2012 Annual Report

Exploring New Horizons of Sustainability

CSR 中国南车

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

Stock Code: 1766

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 annual report and they will assume joint and several legal liabilities for the truthfulness, accuracy and completeness of the contents disclosed herein.

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

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

(4) Zheng Changhong, the Chairman of the Company, Zhan Yanjing, the person-in-charge of accounting affairs, and Liu Jiang, the head of the Accounting Department, warrant the truthfulness, accuracy and completeness of the financial statements in this annual report.

Contents

CSR Profile

Accelerated internationalization brought overseas orders 2.5 times over the previous year

CSR Corporation Limited is a globally influential rolling stock solutions supplier. CSR has 19 directly held wholly-owned and controlling subsidiaries, located in 10 provinces (including municipalities directly under the central government) in Mainland China and Hong Kong Special Administrative Region. It set up branches across different countries in the five continents around the globe, with over 85,000 employees and RMB105.2 billion of total assets.

In face of new opportunities and new challenges in world transportation, with an ever-commitment to fostering innovation-driven development, CSR places equal emphasis on technological research and development and product innovation and adopts forward-looking and people-oriented strategies in its solutions to cope with new topics of eco-friendliness, intelligence and safety in the future world of transportation. A number of high-performance new products come one after another, such as high speed MUs, high-powered electric locomotives and new transit vehicles. The technology of these products has reached international advanced standard. As a result, with the comprehensive strength, the Company has incessantly maintained a leading position among its global peers.

CONTINUOUS DEVELOPMENT

As an artery of the national economy and a popular way of transportation, rolling stock shoulders important responsibility of protecting the environment and serving the community. Developing rolling stock is a critical choice of coping with dilemmas concerning energy and environment and achieving low-carbon development, as well as deeply changing people's perceptions on travelling and transportation.

CSR grasps the market mainstream of the close ties between public transportation and low-carbon economic development, a historical opportunity of rolling stock development. By virtue of its forward-looking vision, and lean manufacturing and through consolidation and expansion of its market position, CSR has maintained continual growth in scale of operation and efficiency as evidenced by a 26.20% compound annual growth rate in revenue and a 30.26% compound annual growth rate in profit after tax for the past five years. The revenue for 2012 increased by 11.95% year-on-year to RMB89.02 billion.

INNOVATION DRIVE

CSR has established its development model based on its core competitive advantages, being technological innovation and independent research and development. It is committed to the provision of world class products and services tailor-made to railways of various countries around the globe.

As for high speed products, trial railway trains newly invented by the Company unprecedentedly recorded a trial speed of 605 km per hour in the general rolling testing platform, symbolizing a periodic breakthrough of the forward-looking research on high speed trains in China. The launch of CRH6 inter-city MUs improved the weaknesses in national railway transportation and passenger transportation equipment.

As for heavy-hauling locomotives, research and development on six-axis and eight-axis high-powered electric locomotives achieved successful results. Their exceptional hauling capacity, which significantly alleviated the problem of heavy traffic section of China's railway freight transportation, has greatly boosted the growth of the domestic economy.

With respect to rapid transit vehicles, the first medium to low speed maglev train used for commercial operation in our nation commenced trial operation. The first energy-storing light rail vehicle using super capacitor as the main engine and power succeeded in research and development. Such new products, in line with the direction of "green and intelligence" development, would perform important exemplary role in the development of urban railway vehicles in our nation.

DEDICATED TO MUTUAL BENEFITS

With economic globalization and recovery in rolling stock, CSR will proactively integrate itself into the global market and speed up the progress of internationalization. Its products have been exported to more than 70 countries and regions. New overseas orders for 2012 were 2.5 times over the previous year.

CSR intends to share benefits derived from rolling stock rapid development with global cooperation partners and join hands with various parties seeking mutual benefits with credibility. CSR will be dedicated to providing the community with a sustainable mode of transport, higher speed and heavier load to carry more passengers and supplies whilst ensuring safety, comfort and reliability. Committed to bringing more rewarding return to shareholders, CSR will provide users with high value-added services and products. Dedicated to making contributions to sustainable development of rail transport industry in the world, including China, leveraging on strong capacity in technological innovation and sound experience in product operation, CSR will collaborate with its partners in creating the future of rail transport.

Results Highlights

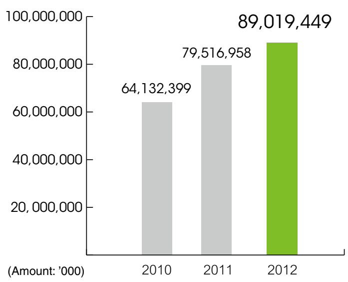
The following table sets out the major financial indicators:

Currency: RMB

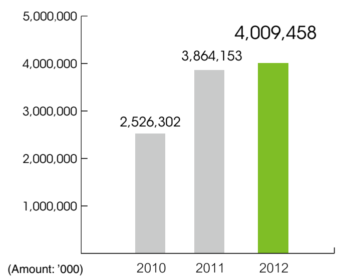
Item	**2012**	2011	Increase/Decrease %
Revenue *(RMB million)*	**89,019**	79,517	11.95
Profit after tax *(RMB million)*	**4,852**	4,743	2.30
Profit attributable to owners of the parent for the year *(RMB million)*	**4,009**	3,864	3.76
Basic earnings per share *(cent/share)*	**29.90**	32.60	(8.28)

Item	**2012**	2011	Increase/Decrease %
Total assets *(RMB million)*	**105,217**	92,786	13.40
Total liabilities *(RMB million)*	**65,707**	64,698	1.56
Total equity *(RMB million)*	**39,510**	28,088	40.67
Including: equity attributable to owners of the parent *(RMB million)*	**32,755**	22,562	45.18
Shareholders' interests per share *(RMB/share)*	**2.37**	1.91	24.08

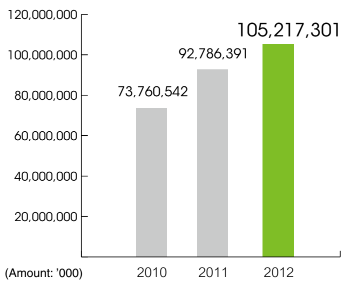
Revenue



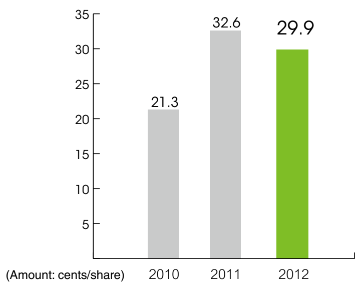
Profit attributable to owners of the parent



Total assets



Earnings per share

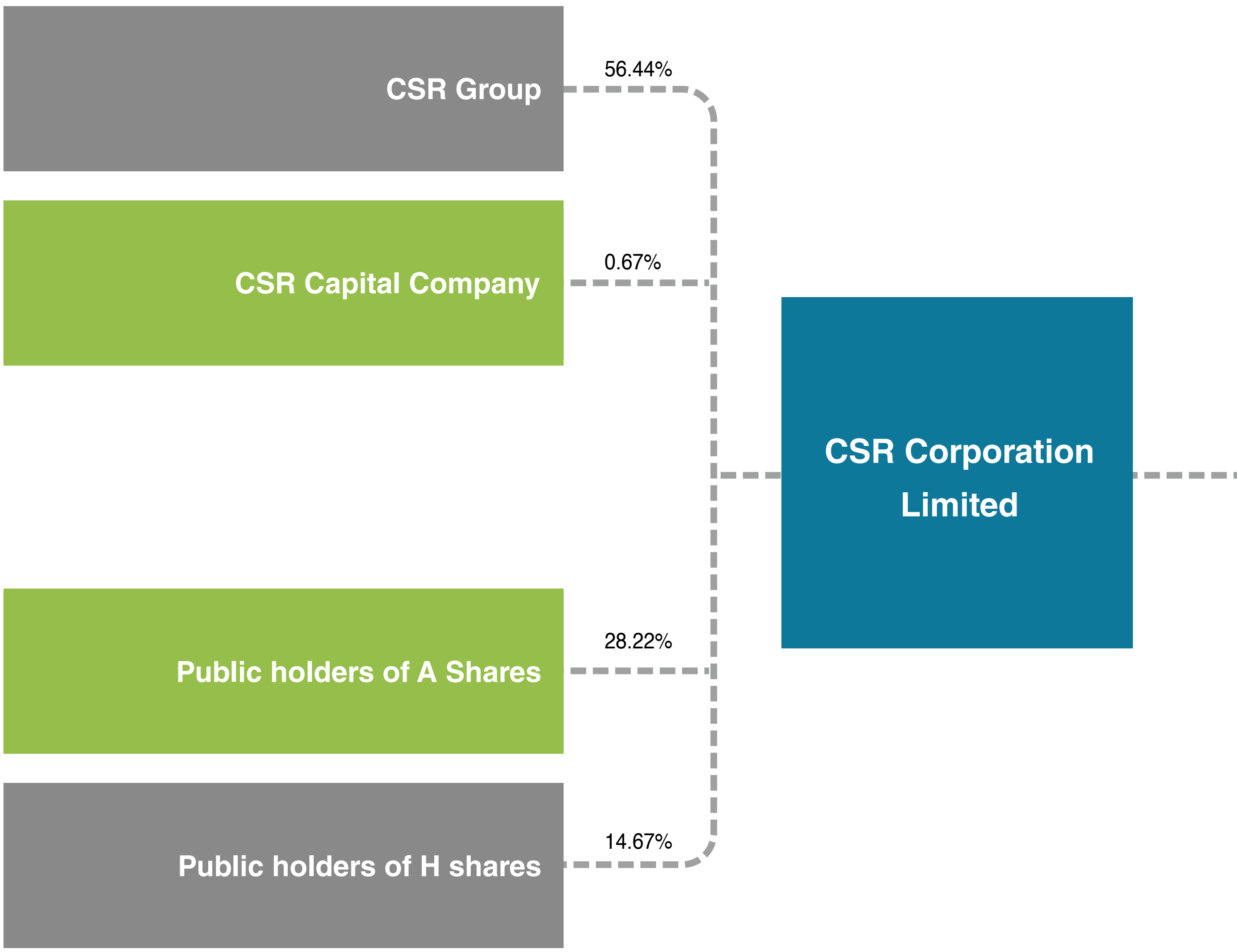


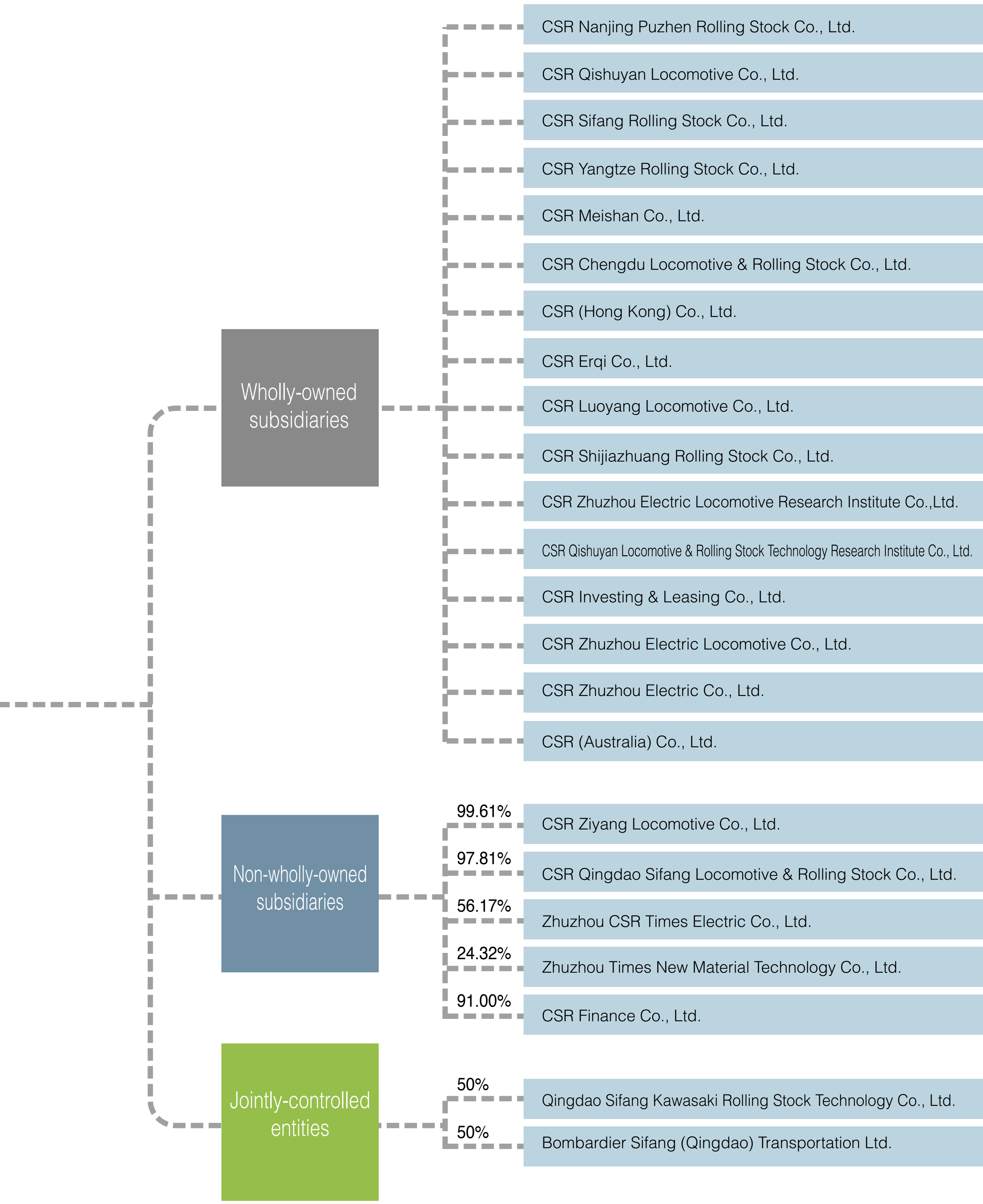
Financial Summary

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**89,019,449**	79,516,958	64,132,399	45,620,751	35,092,796
Cost of sales	**73,264,022**	64,646,619	53,145,221	38,453,741	29,278,774
Gross profit	**15,755,427**	14,870,339	10,987,178	7,167,010	5,814,022
Other income and gains	**1,069,723**	818,601	620,536	695,961	525,131
Selling and distribution expenses	**3,152,751**	2,734,686	1,989,254	1,132,661	787,350
Administrative expenses	**7,687,561**	7,017,068	5,799,821	4,263,779	3,382,117
Other expenses, net	**168,766**	169,354	452,279	144,179	13,102
Finance costs	**764,356**	993,739	318,368	264,758	430,630
Share of profits and losses of associates and jointly-controlled entities	**540,954**	668,034	611,794	343,743	178,374
PROFIT BEFORE TAX	**5,592,670**	5,442,127	3,659,786	2,401,337	1,930,532
Tax	**740,455**	698,887	415,901	285,155	244,929
PROFIT FOR THE YEAR	**4,852,215**	4,743,240	3,243,885	2,116,182	1,685,603
Attributable to:					
Owners of the parent	**4,009,458**	3,864,153	2,526,302	1,678,153	1,384,240
Non-controlling interests	**842,757**	879,087	717,583	438,029	301,363
	4,852,215	4,743,240	3,243,885	2,116,182	1,685,603
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**105,217,301**	92,786,391	73,760,542	55,389,853	45,516,251
TOTAL LIABILITIES	**65,707,440**	64,698,474	49,891,958	35,034,753	26,873,674
TOTAL NON-CONTROLLING INTERESTS	**6,754,434**	5,526,287	4,600,912	2,996,310	2,621,449

