RMB'000	2007 RMB'000
Net assets disposed of:			
Property, plant and equipment	14	**8,973**	526
Available-for-sale investments		**8,080**	—
Trade receivables		**1,546**	1,652
Prepayments, deposits and other receivables		**184,754**	44
Cash and cash equivalents		**1,920**	2,591
Trade payables		**(30)**	(74)
Other payables and accruals		**(11,732)**	(2,219)
Interest-bearing bank and other borrowings		**(140,000)**	—
Minority interests		**(6,567)**	(1,237)
		46,944	1,283
Goodwill derecognised on disposal	16	**3,150**	—
Gain on disposal of a subsidiary	5	**19**	53
		50,113	1,336
Satisfied by:			
Cash		**—**	1,336
Interest in a jointly-controlled entity		**50,113**	—

37. DISPOSAL OF A SUBSIDIARY (CONTINUED)

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

	2008	2007
	RMB'000	*RMB'000*
Cash consideration received	**–**	1,336
Cash and cash equivalents disposed of	**(1,920)**	(2,591)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary in the consolidated cash flow statements	**(1,920)**	(1,255)

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, the Group's equity interest in CSR Zhuzhou Times Hi-tech Industry Guarantee & Investment Co.,Ltd has been diluted to 50% and hence it was deconsolidated from the Group's consolidated financial statements. Further details are set out in note 37.

38. MAJOR NON-CASH TRANSACTIONS (CONTINUED)

In connection with the Reorganisation in year 2007, the assets and liabilities distributed to and retained by CSRG are as follows:

	Notes	Group Year ended 31 December 2007 *RMB'000*
Assets		
Property, plant and equipment	14	1,024,039
Lease prepayments	15	83,453
Other intangible assets	17	3,611
Available-for-sale investments		29,140
Interests in associates		98,691
Other non-current assets		4,726
Inventories		80,546
Trade receivables, net of impairment allowance		12,162
Prepayments, deposits and other receivables		552,087
Total assets		1,888,455
Liabilities		
Trade payables and bills payable		564,612
Other payables and accruals		257,926
Other non-current liabilities		46,892
Interest-bearing bank and other borrowings		718,500
Total liabilities		1,587,930
Minority interests		1,232
Equity attributable to equity holders of the parent		299,293

39. 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 each of the balance sheet dates, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008 RMB'000	2007 RMB'000
Within one year	**18,694**	5,229
In the second to fifth years	**28,182**	16,803
More than five years	**4,147**	—
	51,023	22,032

(b) As lessee

The Group leases certain of its land and buildings 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 as at each of the balance sheet dates:

	2008 RMB'000	2007 RMB'000
Within one year	**14,402**	10,460
In the second to fifth years	**54,549**	59,347
More than five years	**188,751**	202,478
	257,702	272,285

39. COMMITMENTS (CONTINUED)

CAPITAL COMMITMENTS

The Group had the following capital commitments as at each of the balance sheet dates:

	2008	2007
	RMB'000	*RMB'000*
Contracted, but not provided for:		
— Property, plant and equipment	**2,391,586**	865,155
— Lease prepayments	**43,494**	—
— Other intangible assets	**124,950**	155,521
	2,560,030	1,020,676
Authorised, but not contracted for:		
— Property, plant and equipment	**2,688,961**	1,509,850
— Other intangible assets	**4,436**	—
	2,693,397	1,509,850

40. CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no significant contingent liabilities.

41. OUTSTANDING GUARANTEES

The Group had the following outstanding guarantees as at each of the balance sheet dates:

	2008	2007
	RMB'000	*RMB'000*
Guarantees given to banks at nil consideration in connection with facilities granted to a jointly-controlled entity	**–**	63,000

42. 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.

	2008	2007
	RMB'000	*RMB'000*
(a) Purchases of materials and components from:		
— CSRG Group	**240,094**	185,814
— Jointly-controlled entities	**446,760**	257,295
— Associates	**–**	150,873
	686,854	593,982
(b) Sales of goods to:		
— CSRG Group	**459,070**	50,390
— Jointly-controlled entities	**352,862**	343,385
— Associates	**–**	17,508
	811,932	411,283

42. RELATED PARTY TRANSACTIONS (CONTINUED)

	2008 *RMB'000*	2007 *RMB'000*
(c) Purchase of property, plant and equipment from:		
— CSRG Group	**119,515**	17,313
(d) Provision of services to:		
— CSRG Group	**26,564**	—
(e) Rentals of property, plant and equipment from:		
— CSRG Group	**10,696**	—
(f) Sales of property, plant and equipment to:		
— CSRG Group	**16,008**	—
(g) Compensation of key management personnel of the Group:		
Short-term employee benefits	**6,092**	4,179
Post-employment benefits	**252**	228
Total compensation paid/payable to key management personnel	**6,344**	4,407

43. FINANCIAL INSTRUMENTS BY CATEGORY

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

As at 31 December 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

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Group (Continued)

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

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2008

Company

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*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