Corporate Structure Chart

As at 31 December 2012, the shareholding structure of the Company and its principal subsidiaries and jointly-controlled entities are as follows:




Wholly-owned subsidiaries
CSR Nanjing Puzhen Rolling Stock Co., Ltd.
CSR Qishuyan Locomotive Co., Ltd.
CSR Sifang Rolling Stock Co., Ltd.
CSR Yangtze Rolling Stock Co., Ltd.
CSR Meishan Co., Ltd.
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.
CSR (Hong Kong) Co., Ltd.
CSR Erqi Co., Ltd.
CSR Luoyang Locomotive Co., Ltd.
CSR Shijiazhuang Rolling Stock Co., Ltd.
CSR Zhuzhou Electric Locomotive Research Institute Co.,Ltd.
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.
CSR Investing & Leasing Co., Ltd.
CSR Zhuzhou Electric Locomotive Co., Ltd.
CSR Zhuzhou Electric Co., Ltd.
CSR (Australia) Co., Ltd.
Non-wholly-owned subsidiaries
99.61%
CSR Ziyang Locomotive Co., Ltd.
97.81%
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.
56.17%
Zhuzhou CSR Times Electric Co., Ltd.
24.32%
Zhuzhou Times New Material Technology Co., Ltd.
91.00%
CSR Finance Co., Ltd.
Jointly-controlled entities
50%
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.
50%
Bombardier Sifang (Qingdao) Transportation Ltd.

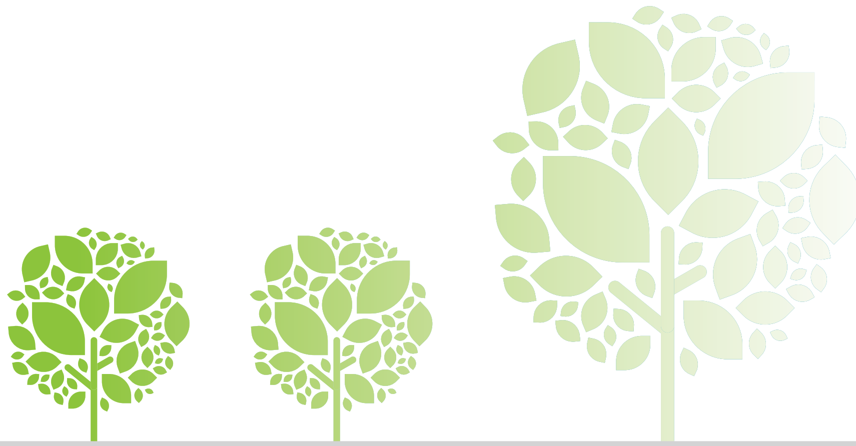
Chairman's Statement

Dear shareholders,

2012 is a year of transformation for CSR. With a keen eye on the progress in global economic recovery and the changes in market demand triggered by China's railway reform, the Board is gearing up to tap into future development potential and expand the scope of businesses.

In this year, CSR's revenue and net profit grew by 12.07% and 3.76% over last year, lower than previous years but still reassured by a positive growth. As compared to the negative growth recorded by many manufacturers due to weakened demand, the operating results of CSR did not come easily. Thanks to the effective measures on marketing, technological innovation and cost control, CSR proved its core competiveness in the industry.

Notwithstanding the challenges ahead, our confidence in the prospects of CSR, being inspired by the vitality from its innovation system and sprit, will remain unshakable. During this year, our self-developed higher-speed test train reached the speed of 605km/h, a new record in domestic trial operations. Such achievement is conducive to the launch of more environment-friendly and intelligent high-speed MUs in the future. Following the successful development and the transfer of relevant technologies among our subsidiaries, CRH6 inter-city MUs will help CSR to gain advantage in future development of inter-city railways. The self-developed middle-to-low-speed maglev trains and energy-storage trams will provide the urban rail transits industry with more energy-saving and environment-friendly alternatives. Moreover, both of the newly-developed eight-axle electric locomotive and 4,400-horsepower internal combustion shunting locomotive are well targeted at the "blind spots" in future market demand. These efforts and achievements on product innovation will play a significant role in China's new pattern of urbanization and the burgeoning rolling stock market, thus shaping the cutting edges of CSR in market competitions.



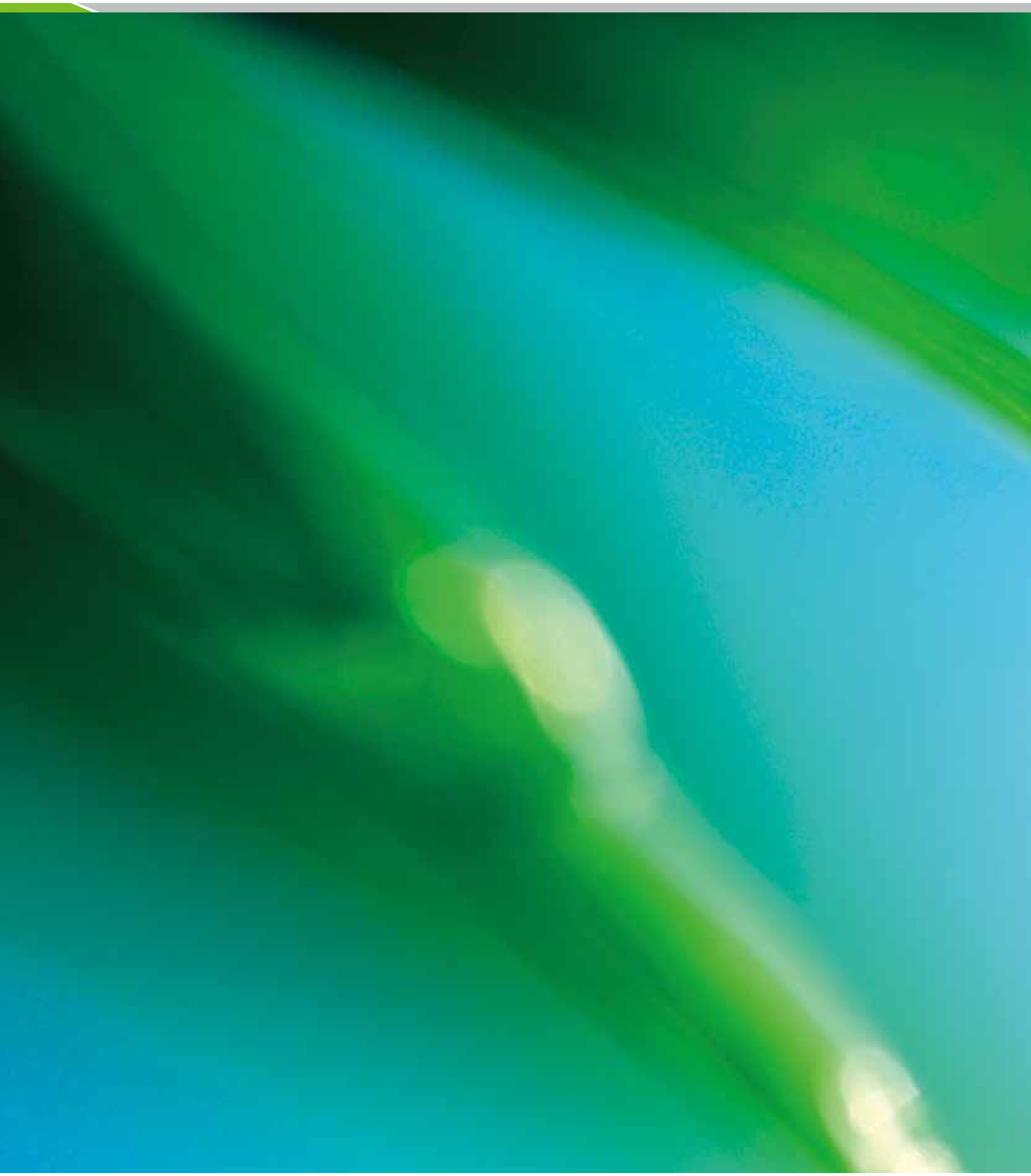
We have continuously monitored and reviewed the progress in China's railway reform from a strategic perspective. The all-front marketisation of the railway industry, coupled with the emerge of railway bureaus as new major players in the market, will inevitably lead to a new customer relationship. In this light, we paid more visits to and conducted in-depth communication with railway bureaus and transportation companies. With a focus on the establishment of strategic partnerships of mutual benefits, we have reached cooperation intentions with a number of railway bureaus. Meanwhile, we have improved our after-sales service system to maximise service value to customers. Full of confidence, we are poised to maintain our leading position in China's railway sector.

CSR has been dedicated to create more value for shareholders. Based on the full assessment on the development potential of rolling stocks and in consideration of the asset scale and strength in manufacturing, research and development of CSR, we outlined the business principle of "cross-industry development and cross-border operation", putting emphasis on strategic emerging industries and the layout of overseas businesses. Apart from the achievements in new energy and new material sectors, we have made our overseas business another highlight in 2012, with overseas new orders amounting to 2.5 times of that in 2011. The following few years will be a critical stage, where CSR shall press ahead with transformation and upgrade as well as business structure optimization, thereby seizing the initiative to sustain the growth momentum in future.

It is notable that our Board has undergone adjustments and energetic and experienced new members have been added to the management team. We believe that a strong management team will help us implement a series of operation measures that are favorable to shareholders' interests and the Company's prospects.

To maintain the vigor in development, a company shall unceasingly strive along. Under the support from shareholders, CSR will continuously march forward, capture the opportunities and strive for providing investors with a fruitful return in 2013.

March 2013



New CSR, New Creation

Report of Directors

Revenue of RMB 89.019 billion

A. Management Discussion and Analysis

I. Overall operation in 2012

In 2012, the Company actively catered to market changes by taking effective measures with persevering efforts and innovation, thereby achieving various annual business targets and keeping a fast development momentum.

Record high operating results: the Company firmly implemented the development strategy to strengthen the operational management and control, and kept the fast development momentum. Revenue increased steadily while operating efficiency improved continuously. In 2012, the Company recorded revenue of RMB89.019 billion, representing a year-on-year increase of 11.95%. Profit after tax reached RMB4.852 billion, representing a year-on-year increase of 2.30%. Net profit attributable to owners of the parent amounted to RMB4.009 billion, posting a year-on-year increase of 3.76%. In addition, BST, a joint venture of the Company, recorded revenue of RMB4.38 billion and a net profit of RMB0.78 billion in 2012.

Continuous breakthrough in market expansion: the Company fully capitalized on its synergies and increased marketing efforts. Besides further exploring the traditional national railway market, the Company expedited the exploration of the metropolitan rails, new industries as well as overseas markets, which secured the continuous and rapid growth momentum of our enterprise. The Company signed contracts for rapid transit vehicles in cities such as Dongguan, Wuxi, Beijing, Chongqing, Shanghai, Hangzhou, Nanjing, Dalian, Shenzhen, Nanchang, Suzhou and Ningbo, keeping the leading position in the market share. New businesses such as new energy-driven vehicles, construction machinery and composite materials maintained the growth momentum. It received orders of high-speed MUs for Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (廣深港高鐵香港段), electric locomotives in South Africa, internal combustion locomotives in Parkistan, freight wagons in Australia, subways in Ankara, Turkey, subways in Ampang, Malaysia and subways in Singapore. It also expanded into developed countries and regions for its high-end products such as the MUs, locomotives and metropolitan rapid transit vehicles. The overseas newly signed orders were 2.5 times of those in the last year. As at the end of 2012, the in-production orders amounted to approximately RMB78.0 billion.

Stable progress in formulation of the industrial layout: according to the changes in the business environment and market conditions, CSR continued to strengthen the strategic cooperation with the local governments, financial institutions, academic institutions and large-scale enterprise groups. It carried out the domestic merger and acquisition projects and the construction of new industrial bases, and pressed ahead with the domestic industrial layout prudently. Meanwhile, CSR refined and adjusted its internal industrial structure, devoted to building a new mechanism for synergistic development based on shared technology, industry linkage, optimum utilization of resources and supplementary advantages. CSR also implemented the internationalization strategy by seeking the overseas investment and merger and acquisitions. It established several overseas maintenance centers and subsidiaries and continued to establish and refine its overseas industrial systems and marketing systems.

Prolific achievements in technology innovation: the Company deepened its effort in independent innovation, continuously optimized and upgraded the three technology platforms, namely design, manufacturing and products. The Company is the only enterprise that owns four national research and experiment institutions in the rolling stock manufacturing industry, namely the National Converting Technology Engineering Research Center, National Engineering Laboratory dedicated to high-speed railway system integration, the National Research Centre of High-speed MUs Assembly and Engineering Technology and the State Key Laboratory of MUs and Locomotive Traction and Control. At the same time, the Company has the only 2 academicians specialized in the rolling stock manufacturing industry in China, six post-doctoral work stations, six state-accredited enterprise technology centers and two overseas R&D institutions, which demonstrate its leading position of independent innovation in the industry. In 2012, the Company entered into the cooperation agreement with the Chinese Academy of Engineering. As the principal promoter, the Company integrated the domestic innovation resources and established Chinese Technology Innovation Alliance in High-speed Railways Industry (中國高速列車產業技術創新聯盟), a move that further strengthened the technology innovation capacity of the Company and consolidated its leading position of technology.

In 2012, the Company continued to increase investment in technical R&D, totaling RMB4.7 billion throughout the year, which accounted for 5.2% of the revenue. Among which, the R&D expenses was RMB3.07 billion, representing 7.77% of the net assets. The cost of R&D expenses was RMB3.04 billion, whilst the capitalization of R&D expenses was RMB30 million. The Company carried out more than 900 R&D projects and introduced innovations in the high-end fields of the industry such as MUs, rapid transit vehicles, high-powered and heavy-hauling locomotives. The higher-speed test train created the domestic record of 605 km per hour on the platform in the laboratory. The completion of the first 200 KM/h CRH6 inter-city MU realized the independence and industrialization of the core technology and filled in gaps in the inter-city passenger transport vehicles in the rolling stock equipment sector. The Company also developed the electric locomotives used in plateau, electric locomotives for passenger transport with designed speed of 160 KM/h, the new eight-axle electric locomotive, HXN5 internal combustion locomotive with double cabs and the internal combustion shunting locomotive of 4,400 horsepower. The hopper wagons for stone fragments on railway independently developed by the Company, which has the largest hauling capacities and the most advanced technologies in the world, have been delivered to the client in Australia. The R&D projects provided the Company with a competitive position in the global technology competition. In 2012, the Company applied for 2,113 patents and was granted 1,460 patents, out of which 1 patent was granted abroad. 1 patent was granted the 14th China Patent Gold Award and 4 patents were granted the Excellent Award.

II. Business overview

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

In recent years, CSR pressed ahead with the construction of three technology platforms comprising design, manufacturing and products. The establishment of a batch of internationally advanced R&D and manufacturing bases for the complete units and components has consolidated the market position of CSR.

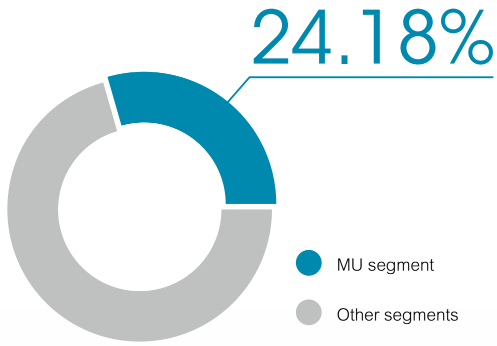
In 2012, different business segments of CSR, following the direction with a focus on the environmental protection innovation, guaranteed the development of transportation. A reasonable industrial layout and the technological strength helped CSR obtain more orders for the newly built locomotive vehicles and for maintenance, realizing the comprehensive presence of its rolling stock products in the high-end market around the world. Our stable growth and market expansion demonstrated CSR's brand to the world.

In-production orders of approximately **RMB 78.0** billion at the end of 2012

MUs Speed generates value

CSR's MUs sector is a MU business cluster comprising complete vehicle manufacturers including CSR Sifang, CSR Zhouzhou, CSR Puzhenand BST as well as core component manufacturers, such as CSR ZELRI, CSR Electric and CSR Qishuyan. Although there was a slow down in the high-speed railway construction in China, relying on its independent capability of ancillary research and development of high-speed MU technologies, CSR's MUs sector managed to record a revenue of RMB21.52 billion in 2012, representing a year-on-year growth of 2.58%.

Share of revenue in 2012



accounted for **57.4%** of the total number of MU trains in China

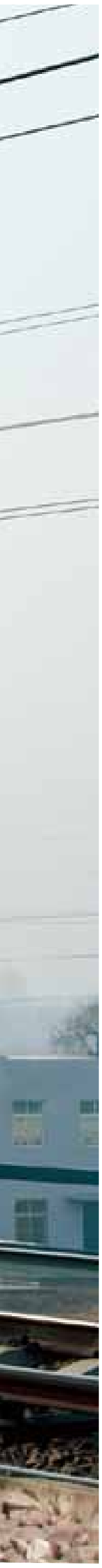
Complete industrial system: Since 2004, CSR experienced the technology import and four stages of innovation, namely joint design, integrated innovation, optimal design and comprehensive innovation. It established the technology innovation and manufacturing platforms for high-speed railways and refined a high-speed railway system that consists of complete basic theory, design and manufacturing, testing and evaluation, application and maintenance as a comprehensive industrial chain of high-speed trains. The key technologies and main supporting technologies of MUs can be developed independently and matched with each other, which not only satisfy the diversified demand of the market, but also create more value for CSR.

Reliable operating performance: by the end of 2012, CSR delivered an aggregate of 459 trains of high-speed MUs including short-train and long-train MUs (equivalent to 621 standard trains of MUs), representing 57.4% of the total number of MU trains in China. In 2012, for CSR's CRH MUs, the total railway mileage being put into operation reached 240 million km, which contributed to 55% of all operation mileage carried out by MUs in China. Having undertaken such a daunting task, our high-speed MUs maintained a sound record in terms of quality. In comparison with the market average failure rate, the Company improved its average failure rate to merely 0.42 piece per one million km, which was far below the standard level of the industry and lived up with international advanced standard. It is the safety, reliability and the low failure rate of the entire vehicle and the simplicity and appropriateness of its design and functions as well as its low-weight and low cost features which gave CSR an edge over market competitions in its MUs business segment.

CSR Corporation Limited played an important role in the commissioning of the Beijing-Guangzhou high-speed railway in 2012 -- the world's longest operating railway mileage, and eye-catching event in the high-speed railway industry, as well as the most important south-north major traffic corridor of China's "Four South-north and Four East-west Lines" high-speed rail network. In particular, our CRH380A/AL high-speed MUs have taken up 70% of the transportation capacity and 60% of the total Beijing-Guangzhou high-speed railway MUs. Once again, it witnessed the powerful strength of CSR MU segment.

Forward-looking technical research and development: Aiming at the future development of high-speed MUs, the forward-looking research is of great significance for optimizing the technical system of China's high-speed MUs and obtaining greater say in the global high-speed rail sector. In 2012, the experimental train of higher speed designed and manufactured by CSR attained the laboratory speed of 605 KM per hour on the comprehensive rolling testing platform. It marked the phased great achievement of China's forward-looking research for high-speed train. With support of our national research and development institutions including the National Engineering Laboratory for High-Speed Train System Integration and the National Assembly Engineering Center for High Speed Multiple Units, CSR, as the main promoter, integrated the R&D resources of the domestic scientific research institutions to set up the High Speed Train Industrial Alliance for Technology Innovation in 2012, and also signed the technology cooperation agreement with the Chinese Academy of Engineering to further optimize the system of CSR's technology development, so as to consolidate the cutting-edge technology advantage of the Company in high-speed train sector.


和谐号
CRH
Cinova



The leading inter-city MUs: As a link connecting the high-speed railway and the urban rapid transit system, the inter-city rail will be critical factor in the fusion of “Three Networks” to form China’s rail traffic framework for promoting the progress of regional economic integration. CSR, having seized the opportunity of inter-city traffic development, took the lead to launch the 200 KM/h CRH6A inter-city MU and successfully captured the best market share in 2012. At a speed of 200 KM, the CRH6A inter-city MU is CSR’s first model of its Cinova brand new technological platform, which is another innovative achievement of independent research and development for the technological project of the Ministry of Transport. It features big transport capacity, fast stop and start, fast ride and alighting, comfort, reliability, safety, energy-saving and environmental protection. It managed to fill the gap in the sector of domestic passenger rail transportation. At present, the CRH6A inter-city MU at speed of 200 KM/h are under the circular line and main line test at the China Academy of Railway Science. The first CRH6F inter-city MU at a speed of 160 KM/h will be launched shortly. The purchase contract for the first lot of inter-city MUs totaling 24 trains of CRH6A and CRH6F for Pearl River Delta was signed. They will be launched into operation upon completion of relevant model test and operation appraisal in 2013.

Knowledge Link:

MU Train: It refers to the passenger train comprising the fixed formation of vehicles with traction power and those without traction power. Vehicles with traction power are called multiple units and vehicles without traction power are called trailers.

MU trains are classified into internal combustion MU trains and electric MU trains. According to the allocation of power device, they can also be classified into concentrated power MU trains and distributed power MU trains. CSR’s MU trains are mainly distributed electric power MU trains including the MU trains with designed speed of below 200 KM/h, at 200-250 KM/h and at 300-350 KM/h.

MUs with a speed of below 200km/h

CRH6

MUs with a speed of 200-250 km/h

CRH1, CRH2

MUs with a speed of 300-350 km/h

CRH380A

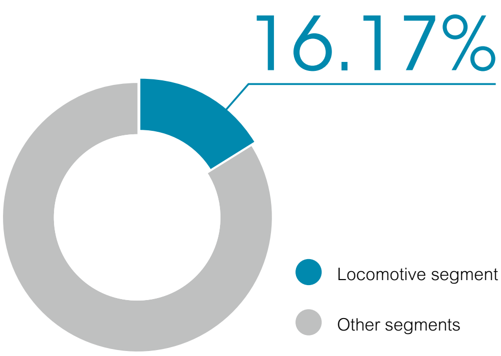
Locomotive Segment

Power that Hauls the Future

accounted for over **50%** of the total number of locomotives in operation

Enterprises specializing in the manufacturing and repair of locomotives, including CSR Zhouzhou, CSR Ziyang, CSR Qishuyan, CSR Luoyang and CSR Chengdu, and those specializing in the manufacturing of main components, including CSR ZELRI, Qishuyan Institute and CSR Electric form the complete locomotive industry chain of CSR. By virtue of the leading technology in the world, years of research and development experiences, and forward-looking design concepts, CSR has got in line with the modern locomotive technological development trend, coupled with on-going adaptation to the users' customization and diversified new dynamic requirements, to accumulate development stronghold with innovative capability. In 2012, revenue derived from CSR's locomotive segment reached RMB14.4 billion, representing a decrease of 19.14% as compared with the previous year, due to the drop of total purchase in the domestic market.

Share of revenue in 2012



Leading Technological Innovation: Following the global rolling stock locomotive development trend in 2012, CSR's locomotive segment was pushing ahead with progress in the railway heavy loading capacity, high-speed and AC transmission technology and took the lead in developing China's rolling stock traction power. Supported by our core technologies, the Company went on smoothly with its participation in the new China made AC transmission locomotive research and development. The products of high-powered locomotive series in modular design and varying in axle arrangement (including 6-axle and 8-axle) and traction powers were launched into the market to meet diversified market demands. In particular, the new 8-axle 9,600 KW high-powered AC transmission electric locomotive has been undergoing operation examination on the Wuhan-Guangzhou Railway Line for nearly 70,000 KM. The 6-axle 7,200 KW electric locomotive with designed speed of 160 KM/h has been undergoing operation examination on the Beijing-Guangzhou Railway Line for nearly 100,000 KM. The plateau electric locomotive has undergone the adaptive operation examination at Qinghai-Tibet Railway Line for more than 200,000 KM (each locomotive) and has completed the technology appraisal by transportation authorities with flying colors. The HXN5 diesel locomotive with twin driver chamber has begun operation examinations after completing the whole car test. Having completed the trial run of its first whole vehicle, the modular, standardized and full ranged Core Dragon series diesel locomotive with 4,400 H. P. is undergoing its whole car test.

Solid Market Position: CSR's high-powered electric locomotives are frequently found running on freight railways in most regions in China, and account for over 50% of the total number of locomotives in operation. Our locomotives are able to meet the special requirements of various regions and different climatic environments. They are adapted to the environmental temperature range of ±40℃. As at the end of 2012, CSR delivered nearly 2,000 high-powered AC transmission electric locomotives and more than 600 high-powered AC transmission diesel locomotives, thus greatly alleviating the great pressure of the areas with busy rail freight traffic in China.

By virtue of comprehensive resolutions and extensive, full-fledged application experience and all-rounded repair and maintenance and after-sales services, CSR has built up the optimal technological, production, repair and maintenance system to make significant contribution to the rail freight business in China, thus vigorously promoting the development of rail transport and national economy.

Knowledge Link:

Locomotive: It is the self-driving vehicle hauling or pushing the rail carriages but does not carry any payload by itself. It is the traction power source of the train. Depending on the power source, they are classified as the electric locomotives and the diesel locomotives. The electric locomotive transforms the power supply from the power grid into the traction power. The diesel locomotive provides the traction power from internal combustion. In order to satisfy the on-going higher requirements for the traction power of locomotives, most electric locomotives and diesel locomotives adopt the means of electric transmission. In particular, the application of the advanced highly effective AC transmission technology on the new high-powered locomotive is on the rise. In recent years, the high-powered locomotives manufactured by CSR mainly include the 9,600 KW 6-axle and 8-axle electric locomotives, 7,200 KW 6-axle electric locomotives and the diesel locomotive with 6,000 H. P.