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2007

Group

Financial assets

	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	82,346	82,346
Trade receivables	4,020,423	—	4,020,423
Bills receivables	487,309	—	487,309
Financial assets included in prepayments, deposits and other receivables	783,214	—	783,214
Pledged deposits	479,038	—	479,038
Cash and cash equivalents	7,792,483	—	7,792,483
	13,562,467	82,346	13,644,813

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Group (Continued)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade payables	6,229,873
Bills payable	1,612,181
Financial liabilities included in other payables and accruals	1,522,114
Financial liabilities included in other non-current liabilities	10,196
Interest-bearing bank and other borrowings	8,365,357
	17,739,721

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

As at 31 December 2007

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)*	687,000	—	687,000
Financial assets included in prepayments, deposit and other receivables	2,692,795	—	2,692,795
Cash and cash equivalents	2,100,000	—	2,100,000
	5,479,795	678	5,480,473

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	1,411,434
Interest-bearing bank and other borrowings	5,234,547
	6,645,981

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The board reviews and agrees 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 the financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group's credit risk is mainly related to trade receivables. The Group only transacts with those third parties who are recognised as creditworthy. The Group's policy is to perform credit verification for all customers who have transactions with the Group. Further, credit limits, credit terms and sales 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 the trade receivables 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 collected after 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.

44. 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 is also exposed to credit risk through the granting of financial guarantees in prior years, further detail of which are disclosed in note 41 to the financial statements.

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.

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 the use of measures such as bills settlement, loans and short term commercial papers, to adopt an appropriate combination of long term and short term financing, and improve the financing structure.

The Group has already obtained facilities from various commercial banks to cope with 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.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

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	3,747,420	2,207	55,440	1,401,630	5,206,697
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
	16,713,718	3,813	57,046	1,401,630	18,176,207

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

As at 31 December 2007

	Group				
	Within one year or on demand	**In the second year**	**In the third to fifth years inclusive**	**Beyond five years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	6,284,442	120,050	82,453	3,595,689	10,082,634
Trade payables	6,229,873	—	—	—	6,229,873
Bills payable	1,612,181	—	—	—	1,612,181
Financial liabilities included in other payables and accruals	1,522,114	—	—	—	1,522,114
Financial liabilities included in other non-current liabilities	10,196	—	—	—	10,196
	15,658,806	120,050	82,453	3,595,689	19,456,998

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

Interest rate risk means the risk of fluctuations in the fair value of cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rates, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The Group maintains an appropriate fixed and floating interest rate instrument portfolio to manage interest rate risk mainly by regular reviews and monitoring.

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

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**
		RMB'000
Year ended 31 December 2008	100	(13,278)
	(100)	13,278
Year ended 31 December 2007	100	(28,273)
	(100)	28,273

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 businesses are mainly located in the PRC and are mainly transacted and settled in Renminbi. Certain sales, purchases and borrowings are settled in United States dollars. The fluctuation of the exchange rate of this currency 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.

The Group uses forward currency contracts to eliminate the foreign currency exposures on some material foreign currency transaction. The forward currency contracts must be in the same currency as the hedge item.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

For export businesses, the Group's policy is to encourage the export entities to adopt measures such as exchange rate maintenance and forward settlement to avoid exchange rate risk. For foreign business contracts under negotiation, the Group also requires price quotations to be based on the expected exchange rate changes. In negotiation, the Group also requires price quotations to be based on the expected exchange rate changes. When negotiating foreign businesses, 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.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

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

	Group	
	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**
	%	*RMB'000*
Year ended 31 December 2008		
If Renminbi strengthens against Hong Kong dollar	5	(152,928)
If Renminbi weaken against Hong Kong dollar	(5)	152,928
If Renminbi strengthens against United States dollar	5	(59,832)
If Renminbi weaken against United States dollar	(5)	59,832
If Renminbi strengthens against Japanese yen	20	(228)
If Renminbi weaken against Japanese yen	(20)	228

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

	Group	
	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**
	%	*RMB'000*
Year ended 31 December 2007		
If Renminbi strengthens against Hong Kong dollar	5	(500)
If Renminbi weaken against Hong Kong dollar	(5)	500
If Renminbi strengthens against United States dollar	5	(15,222)
If Renminbi weaken against United States dollar	(5)	15,222
If Renminbi strengthens against Japanese yen	10	(451)
If Renminbi weaken against Japanese yen	(10)	451

Capital management

The primary objectives of the Group's capital management are 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 equity holders of the parent.

44. 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 businesses. 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 2008 and 2007 were as follows:

	Group	
	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**4,412,416**	8,365,357
Trade payables	**8,415,044**	6,229,873
Bills payable	**3,127,130**	1,612,181
Other payables and accruals	**7,986,766**	7,061,711
Less: Cash and cash equivalents and pledged deposits	**(11,722,772)**	(8,271,521)
Net debt	**12,218,584**	14,997,601
Total capital	**16,021,128**	4,311,021
Capital and net debt	**28,239,712**	19,308,622
Gearing ratio	**43%**	78%

45. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events subsequent to the year ended 31 December 2008.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2009.

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

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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. Industrial and Commercial Bank of China Limited	China CITIC Bank Corporation 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

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