HXD1

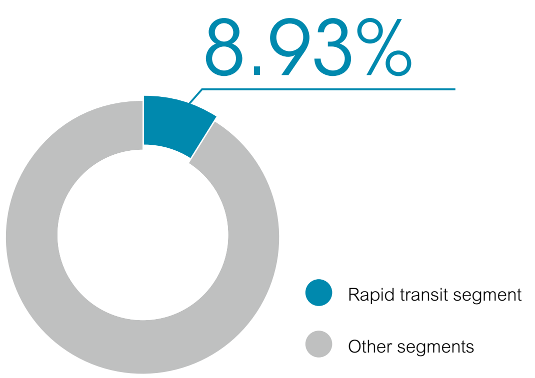

HXD1C


HXN5

Rapid Transit Segment Forming the Urban Main Artery

CSR's rapid transit segment is the industry cluster comprising three enterprises qualified for manufacturing of the urban rail transit vehicle: CSR Zhuzhou, CSR Sifang and CSR Puzhen, as well as the core and key component manufacturers: CSR ZELRI, and Qishuyan Institute with independent research and development, auxiliary system and large scale operation. In 2012, the revenue of CSR's rapid transit segment was RMB7.95 billion, representing a decrease of 3.29% as compared with the previous year.

Share of revenue in 2012



Market Development with Fruitful Results: By virtue of its powerful comprehensive strength, stronghold in leading technology, highly steady product quality, delicacy management, large-scale business and brand influence, CSR set up urban rail transit vehicle bases in Guangzhou, Kunming, Luoyang, Ningbo, Chengdu, Tianjin, Hangzhou, and Wuhan to lay the good foundation for developing the rapid transit market. In 2012, out of the 16 vehicle tender invitation projects and 3 tender discussion projects for vehicles from 12 cities including Beijing, Shanghai, Shenzhen, Chongqing, Dalian, Dongguan, Wuxi, Hangzhou, Suzhou, Nanjing, Nanchang, and Ningbo, CSR was awarded 10 tender invitation projects and 2 tender discussion projects. By the end of 2012, for the 25 domestic cities having launched the urban rail transit vehicle tenders, CSR's products were admitted to 18 cities.

Apart from keeping the stronghold in the above vehicle markets, CSR also obtained fruitful results from the tender invitations for core components of urban rail transit vehicles. It was awarded a total purchase order of RMB2.3 billion for the urban rail transit vehicle traction system and brake system. Out of the 11 domestic tender invitation projects, we were awarded 8 and was the only domestic qualified enterprise for participating in the traction system bidding and having won the biggest numbers of purchase orders independently.

To comply with the market demand, CSR also pushed ahead proactively with the general contracting business of new urban rail transit including the low floor trams. Various project cooperation agreements, including the demonstration line for Ningbo new tram business, have been signed.

Admitted to **18** cities among 25 cities with tendered transit projects in China

Innovative High-end Technological Products: CSR possesses the research and production technologies of various vehicles. We grasp the overall key technologies in relation to the body, bogie, train traction control, and established traction converter, traction motor, brake system and signal system, and established the core stronghold of CSR's rapid transit industry. The Company has the capability of independent research and development covering rapid transit vehicles with the speed of 80KM/h, 100KM/h and 120KM/h respectively. Several new rapid transit vehicles have completed their research and production successfully.

Our environmentally friendly medium-low speed maglev train was rolled off the production line by CSR, thus turning China into the fourth nation mastering the medium-low speed maglev core technology. Having overcome the difficulties encountered in the super-capacitor technology and the integration technology energy-storage power sources, CSR has succeeded in the research and production of the prototype of the energy-storage electric traction light rail vehicle. This is the world's first light rail vehicle with the super-capacitor storage device as the traction power source. We got abreast of the world's leading edge in the research and development of the energy-storage light rail vehicles. Furthermore, our permanent magnet synchronous traction system -- the latest research and development achievement of CSR -- which is in operation at Shenyang Metro for passengers, has reached the operation mileage of over 10,000 KM, and has reserved the key technology for upgrading the energy-saving capacity of rail traffic vehicles.

CSR is one of the enterprises with the most comprehensive rapid transit product varieties and the most complete product chain available. By means of on-going research and development of advanced, full-fledged and energy-saving new products, the Company has managed to provide overall system solutions to enable passengers to enjoy more environmentally friendly, faster, and more comfortable trips.

Knowledge Link:

Urban Rapid Transit: According to the Common Terms of Urban Public Transport in China, it is defined as the collective term for the electric fast massive public transport running on rail wheels, including the urban metro train, the light rail train and the urban tram. Their difference lies in the transportations capacity, with metro train being the largest, followed by light rail train and the urban train in turn. The international rapid transit is also called "The Main Artery of Urban Traffic" and includes the metro train, the light train, the suburban railway, the tram and the maglev train. CSR mainly manufactures Type A and Type B vehicles of various body materials and at different speeds, as well as the linear motor driving metro vehicle.

Type A vehicle

Type B vehicle

Linear motor driving metro vehicle

Passenger Carriage Segment

Carefree Journey

The passenger carriage segment of CSR comprises CSR Puzhen, CSR Sifang, CSR Sifang Ltd., CSR Chengdu and BST with the revenue of RMB7.75 billion in 2012, representing an increase of 22.01% over the previous year.

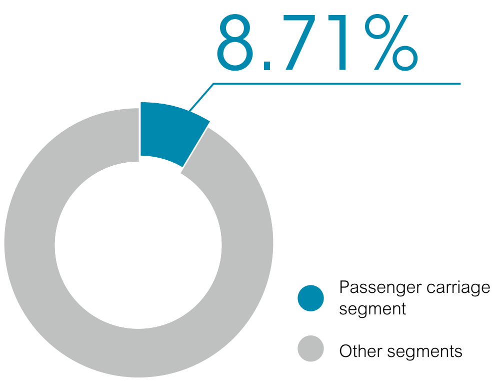
Demand Leading to Vitality: China's diversified operating modes have become the development trend. China's high-speed railway is developing rapidly while sufficient emphasis is also placed on the traditional passenger transport. The demand for ordinary passenger carriage at different speeds per hour led to the new vitality of the traditional passenger transport market. By virtue of modular design, lean production, and on-going enhancement in terms of quality, efficiency and benefits, the Company has managed to satisfy the clients' requirements and enhance its competitiveness in the traditional passenger carriage market.

Help to Promote International Multimodal Transport: In 2012, CSR provided 34 Beijing-Ulan Bator-Moscow K3/K4 international multimodal transport vehicles, thus realizing the first technological upgrade in 16 years of international multimodal transport passenger carriage. This lot of passenger carriage vehicles comprise seven car models, that is, the first-class cushioned berth sleeping car, the cushioned berth sleeping car, the semi-cushioned berth sleeping car, the semi- cushioned berth sleeping car for the handicapped with broadcasting function, the baggage car, the power generating car and the dining car. The centralized power supply from the power generating car, the coal-fired/electric boiler for warm water circular heating, and the sanitary facilities including water closet are adopted for the first time. Such interior personalized design has achieved the highest technological level of China's Model 25 passenger carriage, with all-out efforts to create safe and comfortable trips for the passengers. Such passenger carriage connects China, Mongolia and Russia. The operating environment along the railway is comparatively harsh, the problems of low temperature, long routing and strong dust bearing wind must be overcome. Consequently, CSR's designers have conducted a lot of improved designs and experimental verification aiming at solving these problems. The operating speed of the train is maintained at 120 KM per hour. Two types of bogies for the standard gauge railway and the wide gauge railway are adopted for normal operation on the railway of different gauges in China, Russia and Mongolia.

YOY growth of revenue **22.01%**

Sufficient reference has been made to the advanced concepts and technological achievements of Qinghai-Tibet plateau railway passenger carriage and the high-speed MUs for the design of the international multimodal passenger carriage. With its technological advantages, the Qinghai-Tibet railway passenger carriage series are able to overcome the worldwide recognised technological difficulties in the operation of plateau and cold region. CSR is the only domestic supplier for such products.

Share of revenue in 2012



Knowledge Link:

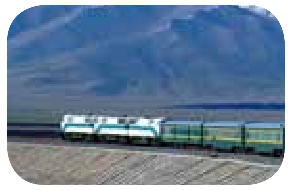
Passenger Carriage: The railway passenger carriage refers to the specific type of vehicles for carrying passengers and providing services for passengers on the particular railway. The railway passenger carriage mainly comprises the body for carrying passengers and the bogie moving on the particular rail. The railway passenger carriage is classified into three types of cars for carrying passengers, serving passengers and for special purposes.

The car for carrying passengers: including the car with semi-cushioned seats, the car with cushioned seats, the semi-cushioned berth sleeping car, the cushioned berth sleeping car and the high-grade chartered car.

The passenger service car: including the baggage car, the dining car and the mail car.

The special purpose passenger car: including the motor car, the test car, the service car, the medical car, and the maintenance car.

Railway passenger carriage is classified based on their respective speed as 120 KM/h, 140 KM/h and 160 KM/h.


Passenger carriage used on Tibetan railway

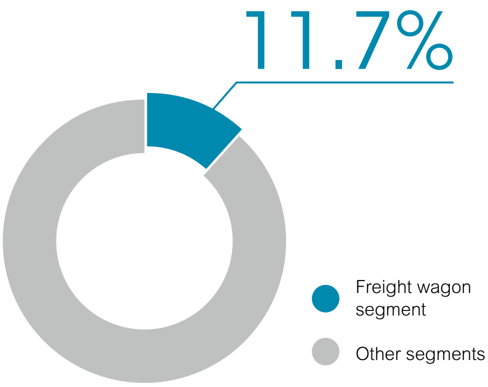

Type 25G passenger carriage


Type 25T passenger carriage

Freight Wagon Segment Connecting the World

Revenue exceeded RMB 10 billion

Share of revenue in 2012



CSR's freight wagon segment comprises CSR Yangtze, CSR Meishan, CSR Er Qi and CSR Shijiazhuang. In 2012, despite the slight decline of the total freight volume of China railway, CSR still enjoyed growth in terms of the sales volume and revenue of its freight wagon segment through reinforced research and development and lean management.

Revenue of Freight Wagon Segment Exceeded RMB10 billion: In 2012, the revenue of CSR's freight wagon business was RMB10.42 billion, representing an increase of 7.51% as compared to 2011, coupled with the increase in the sales unit price of the new construction of freight wagons compared to 2011. In 2012, within the quality assurance period, approximately 300,000 freight wagons constructed or repaired by CSR did not incur any accident attribution to of quality responsibility. The comprehensive performance of the segment has created the best historical level. The overseas freight wagon business maintained steady growth. We have signed export orders for Australia, Columbia, Venezuela, Cameroon, Sierra Leone, Senegal, Gabon and Hong Kong and have achieved the sustainable development in major markets.

On-going Upgrading of Product Research and Development: The research and development of new products lead to the freight wagon market expansion in width and depth remained to be the objective of CSR's development of freight wagon business in 2012. The research and production and relevant tests for universal freight wagon of 80t load capacity have been completed. Its load capacity has exceeded that of the existing freight wagon with the biggest load capacity by more than 14%. In order to provide applicable freight wagons for the new heavy-load railway lines including Shanxi Central-south Region Railway, the design and trial production of special purpose freight wagons of 100t load capacity have been completed. Its load capacity is approximately 20% more than that of C80 Series open freight wagons. The research and development of fast-load container flat wagons have obtained greater breakthrough. The wagon under test has achieved the maximum speed of 220 KM/h, thus achieving better dynamic functions.

By virtue of our advanced design technology and production technology, we have put forward the project of exporting railway hopper cars for sulphur to United Arab Emirates. This type of hopper cars adopted the advanced technologies such as the electro pneumatic brake, the hot box detection and wagon derailment detection to achieve the light weight and intelligent operation of vehicles featuring much better reliability and safety to become one of the most technologically advanced railway freight wagons in the world.

Knowledge Link:

Freight Wagon: It is the collective name for railway wagons carrying goods. Its load capacity and operating speed are the important indexes to judge the technical standard of the wagon. Based on different purposes, the railway freight wagon is classified into the universal freight wagon and the special purpose freight wagon.

The universal freight wagon is for carrying ordinary goods of various types without specific requirements. Such type of wagons comprises a bigger proportion of railway freight wagons in use. It is usually classified as the open wagon, the flat wagon and the box wagon.

Special purpose freight wagon: It usually refers to the kind of wagons carrying very limited types of goods. Its usage is more unified. Usually, such type of wagons includes the container wagon, the oversize commodity wagon, the poisonous material wagon, the livestock wagon, the cement wagon, the grain hopper wagon, the thermal wagon, the tank wagon, the special wagon and the ore wagon.

In order to meet the requirements for overseas and domestic railway load capacity, CSR mainly manufactures the universal (special purpose) railway freight wagon with a load capacity of 70 tonnes, 80 tonnes, 100 tonnes and 137.5 tonnes respectively. Our special purpose freight wagon has the maximum load capacity of 360 tonnes.

Box wagon

Open wagon

Hopper wagon

Flat wagon

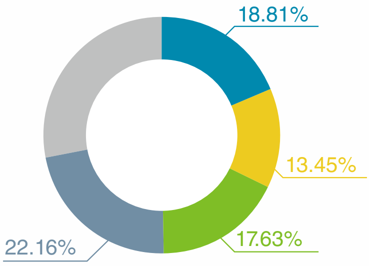
Tank wagon

New Business Segment Commitment to Environmental Protection

Revenue RMB 10.9 billion

By virtue of the core technology of the rail transportation equipment, CSR has actively adjusted the layout in the sector of China's strategic emerging industries including new energies, new materials, and new energy automobiles, pushed ahead with the amalgamation and joint venture cooperation, expedited the industrialization of technological achievements, and enhanced the industrial competitiveness so as to lay the solid foundation for optimizing the industrial structure and operation scale development. In 2012, the revenue of the new business segment was RMB10.9 billion, representing a decrease of 6.32% compared to the previous year.

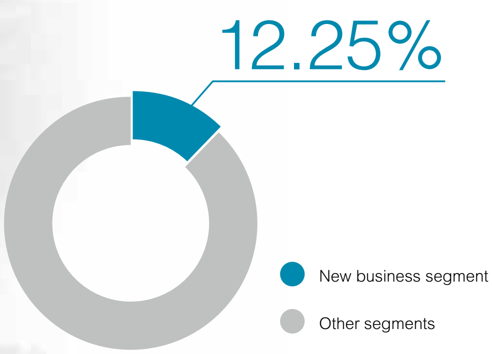
Share of each representing industry of new businesses



Wind power equipment
Electric automobiles
Composite materials
Engineering machinery

Optimizing Industrial Layout: By virtue of the accumulated exclusive technology and solid experiences in the sector of rail transportation equipment, CSR has expedited the industrial layout in the sectors including the wind power equipment, electric automobiles, composite materials and engineering machinery in line with the national conditions in China. In the sector of wind power equipment, the Company has established the optimal industrial chain covering the wind power blade, the wind turbine generator and the complete wind turbine generator system. By means of acquiring the enterprises of wind turbine generator system, the Company has been equipped with the production capacity of direct-driven wind turbine with permanent magnet synchronous generator system and further enriched its product line. In the sector of engineering machinery, by means of acquiring the coal-mine machinery manufacturing enterprises, the Company has been able to give full play to its technological stronghold in the integration of electrical and mechanical equipment systems, enter the coal-mine machinery industry, and set up the initial development platform for the coal-mine machinery industry. In the sector of composite materials, the Company has grasped the transforming trend for sustainable development of low carbon, environmental protection and energy-saving. By means of acquiring the water treatment enterprises, the Company has expanded the composite materials industry to the downstream environmental protection water treatment industry with vast market space and good development prospects. In the sector of electric automobile, it has a stable and existing demonstrative urban market, with the first breakthrough to the domestic non-demonstrative urban market to enable more reasonable industry and market layout.

Share of revenue in 2012



Specializing in Innovative Research and Development: The Company has placed emphasis on the innovative research and development of energy-saving and environmental protection technologies and set up independent system of intellectual property to provide impetus for the development of new industries. We launched the first domestic 2MW low wind speed generator applicable to the wind speed below 7M/second and the cold-proof blade adapted to the special climate in the plateau region. By virtue of taking the biggest market share in the high altitude wind power generator, the Company has taken the proactive move in the participation in preparing China's Application Guide for High Sea Level Wing Power Generators. In the sector of car equipment sector, the product line of electric passenger car series has been further optimized. The motor controllers for commercial passenger cars including the hybrid electric car, the pure electric car and the plug-in models have been simplified and unified. In the sector of composite materials, the trial production of the HB nylon synthetic technology was successful, with function up to the world leading level, which marks the breakthrough of the Company in the goal of extending upstream of new materials. In the sector of civil engineering machinery, the piling machinery product line has been further optimized. The crawler crane, the dynamic compactor, the concrete pump truck and the special engineering machinery of independent research and development were launched by the Company. The research and production of 220t mine electric unloading cars were successful. The product structure has become more diversified. In the sector of rail engineering machinery, the Company has undertaken the independent research project for the key technology of steel rail flaw detection system of the Ministry of Railways. The three major tests of traction, dynamics and comprehensive function for the first 160 KM/h diesel AC express rail car have been completed and passed the examination and assessment of the Ministry of Railways authorities. It will be put into direct line operation for one year shortly.

Development of Cooperation in Depth and in Width: The Company adheres to the "Cooperation and Win-Win" operation concept. Through enhanced strategic cooperation and capital based "marriage" to expand the development space for new business. The Company has reinforced association and deepened cooperation with large enterprisers including Aluminum Corp. of China, China Huadian Corp., CITIC, China South Industries Group Corp. and Wuhan Iron and Steel Group for joint market development. The Company also cooperated with China State Shipbuilding Corp. and China Nonferrous to push ahead with the overseas rectification projects and so on, and set up the joint venture with Nanyang Explosion Protection Group for joint expansion of the market in the sector of flameproof inverter to create the top-class system integrated brand.

Overseas Business Segment

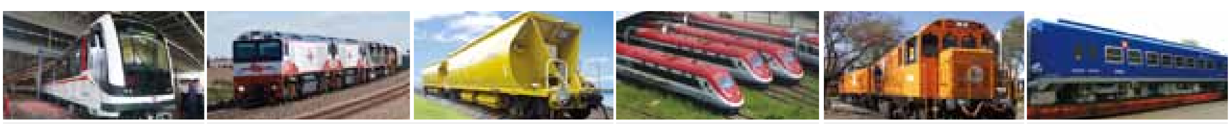
Expediting Global Development

亞洲 Asia

馬來西亞 Malaysia | 新加坡 Singapore | 印度 India | 沙特阿拉伯 Saudi Arabia | 烏茲別克斯坦 Uzbeklstan | 土庫曼斯坦 Turkmenistan

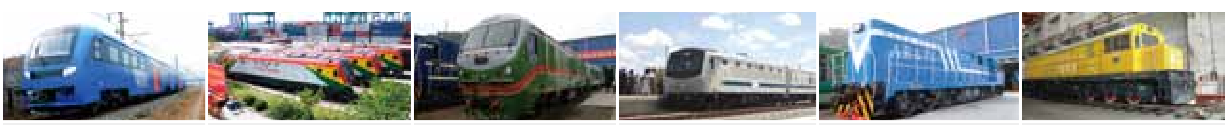
哈薩克斯坦 Kazakhstan | 格魯吉亞 Georgia | 斯里蘭卡 Sri Lanka | 柬埔寨 Cambodia | 越南 Vietnam | 阿聯酋 Emirates

歐亞洲 Europe and Asia 大洋洲 Oceania 南美洲 South America



土耳其 Turkey | 澳大利亞 Australia | 委內瑞拉 Venezuela | 巴西 Brazil | 阿根廷 Argentina

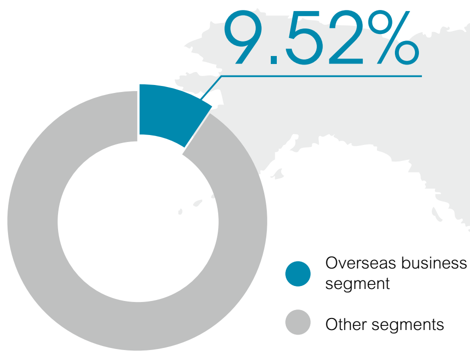
非洲 Africa



突尼斯 Tunisia | 幾內亞 Guinea | 蘇丹 Sudan | 納米比亞 Namibia | 南非 South Africa | 津巴布韋 Zimbabwe

YOY growth of export revenue **38.86%**

Share of revenue in 2012



CSR has expanded its overseas business on proactive basis and upgraded its level of international operation by means of developing innovative business modes to provide significant security for the continuous growth of its performance. In 2012, the record-breaking export revenue was RMB8.48 billion, representing an increase of 38.86% compared to the previous year,

Outstanding Persistent Market Effects: By virtue of the whole car export core enterprises including CSR Zhouzhou, CSR Ziyang, CSR Yangtze, Qishuyan Institute and CSR Sifang, CSR not only covers a market extending more than 70 nations but also obtains the continuous purchase orders from Asia, America, Africa and Oceania. In 2012, following the light rail train project of Izmir in Turkey, CSR also obtained the metro vehicle purchase order from Ankara, Capital City of Turkey. In Malaysia, with the goodwill brought about by Kuala Lumpur inter-city MU project, the Company has again succeeded in obtaining the Ampang light rail vehicle project, thus further consolidating its market position in the regions of the Association of South East Asian Nations. In each of Australia, Kazakhstan, Turkmenistan, and Singapore, CSR has signed the purchase contracts for more than three lots of locomotives, freight wagons, and metro vehicles, which greatly enhanced the goodwill of CSR brand.

Various Breakthroughs of Regional Varieties: CSR has closely followed up the South African railway recovery and expansion investment project and succeeded in obtaining the South African electric locomotive project. This is the first time for China electric locomotives to enter Africa, and also the biggest overseas electric locomotive order for Chinese enterprises. The high-speed MU at 350 KM/h has succeeded in the international bidding for the Hong Kong high-speed train project. It has achieved the breakthrough of China high-speed train going overseas. The electric MU traction system and network control system, which are the independent research and development outcome of CSR, have also succeeded in the export of whole systems for the electric MUs in Georgia, which further enhanced the additional value of the technology for the export products of CSR.

Optimal Innovation of Commercial Mode: CSR has proactively pushed ahead with the localization of overseas projects, and expedited the transformation from export trade to international operation. The promotion of the commercial mode "Production + Services" has brought about opportunities for CSR. Following the Malaysian MU project, localized cooperation was also launched through localized investment in the construction of production bases and "4S" shops in respect of the South Africa electric locomotive project, the project of Ankara in Turkey, and Kazakhstan diesel locomotive project, so as to push ahead with the enhancement of local rail transportation equipment industry in the place of the project and even in the peripheral nations and promote the local economic development and obtain the win-win outcome with the local government and people. In compliance with the need for localized strategy and the construction of marketing network, the Company expedited the strategic layout for overseas markets in 2012 with the establishment of more than a dozen overseas branches and sites of services, and active organization of regional companies to lay the foundation for the subsequent international operation.

III. Analysis of Financial Statements

(I) The Company's operation status

1. Revenue

(1) Analysis on the factors that caused changes in revenue

The revenue of the Company mainly comprises of revenue generated from locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles, new businesses and others. Coping with the complex market situation, the Company captured opportunities for the development in the rolling stock manufacturing industry of the PRC. It also reinforced its development of new products and investment in technological innovation making the most of its strengths in technology upgrade. As a result, the business of the Company continued to expand with steady growth of revenue. In 2012, the Company recorded a revenue of RMB89.02 billion, representing a year-on-year growth of 11.95%, which was mainly attributable to the year-on-year growth of revenue from passenger carriages, freight wagons, MUs, and modern logistics businesses.

(2) Revenue breakdown by business segments

Comparisons between revenue from all business segments of the Company for year 2012 and that for last year are set out in the following table:

Business segment	2012		2011		Growth rate
	Amount (RMB'000)	Percentage %	Amount (RMB'000)	Percentage %	%
Locomotives	**14,396,003**	**16.17**	17,803,400	22.39	–19.14
Passenger carriages	**7,752,539**	**8.71**	6,354,192	7.99	22.01
Freight wagons	**10,419,712**	**11.70**	9,691,987	12.19	7.51
MUs	**21,523,549**	**24.18**	20,981,268	26.39	2.58
Rapid transit vehicles	**7,947,207**	**8.93**	8,217,268	10.33	–3.29
New business	**10,901,524**	**12.25**	11,637,271	14.63	–6.32
Others	**16,078,915**	**18.06**	4,831,572	6.08	232.79
Total	**89,019,449**	**100.00**	79,516,958	100.00	11.95

558 locomotives were sold by the Company, representing a year-on-year decrease of 43.06%; revenue from locomotive segment decreased by 19.14% on a year-on-year basis, which was mainly attributable to a drop in customers' procurement resulting in reduced sales of locomotives.

2,189 ordinary passenger carriages were sold by the Company, representing a year-on-year decrease of 7.95%; revenue from the passenger carriage segment increased by 22.01% on a year-on-year basis, which was mainly attributable to the growth of sales in overseas market.

19,811 freight wagons were sold by the Company, representing a year-on-year increase of 1.06%; revenue from the freight wagon segment increased by 7.51% on a year-on-year basis, which was mainly attributable to the increases in the sales of freight wagons to the Ministry of Railways and exports.

960 MUs were sold by the Company, which basically leveled off with last year; revenue from the MU segment increased by 2.58% on a year-on-year basis, which was mainly attributable to the structural change in the variety of products.

947 rapid transit vehicles were sold by the Company, representing a year-on-year decrease of 11.74%; revenue from rapid transit vehicle segment decreased by 3.29% on a year-on-year basis, which was mainly attributable to the drop in product delivery and exports.

Revenue from new business segment decreased by 6.32% on a year-on-year basis, which was mainly attributable to decrease in overall revenue resulting from the dampened market under policy changes in the wind power industry. In 2012, revenue from wind power equipments amounted to RMB2.051 billion, representing a year-on-year decrease of 40.68%; revenue from construction machinery amounted to RMB2.415 billion representing a year-on-year increase of 25.11%; revenue from composite materials amounted to RMB1.922 billion, representing a year-on-year increase of 15.59%; while revenue from automobile equipments amounted to RMB1.466 billion, representing a year-on-year increase of 29.28%.

Other revenue includes revenue from modern logistics and businesses other than rolling stock business, representing a year-on-year increase of 232.79%. The increase in other revenue as compared to the previous year was primarily due to the expansion in modern logistics business.

(3) Analysis of orders

In 2012, the Company signed new orders of approximately RMB 82.0 billion, with unfinished orders of approximately RMB78.0 billion at the end of the year, of which rolling stock products accounted for approximately 90%.

(4) Major suppliers and customers

In 2012, the procurement by the Company from its top five suppliers totaled RMB11,585.104 million, accounting for 17.65% of the total procurement for the year.

In 2012, the sales of the Company to its top five customers totaled RMB47,391.020 million, accounting for 53.24% of the total sales of the Company for the year. Such high degree of customer concentration was primarily attributable to the Company's sales to its biggest customer, namely the Ministry of Railways together with all railway bureaus, which accounted for 42.10% of the Company's total sales for the year.

None of the Directors or their associates or any shareholders holding more than 5% of the equity interests in the Company have any interests in the above mentioned suppliers or customers.

(5) Revenue breakdown by regions

For year 2012, revenue from the Company's operations by regions and the comparison with that of last year are set out in the following table:

Business Segment	2012 Amount (RMB'000)	2012 Percentage %	2011 Amount (RMB'000)	2011 Percentage %	Growth rate %
Mainland China	**80,540,502**	**90.48**	73,410,945	92.32	9.71
Other countries or regions	**8,478,947**	**9.52**	6,106,013	7.68	38.86
Total	**89,019,449**	**100.00**	79,516,958	100.00	11.95

Revenue from domestic market of the Company increased by 9.71% as compared with that of last year whereas revenue from overseas market increased by 38.86% as compared with that of last year, which was primarily attributable to the Company's active overseas market expansion and a notable increase in revenue generated from the delivery of inter-city MUs in overseas market.

2. Analysis of cost and gross profit margin

For year 2012, consolidated gross profit of the Company and the comparison with that of last year are set out in the following table:

Item	2012 Amount (RMB'000)	2011 Amount (RMB'000)	Growth rate %
Revenue	**89,019,449**	79,516,958	11.95
Cost of sales	**73,264,022**	64,646,619	13.33
Gross profit	**15,755,427**	14,870,339	5.95
Gross profit margin	**17.70%**	18.70%	

In 2012, the Company's cost of sales increased by 13.33% on a year-on-year basis, amongst which the proportion of raw materials, labor costs, kinetic energy charges, depreciation and other major items to the total cost remained stable without significant changes. Consolidated gross profit margin of products was 17.7%, representing a year-on-year decrease of 1 percentage point, primarily due to a drop of gross profit margin caused by changes in revenue structure.

(II) 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 2012, the Company's assets were measured mainly by historical cost method and partly at fair value. Main items of statements measured at fair value were financial assets. There was no material change to the measurement basis of major assets during the reporting period.

The composition and year-on-year changes (in net value) of major assets of the Company as at 31 December 2012 are shown in the following table:

Item	2012		2011		Growth rate
	Amount (RMB'000)	Percentage %	Amount (RMB'000)	Percentage %	%
Total current assets	72,261,392	68.68	63,607,344	68.55	13.61
Of which: cash and cash equivalents	14,497,265	13.78	23,092,481	24.89	–37.22
Bills receivables	3,735,597	3.55	4,201,451	4.53	–11.09
Trade receivables	26,618,776	25.30	13,689,416	14.75	94.45
Prepayments, deposits and other receivables	8,058,186	7.66	4,061,678	4.38	98.4
Inventories	18,770,236	17.84	17,841,991	19.23	5.2
Total non-current assets	32,955,909	31.32	29,179,047	31.45	12.94
Of which: property, plant and equipment	22,970,563	21.83	21,374,331	23.04	7.47
Total assets	105,217,301	100.00	92,786,391	100.00	13.4

As at 31 December 2012, the ratio of current assets to total assets of the Company was 68.68%. The asset portfolio of the Company was contributed mainly by current assets and less by non-current assets. Such feature was mainly a result of the expansion of the Company's business scale and longer production cycle of the equipment manufacturing industry.

The currency capital of the Company was mainly cash and bank deposits. The currency capital of the Company as at the end of the year decreased by 37.22% as compared with that as at the beginning of the year. This was mainly attributable to payment of some bank loans, bonds and short-term debentures. In relative terms, the currency capital of the Company accounted for 13.78% of the total assets as at the end of the year, representing a decrease of 11.11 percentage points from the beginning of the year.

The bills receivables of the Company were mainly bank acceptance bills and commercial acceptance bills. The bills receivables of the Company as at the end of the year decreased by 11.09% as compared with that as at the beginning of the year, mainly attributable to the decrease in settlement by acceptance bills by customers. In relative terms, bills receivables of the Company accounted for 3.55% of the total assets as at the end of the year, representing a decrease of 0.98 percentage point from the beginning of the year.

The trade receivables of the Company were mainly contract receivables. In terms of absolute amount, the net trade receivables of the Company as at the end of the year increased by 94.45% as compared with that as at the beginning of the year, mainly attributable to delayed payment by customers and the growth in receivables as a result of the expansion of the scope of sales revenue for the year. In relative terms, trade receivables of the Company accounted for 25.30% of the total assets as at the end of the year, representing an increase of 10.55 percentage points from the beginning of the year.

Inventories of the Company mainly include raw materials, work in progress, inventories of finished goods and entrusted processing materials. Net inventories of the Company as at the end of the year increased by 5.20% as compared with that as at the beginning of the year, mainly due to the expansion in operation scale and increase in business volume of the Company. In relative terms, net inventories of the Company accounted for 17.84% of the total assets as at the end of the year, representing a decrease of 1.39 percentage points from the beginning of the year.

The property, plant and equipment of the Company as at the end of the year increased by 7.47% as compared with that as at the beginning of the year. Such increase was mainly attributable to the increase in investment of property, plant and equipment as a result of the expansion of production capacity and upgrade of products and technologies by the Company. In relative terms, the net value of property, plant and equipment of the Company accounted for 21.83% of the total assets as at the end of the year, representing a decrease of 1.21 percentage points from the beginning of the year.

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

The composition and year-on-year changes of major liabilities of the Company as at 31 December 2012 are shown in the following table:

Item	2012		2011		Growth rate
	Amount *(RMB'000)*	Percentage %	Amount *(RMB'000)*	Percentage %	%
Total current liabilities	**61,538,414**	**93.66**	59,184,932	91.48	3.98
Of which: interest-bearing bank and other borrowings	**8,595,597**	**13.08**	18,099,123	27.97	–52.51
Bills payable	**12,948,103**	**19.71**	6,616,548	10.23	95.69
Trade payables	**26,714,857**	**40.66**	21,238,995	32.83	25.78
Other payables and accruals	**11,929,561**	**18.16**	11,979,765	18.52	–0.42
Total non-current liabilities	**4,169,026**	**6.34**	5,513,542	8.52	–24.39
Of which: interest-bearing bank and other borrowings	**727,376**	**1.11**	2,325,097	3.59	–68.72
Defined benefit obligations	**1,437,450**	**2.19**	1,569,030	2.43	–8.39
Total liabilities	**65,707,440**	**100.00**	64,698,474	100.00	1.56

As at 31 December 2012, the current liabilities of the Company accounted for 93.66% of the total liabilities. The structure of the Company's liabilities was featured by a high proportion of current liabilities, which echoed with the high proportion of current assets.

The short-term interest-bearing bank and other borrowings of the Company were mainly used for accommodating the needs for liquidity during its operation. The short-term interest-bearing bank and other borrowings of the Company as at the end of the year decreased by 52.51% as compared with that as at the beginning of the year, primarily due to the repayment of some short-term bank borrowings by the Company. In relative terms, the proportion of short-term borrowings in the total liabilities of the Company was 13.08% as at the end of the year, representing a decrease of 14.89 percentage points as compared with that as at the beginning of the year.

The bills payable of the Company were mainly bills issued to suppliers for liquidity. In terms of the absolute amount, bills payable of the Company as at the end of the year increased by 95.69% as compared with that as at the beginning of the year. Such increase was mainly attributable to the increase in the amount of procurement of the Company resulting from the expansion of business scale and increase in business volume and the increase in settlements by bills with its suppliers. In relative terms, the proportion of bills payable in the total liabilities of the Company was 19.71% as at the end of the year, representing an increase of 9.48 percentage points as compared with that as at the beginning of the year.

The trade payables of the Company were mainly outstanding amount payable to suppliers of raw materials and suppliers of machinery and equipment as well as construction payables. Trade payables of the Company as at the end of the year increased by 25.78% as compared with that as at the beginning of the year. Such increase was mainly attributable to the increase in the amount of procurement of the Company resulting from the expansion of business scale and increase in business volume. In relative terms, the proportion of trade payables in total liabilities of the Company was 40.66% as at the end of the year, representing an increase of 7.83 percentage points as compared with that as at the beginning of the year.

Other payables and accruals of the Company as at the end of the year basically leveled off as compared with that as at the beginning of the year. In relative terms, the proportion of other payables and accruals in total liabilities of the Company was 18.16% as at the end of the year, leveled off as compared with that as at the beginning of the year.

The long-term interest-bearing bank and other borrowings of the Company as at the end of the year decreased by 68.72% as compared with that as at the beginning of the year, mainly attributable to the re-classification of the RMB2 billion mid-term notes into current liabilities due within one year.

As at the end of the year, the defined benefit obligations of the Company decreased by 8.39% from last year for payment reason and took up a lower proportion by 0.24 percentage point.

As at 31 December 2012, the financial leverage of the Company was 58.34%. Details are set out in Note 45 to the financial statements prepared under IFRSs in this annual report.

(III) Material changes in financial figures such as administrative expenses during the reporting period

In 2012, the financial figures such as administrative expenses of the Company and year-on-year changes thereof are shown in the following table:

Item	**2012 Amount *(RMB'000)***	2011 Amount *(RMB'000)*	**Growth rate** %
Selling and distribution costs	**3,152,751**	2,734,686	15.29
Administrative expenses	**7,687,561**	7,017,068	9.56
Finance costs	**764,356**	993,739	–23.08
Share of profits and losses of associates and jointly-controlled entities	**540,954**	668,034	–19.02
Income tax expense	**740,455**	698,887	5.95

The selling and distribution expenses of the Company increased by 15.29% as compared with that of last year, which was mainly attributable to 1) the growth in service charge, sales commissions and intermediary fees in line with the expansion in operating scale and business scope of the Company; and 2) the growth in the total salary of sales persons as a result of the expansion of the sales department and the increase of sales persons.

The administrative expenses of the Company increased by 9.56% as compared with that of last year, mainly attributable to 1) the gradual increase in research and development expenses of the Company and 2) the increase in the salary of management, repair costs and depreciation fees as a result of the Company's growth in operation scale and business volume.

The finance costs of the Company decreased by 23.08% as compared with that of last year, mainly attributable to the repayment of a large amount of borrowings and financing bonds by the Company, optimisation of the liability structure and the decrease in interest expense.

The decrease in the share of profits and losses of associates and jointly-controlled entities of the Company was mainly attributable to the decrease in profits of associates and jointly controlled entities.

The income tax expense of the Company increased mainly due to the increase in overall profit from operations for the year.

(IV) Breakdown of the cash flow during the reporting period

In 2012, the cash flow of the Company and the year-on-year changes thereof are shown in the following table:

Item	2012 Amount (RMB'000)	2011 Amount (RMB'000)	Growth rate %
Net cash flows from operating activities	**2,394,692**	6,941,334	–65.50
Net cash flows from investing activities	**–4,245,623**	–7,543,123	–43.72
Net cash flows from financing activities	**–5,672,474**	8,897,660	—

The net cash flows from operating activities of the Company decreased by 65.50% over last year, representing a substantial difference as compared to the profit recorded for the year, which was mainly due to the increase of cash outflow from operating activities resulting from delayed payment by customers and the increase of trade receivables.

Net cash flows from investing activities of the Company recorded a smaller deficit by 43.72% over last year, which was mainly due to the decrease in cash payment for acquisition of fixed assets, intangible assets and other long-term assets.

Net cash outflows from financing activities of the Company were RMB5.672 billion, mainly because the amount of cash outflow from financing activities was larger than the amount of cash inflow from financing activities. The cash inflow from financing activities mainly comes from proceeds raised from non-public issuance of A shares by the Company and cash received from borrowings. Cash outflow from financing activities mainly comes from cash outflow arising from repayment of bank loans, bonds and short-term debentures.

(V) Significant capital expenses during the reporting period

The significant capital expenses of the Company in 2012 are set out in the following table:

Item	2012 Amount (RMB million)	2011 Amount (RMB million)
Property, plant and equipment	**3,246**	5,699
Prepaid land lease payments	**280**	507
Total capital expenses	**3,526**	6,206

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

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

Unit: RMB'000

Name of subsidiary	Principal operations	Registered capital	Total assets as at the end of the year	Net assets attributable to owners of the parent as at the end of the year	Net profit attributable to owners of the parent for 2012	Revenue for 2012
CSR Zhuzhou	Research and development and manufacture of railway electric locomotives, MUs and rapid transit vehicles	3,994,296	16,545,604	4,505,717	668,383	15,161,415
CSR Sifang	Research and development and manufacture of railway MUs, passenger carriages and rapid transit vehicles; provision of maintenance services of railway MUs and high-end passenger carriages	4,003,794	20,111,437	5,582,605	1,608,558	24,050,951
CSR ZELRI	Research and development and manufacture of railway electric powered motors and control technology and related electric equipment; research and development and manufacture of railway vehicle accessories	2,982,900	20,982,392	4,895,115	493,245	14,122,999
CSR Yangtze	Research and development, manufacture and maintenance of railway freight wagons	2,372,869	5,776,824	2,314,718	55,491	5,658,908
CSR Qishuyan	Research and development, manufacture and maintenance of railway diesel locomotives	961,393	4,584,927	1,242,012	42,670	4,010,816

Unit: RMB'000

Name of the investee company	Principal business scope	Net profit	Investment income from the investee company	Percentage of net profit of the Company (attributable to the parent) *(%)*
BST	Production of transit vehicles	777,035	413,818	10.32

BST was established on 27 November 1998 (registered address: No.86 East Jinhong Rd, Chengyang District, Qingdao, Shandong Province), which is a 50-50 Chinese-foreign joint venture established by CSR Sifang Ltd. and Bombardier to engage in the production of transit vehicles. Its business scope mainly includes: the design and production of high-end passenger carriages, ordinary passenger carriages, electric MUs, luxury double-decker passenger carriages, high-speed passenger carriages and rapid transit vehicles and bogies, sales of self-produced products and provision of relevant after-sales services. In 2012, BST recorded revenue, profit from operation and net profit amounting to RMB4,377.344 million, RMB886.110 million, and RMB777.035 million, respectively.

(VII) Assets measured at fair value

Unit: RMB'000

Item	Amount at the beginning of the period	Gain or loss from changes of fair value during the period	Accumulated changes in fair value recognized in equity	Provision for impairment for the period	Other changes during the period	Amount at the end of the period
Financial assets						
of which: 1. financial assets at fair value through profit or loss	11,861	–1,221	—	—	–3,294	7,346
2. derivative financial instruments	35,774	–33,531	—	—	—	2,243
3. available-for-sale investment	244,204	—	–99,940	—	349,289	493,553
Sub-total of financial assets	291,839	–34,752	–99,940	—	345,995	503,142
Financial liabilities						
Sub-total of financial liabilities	—	—	—	—	—	—

(VIII) Financial assets and financial liabilities in foreign currencies

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

Unit: RMB'000

Item	Amount at the beginning of the period	Gain or loss from changes of fair value during the period	Accumulated changes in fair value recognized in equity	Provision for impairment for the period	Other changes during the period	Amount at the end of the period
Financial assets						
of which: 1. financial assets at fair value through profit or loss derivative financial instruments	8,561	–1,221	—	—	6	7,346
2. loans and other receivables	1,191,955	—	—	—	1,952,865	3,144,820
3. available-for-sale investment	242,108	—	–100,386	—	349,288	491,010
4. investment held to maturity	—	—	—	—	—	—
Sub-total of financial assets	1,422,624	–1,221	–100,386	—	2,302,159	3,643,176
Financial liabilities						
Sub-total of financial liabilities	1,292,403	—	—	—	197,438	1,489,841

(IX) Particulars of pledge of assets

As at 31 December 2012, the following assets of the Group were pledged to secure bank loans:

Item	Amount *(RMB'000)*
Property, plant and equipment	99,142
Prepaid land lease payment	31,063
Time deposits and bank balances	—
Inventories	—
Trade receivables	14,901
Bills receivable	600
Total	145,706

(X) Particulars of contingent liabilities

Neither the Group nor the Company had any contingent liabilities in 2012.

(XI) Staff of the Company

1. Staff information

Total number of staff with the parent	143
Total number of staff with subsidiaries	85,038
Total number of staff	85,181
Number of employees whose retirement expenses are borne by the parent and the subsidiaries	51,897

By profession

Category of profession	Composition of profession
Production personnel	52,212
Engineering and technical personnel	18,489
Operation and management personnel	10,996
Other personnel	3,484
Total	85,181

By education

Education level	Number (personnel)
Doctors	116
Masters	2,571
University graduates	19,666
Tertiary college graduates	19,713
Secondary school and below	43,115
Total	85,181

2. Remuneration policies

The Company has committed itself to improving the income of its staff. A payment system which is substantially based on a job-performance salary scheme has been in place to determine one's salary with reference to position and performance. The system aims to promote the capability of staff. Catering to the demand for production, operation and development of the Company, and with reference to different positions and the characteristics of different staff, the Company adopted a flexible range of salary payment criteria, such as an annual salary system, a target-based salary system and a piece-rate salary system. Leveraging the e-HR system, the Company strengthened and enhanced the daily management of salary and performance, built the salary-performance linkage system and position-salary grade management system, strengthened the motivation and binding effect of salary payment. As a result, its subsidiaries, in general, met the control requirement of a systematic, integrated and standardized salary management. The Company also let its staff share the success of the Company whilst focusing on corporate development. In addition to the salary payment to its staff, it paid due attention to the sense of competence, achievement and responsibility and demand for personal development of its staff in carrying out their duties.

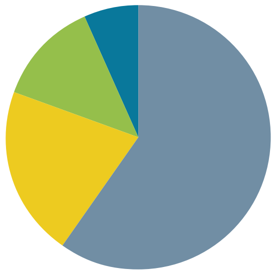
The Company and its subsidiaries have arranged basic social insurance schemes and housing reserve funds for their employees and paid the corresponding contribution payable by the Company and provided all required statutory social security schemes for the benefits of their employees in accordance with the national and local regulations.

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

3. Personnel Training

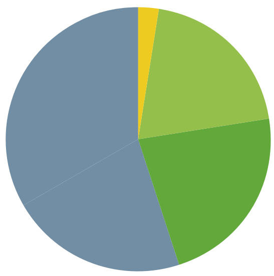
During the reporting period, pursuant to "Key Points on CSR Staff Training 2012", the Company continued to carry out "CSR's Twelfth Five Year Personnel Development Scheme", to give prominence to innovativeness, proactiveness, pertinence, and effectiveness on talent cultivation. The Company strengthened its training program system and trainer base and at the same time speed up the progress by pioneering new training projects and advancing innovative training mode for managerial, technological, technical levels of core personnel building. During the year, the Company focused on organizing and implementing overseas training programs for mid-high level professional managers and core talents, as well as talents internationalization programs, which aimed to cultivate mid-high level managers with global visions. During the year, the Company held 20 training programs, 33 sessions, with a total of 1,315 personnel trained. In 2012, trained personnel of the Company totaled at approximately 207,500, of which approximately 33,100 were management personnel, approximately 17,000 were professional technologists, while approximately 157,400 were technical personnel. In all, thoroughly and orderly implementing personnel training work has provided talent support for the Company's rapid growing.

4. Staff composition of professions:



Production personnel	52,212
Engineering and technical personnel	18,489
Operation and management personnel	10,996
Other personnel	3,484

5. Staff structure by education level



Doctors	116
Masters	2,571
University graduates	19,666
Tertiary college graduates	19,713
Secondary School and below	43,115

6. Labour outsource

Labour outsource by total working hours	3,655,008
Labour outsource by total remuneration paid	RMB80,760,000

IV. Analysis on core competitiveness

1. Growing Innovative Capability

The Company attaches great importance to the development of its innovative capability. By following international advanced standards and building the comprehensive technical platforms for designs, manufacturing and products, it has formed world-class independent innovative capability; the integration of internal and external resources and establishment of collaborative innovation mechanism of production and research has shortened the production cycle from primary research to industrialization. Meanwhile, the Company kept on enhancing input on technological innovation for solid work progress and obtaining core technologies, which created a number of new advance level technological outcomes. For establishing a core technocrats team, the Company proactively launched projects of "10,000 Core Staff Building" and "Scientific Research Talents Reserve Scheme", cultivating a team of innovative elites to lead the industry, strengthening the innovative capability of the Company.

2. Unique lean management system

Consolidating its own features of production and operation, the Company had carried out lean production and continued to optimize its management system and workflow, through which a lean management system with CSR's characteristics was formed. The Company strengthened basic management of 5S, TPM, innovative proposals and team building, optimized technological progress. It improved logistics, exercised streamlined and efficient production, with a huge focus on management of details and systematic improvement. Therefore, the upgrade of production efficiency and products quality were significant. With only slight growth in the number of the staff member, the Company had achieved remarkable efficiency in the production of its MUs, passenger carriages, freight wagons, and locomotives. The safety and reliability of its products were above the world's standard.

3. Sharp improvement in market exploration

Leveraging the demand in the Chinese market for high product standards in terms of reliability, comfort, and safety, the Company accurately targetted for pioneering new products such as high-speed MUs, high-power locomotives, heavy-loaded freight wagons, rapid transit vehicle to cater to users' demand. The Company had built close and harmonious partnerships with government departments and customers. Based on its customers, the Company established a comprehensive after-sales services system and secured orderly operation for users. Meanwhile, the Company expedited overseas market exploration, and extended overseas sales channels and customer service capacity. As a result, its products had entered the global market comprised of more than 70 countries and regions, and its standard of internationalized operation had been significantly improved.

4. World-class manufacturing standard

High-speed railways are associated with manned space flight, lunar exploration projects, manned submersible, and supercomputer, as the significant results of China's innovative construction. The CRH380A high-speed MUs produced by the Company are the core equipment of the high-speed railway system, which require highly sophisticated system and manufacturing technologies. Other products such as high-power locomotives and rapid transit vehicles have similar structure and technical features. With these innovative designs, the Company attained world-class standards by advancing technologies and production management.

5. Growing brand influence

The Company implemented the brand strategy and promoted the core values of the brand of being "reliable, innovative, international, superior and eco-friendly". All the staff endeavored to fulfill their commitments to the shareholders, customers, partners and the society. CSR has built its image as an enterprise which has the courage to reform and excel in innovation. CSR enjoys a growing brand awareness and influence at home and overseas. With a brand value of RMB21.089 billion, CSR was acclaimed to be the 54th most valuable brand name in China in 2012 by the World Brand Lab and ranked first in the machinery industry. Its brand influence was assessed as "world-class"

V. Analysis on Investment

(I) General analysis of external investment in equity

In 2012, the Company's external investment in equity was RMB5.754 billion, representing an increase of RMB5.264 billion over the same period last year, mainly attributable to the capital increase in CSR Sifang, CSR Leasing, CSR Zhuzhou and CSR Puzhen and the establishment of CSR Finance and CSR Australia. Particulars of the investee companies are as follows:

Name of the investee	Principal business	Percentage in the equity of the investee (%)	Investment form
CSR Zhuzhou	Research and development and manufacture of rolling stock and revelant components	100.00	Capital increase
CSR Sifang	Design, manufacturing, refurbishment, sales, and leasing of locomotives, passenger carriages, high-speed MUs and rapid transit vehicles	97.81	Capital increase
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	100.00	Capital increase
CSR Yangtze	Research and development, manufacture and maintenance of railway freight wagons	100.00	Capital increase
CSR Qishuyan Institute	Research and development, design, manufacture, sales, refurbishment and leasing of the railway transportation equipments, engineering machinery, transmission device, electronics, plastics, metal works, mechanical equipment and components for the above-mentioned products	100.00	Capital increase
CSR Puzhen	Research and development, manufacture and refurbishment of rolling stock vehicles such as passenger carriages and MUs	100.00	Capital increase
CSR Ziyang	Design, manufacture, sales and leasing of railway rolling stock and internal combustion engines	99.61	Capital increase
CSR Electric	Research and development, manufacture, sales of rolling stock such as traction electric machinery and transformers	100.00	Capital increase
CSR Luoyang	Maintenance of rolling stock, construction and refurbishment of engineering machinery(excluding those specifically stipulated by the state) and the manufacture of components for rolling stock	100.00	Capital increase
CSR Leasing	Investment and development of rolling stock projects, leasing, refurbishment and technical services for railway locomotives and subway cars	100.00	Capital increase
CSR Meishan	Research and development, manufacture, sales, import and export of railway freight wagons and brakes	100.00	Capital increase
CSR Guangji	Manufacture, refurbishment and technical services for electric locomotives and railway traction equipments	40.00	Capital increase
CSR Finance	Provision of deposits, loans and other financial services for other subsidiaries and provision of interbank loans	91.00	Establishment
CSR Australia	Trade and after-sales services	100.00	Establishment

1. Securities investment

Currency: HKD

No.	Stock Variety	Stock Code	Stock Short Name	Initial Investment Amount (HKD)	Number of Shares Held (share)	Carrying Amount at the End of the Period (HKD)	Percentage in Securities Investment at the End of the Period (%)	Gain or Loss Occurred during the Reporting Period (HKD)
1	Shares	01618.HK	MCC	38,484,429	6,000,000	9,060,000	100	-1,500,000

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

Unit: RMB HKD

Stock Code	Stock Short Name	Initial Investment Amount	Percentage in the Share Capital of the Company Invested (%)	Carrying Amount at the End of the Reporting Period	Gain or Loss Occurred during n the Reporting Period	Changes in Owner's Equity during the Reporting Period	Accounting Items	Source of Equity Interest
601328	Bank of Communication	RMB752,324	–	RMB2,542,835	–	RMB446,424	Available-for-sale investments	Purchase
00958.HK	HN Renewables	HK$392,774,658	1.84	HK$214,647,960	–	HK$-83,992,680		Purchase
00816.HK	Huadian Fuxin	HK$391,868,516	3.08	HK$345,635,220	–	HK$-38,604,802		Purchase
01829.HK	CMEC	HK$38,802,829	–	HK$45,245,040	–	HK$6,829,440		Purchase

Notes: 1. The equity interests held by the Company represent less than 1% of the share capital of Bank of Communications and CMEC, respectively.

2. In March 2013, the Company reduced its shareholding in Huadian Fuxin by 125,526,000 shares at an average price of HK$2.047 per share and made a profit of approximately HK$47,270,000 from the transaction. After the reduction in its shareholding, the Company still holds 109,600,000 shares of Huadian Fuxin.

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

Currency: RMB

Name of institution	Initial Investment Amount (RMB)	Number of Shares Held (share)	Percentage in the Share Capital of the Company Invested (%)	Carrying Amount at the End of the Period (RMB)	Gain or Loss Occurred during the Reporting Period (RMB)	Changes in Owner's Equity the Reporting Period (RMB)	Accounting Items	Source of Equity Interest
Jiangsu Bank	74,400	74,400	—	74,400	5,952	—	Available-for-sale investments	Purchase
Huarong Xiangjiang Bank Corporation Limited	770,000	700,000	—	550,000	37,800	—		Purchase
Donghai Securities Co., Ltd.	19,483,800	20,000,000	1.2	19,483,800	—	—		Purchase

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

(II) Entrusted investment in non-financial corporations and investment in derivatives

1. Entrusted investment

The Company did not make any major entrusted investment during the year.

2. Entrusted loans

The Company did not entrust any entrusted loans during the year.

3. Investment in derivatives

For derivatives of the Company, please see Note 28 to the financial statements prepared under IFRSs in this annual report.

(III) Use of proceeds

1. Use of proceeds raised from H share offering

In 2008, the Company raised an aggregate of proceeds of HK$4.784 billion from the H share offering. Actual capital received amounted to HK$4.647 billion after netting off relevant issuing expenses. As at 31 December 2012, a total of approximately HK$4.713 billion of proceeds raised from the H share offering were used (including HK$0.39 billion used as capital contribution to CSR Hong Kong), and an aggregate of HK$66 million of interest from bank deposits had been received. In 2012, approximately HK$50 million of such proceeds was used to acquire critical components which would facilitate the domestic production of complete rolling stock units. As at 31 December 2012, the balance of proceeds raised from the H share offering in the designated proceeds account of the Company was zero.

2. Use of proceeds raised from A share offering

Unit:0'000 Currency: RMB

Year	Means	Total amount of proceeds	Total amount of proceeds used during the year	Total accumulated amount of the proceeds used	Total amount of remaining proceeds	Use and purpose of the remaining proceeds
2008	Initial public offering	654,000	—	654,000	—	—
2012	Non-public issue	875,498	512,609	512,609	364,577	RMB3,639 million was used to temporarily supplement the working capital
Total		1,529,498	512,609	1,166,609	364,577	

(IV) Material projects not funded by proceeds

The Company did not invest in any material projects not funded by proceeds.

(V) Special purpose vehicles controlled by the Company

The Company did not control any special purpose vehicles.

B. Management Discussion and Analysis on Future Development

I. Industry trend and an overview of market competitions

According to "The Twelfth Five-Year Plan of China Railways" (中國鐵路「十二五」規劃), by 2015, the national operating railway mileage will reach to over 120,000 km, comprising over 16,000 km of passenger-dedicated lines, of which over 50% will be double lines and over 60% electrified lines. Major high-traffic lines are expected to incorporate separate lines for cargo and passenger transportations and major technologies and facilities are expected to be either up to or aligned with advanced international standards. In particular, railway construction investment of RMB1,330 billion will expect to be completed in 2013-2015. The railway industry will maintain a high degree of boom, still with much room for market development. After formation of the high-speed railway network, the era of short distance inter-city network is approaching. Inter-city MUs are characterized by its large operational capacity, quick start-stop speed, boarding convenience, and will soon become the main transport vehicles for future short distance travel. Great opportunities also beckon for the development of urban rail transits industry. Urban tail transportation is an effective way for the alleviation of city traffic congestion, energy saving and emission reduction, as well as a focal point for new urbanization and city cluster, which functions as the main body and backbone of the future city transportation system.

By virtue of technology absorption and self-innovation, the Company reinforced its strength in the self-research, development and manufacturing of rolling stocks, thus carving a leading edge in product technical performance, speed of market response and operation scale throughout the world, with continuous Improvement in industry influence and brand reputation. Following industry development, market demand tends to maintain at high level. Reformation in rail transit will change the way of order and competitive landscape of the domestic railway industry. Competition is expected to intensify as the industry develops. With its strategy of internationalisation gathering pace, the Company's participation in the overseas market will increase, as will its direct competition with international players.

II. Company development strategies

(I) Opportunities and challenges ahead of the Company

Sound development opportunities are underway. Firstly, rail transit is the fundamental leading industry of the national economy. The Chinese economy incessantly remained progressing whilst ensuring stability and thereby underpinned the development of the railway industry by provision of favourable external environment and supportive demand; Secondly, despite the fact that the Chinese railway development still lagged behind and brought restriction on national economic development, the prospect of railway development was still considered to be diversified. Thirdly, the State fully recognized the positive role of speeding up railway investment since the international financial crisis as a drive to economic growth, as well as achievements in high-speed rail transit development. The State would maintain its investment in railway construction. Fourthly, the State promulgated the "Twelfth Five-Year Development Plan of the High-end Equipment Manufacturing Industry"(《高端裝備製造業「十二五」發展規劃》) and "Twelfth Five-Year Project Plan of Scientific Development of the High-speed MUs" (《高速列車科技發展「十二五」專項規劃》) to increase advocacy and guidance to manufacture and technological development of rolling stocks, from a strategic point of view of the State, further indentified the development and position, objectives and requirements of rolling stocks industry, provided strong support to financial and taxation policies, technological innovation and market, favourable for the further development of rolling stocks manufacturers. Fifthly, under the backdrop of energy crisis and urging environmental protection pressure, after preliminary technological development, the advantages of green, eco-friendly, energy saving, convenient and efficient rail transit were growing prominent, increasingly becoming both the mode of transport for development and the first priority for public travel encouraged by the government. The rolling stocks industry would maintain a high degree of activeness in development. Sixthly, with the rapid acceleration of urbanisation in China, economic development in city clusters such as the Yangtze River Delta, the Pearl River Delta, Beijing, Tianjin, Shandong Peninsula, Liaodong Peninsula, West Coast of the Straits, fostered economic development in the regions, further provided impetus to intercity and intra-city transit system transportation. Seventhly, the completion of passenger line network was beneficial to unleashing the operational capacity of the existing lines to a substantial extent, fostering development of rail freight transportation and again favourable for reduction of logistics costs. Eighthly, the State Council promulgated the "Twelfth Five-Year Project Plan of Strategic New Industries of the State" (《「十二五」國家戰略性新興產業發展規劃》) with a view to advancing the improvement of strategic new industries at a faster pace. The principal businesses of CSR, i.e. high-end rolling stock, complete wind power generating units, electricity-driven vehicles and polymer materials, fall respectively within the seven major strategic new industries, namely the industries of high-end equipment manufacturing, new energy, new energy automobiles and new materials. Given an improving real economy, the capacity expansion and industrial upgrade in the vehicle, electricity generation, petroleum and shipbuilding industries will lead to an increase in the demand for high quality machinery and electric products, which provides huge business potential for CSR's future development. Ninthly, as rolling stock industries in various countries around the world are either undergoing or will undergo a phase of renovation, the growing prominence of high speed trains on the global stage and the advantages in the increasingly advanced industrial chain in the domestic manufacturing sector will provide the rolling stock industry with a golden opportunity to "kick start" international operation. Tenthly, due to the serious impact on many quality enterprises in the related overseas industry arising from the international financial crisis, coupled with appreciation in RMB currency, it created favourable conditions for CSR to conduct overseas acquisitions and mergers, as well as hasten internationalisation of business and facilitate the industry layout.

Challenges that lie ahead for the Company are as follows: Firstly, the railway mechanism underwent reforms and the ways of order of, and structure of demand for, the rail transit industry are subject to certain adjustments and changes. Secondly, due to the lingering impact of the international financial crisis and the exacerbating Europe sovereign debt crisis that resulted in slow recovery and weak growth of the global economy, the expansion of the rolling stock market overseas and the development of businesses utilising proprietary rolling stock technologies have become much more difficult, not to mention the increase of its performance and exchange rate variables. Thirdly, the adoption of loose currency policy by developed countries leaded to the more excessive liquidity around the globe and intensifying import inflationary pressure, resulting in more fluctuations in the price of basic production elements such as oil, water, electricity, steel products, non-ferrous metals, land and labour, which will enhance the difficulties of controlling corporate operating costs. Fourthly, the Company has confronted with even more fierce international competition, posing as challenges to the market competitiveness, technology innovation ability, corporate governance capability, risk prevention capability and the international operating capability of the Company.

(II) Development strategy of the Company

During the "Twelfth Five-Year" period, the Company will pool more resources into scientific research and establish a sound, internationally advanced system that brings together studies of industry development, product research and development, design and production and manufacturing, in a bid to becoming a highly renowned brand worldwide. Its goal in the mid to long term is to be an eco-friendly, sizable equipment manufacturer focusing on rolling stock and a leading enterprise among its international peers. We target to join the "Global 500" club and bring CSR's brand into a globally recognised brand.

Our development planning of each major product line is as follows:

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

MU operation: MU business is a stronghold in future development. The Company will incessantly develop new products based on principles of green eco-friendliness, high speed intelligence, safety and reliability, so as to cement its leading presence in the research, development and manufacturing of MUs and to boost the rapid development of inter-city MUs as well.

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

Freight wagon operation: leveraging its existing production capability, the Company proposes to enhance its technological innovation and capacity expansion, so as to meet the demand for new products such as big-axis overhauling freight wagons and express freight wagons arising from the division of passenger carriage and freight wagon operations in railway transportation as well as the vibrant development of heavy hauling and express freight wagons, and further cement its technological edge in China. In addition, it will promote resource integration to excel in the freight wagon industry with world-class capability in research and development, as well as the testing and manufacturing of freight wagons.

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

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

III. Business plan

2013 is a critical transitive year for the implementation of "Twelfth Five-Year" development strategy. In the important stage of tackling difficulties in business transformation and pursuing innovative development, in adherence to the operational principle of consistency, stability, quality and excellence, in line with the guiding ideology of improving operation quality, optimising operational indicators, enriching development potential and highlighting risk control, and upholding efficiency and effectiveness, the Company will enhance intrinsic activeness and dynamics of sustainable development, urging to achieve a revenue of over RMB100 billion. As such, it will focus on achieving the following tasks:

1. to spare no efforts to explore the market and strengthen its sustainable development: proactively innovate marketing strategy and model; cultivate the domestic rolling stocks market; comprehensively reinforce expansion of overseas market; and rapidly extend new emerging industry market.

2. to intensify independent innovation and nurture the drive for internal growth: establish and optimise innovation mechanism in line with strategic needs; step up research and development of new products and core technologies; comprehensively improve product quality and service level.

3. to boost its efforts of reformation and activate innovative development vigour: adjust and optimise business structure; intensify human resources innovation; optimise incentive assessment mechanism; and proactively advance capital operation.

4. to enforce fundamental management and prop up scientific management: comprehensively enhance management and increase activities; consistently push forward lean management; incessantly strengthen financial management; reinforce monitoring over auditing and risk control; raise the standard of information construction.

IV. Capital requirement for the Company to maintain current businesses and complete the construction-in-progress investment projects

In 2013, in view of the development strategy and production and operating needs of the Company, it plans to invest RMB4.44 billion in fixed assets, mainly in projects of strategic importance to its development, such as rapid transits, railway freight wagons and projects that utilise proprietary rolling stock technologies, rapid transit vehicles and inter-city MUs. The Company will be mainly financed by methods such as refinancing proceeds, debt financing instruments, internal resources and bank borrowings.

V. Possible risks and counter-measures

(1) Risks on macro control policies: The rolling stock manufacturing industry where the Company has a presence is under the supervision of the industry and sector policies of the State. The Ministry of Railways together with all of its railway bureaus are major customers of the Company. As reforms on the national railway system deepen, any substantial change in the macro control policies of the State will have a direct impact on the restructuring of the Company's industry profile, market share and achievement of business goals, which will seriously impede our corporate development.

Countermeasures: The Company will strengthen studying and research of information relating to China's macro control policy and industry policies, increase efforts in projection and judgement of the direction of the macro control policy trend, proactively adjust business strategy and operation mode, develop a diversified industry that relate to rolling stock, and bolster the Company's capability to stave off risks arising from changes in the macro control policy.

(2) Risks on product quality: As a rolling stock company, the Company produces products that concern public interest. In particular, the quality of, and the operational safety of the Company's products will be the concern of the society and issues on product quality may lead to incidents that cause financial loss, injuries and deaths to the public, thereby causing an adverse impact on the Company.

Countermeasures: The Company will strengthen quality control system and construction procedure, incessantly establish sound and more effective quality control mechanism; optimise technological management standards, enforce technological implementation; intensively undergo lean production, commence standardised and institutionalised operation; tighten control over the quality of imported products from suppliers and production process, to control risks concerning product quality from its origins; reinforce operation techniques of employees and conduct trainings on quality awareness, consistently raise the production quality guarantee level and boost awareness of quality liability among staff; and continue to promote standardized after-sale services to ensure safety and reliability of products being put into operation.

(3) Risks on market competitions: With increasingly fierce competitions in the domestic rolling stock market, the Company faces mounting pressure from competitions. The Company needs to reinforce its edges over locomotives, passenger carriages, high-speed MUs and rapid transit vehicles and catch up with its peers in the freight wagon sector. As to the international market, the Company has, to a certain extent, lagged behind internationally leading enterprises in terms of international operation and market expansion.

Countermeasures: The Company will garner information relating to domestic and international politics, economics, laws, natural environment and competitors timely and effectively for accurate analysis of the changes of domestic and international market demand and comprehensive estimates of market trends. We will double effort in scientific research investment and extend the industry value chain, in a bid to continuously enhance the technology and cost advantages of the Company's products and maintain the Company's market competitiveness as an industry leader.

(4) Risks arising from force majeure incidents such as natural disasters: Natural disasters such as earthquakes, typhoons, tsunamis and floods, as well as other force majeure incidents might lead to financial losses and casualties to the Company and affect its normal production operation.

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

C. Proposal for profit Distribution of Transfer of Capital Reserve to Share Capital

I. Formulation, execution or adjustment of cash dividend policy

(I) Formulation of cash dividend policy

In 2012, the Company amended and improved the Articles of Association, formulated Shareholders' Return Plan for the Next Three Years (from 2012 to 2014) of the Company ("Shareholders' Return Plan") to define decision-making and distribution policy, adjustment procedures and mechanism of cash dividend, define the matters to be given opinions by independent directors and procedures, as well as safeguard the legal rights of medium and small investors. The Articles of Association (amendment) and Shareholders' Return Plan have been considered and approved at the 2012 first extraordinary general meeting of the Company. For details of Shareholders' Return Plan, please refer to the website of the Shanghai Stock Exchange and publications dated 13 November 2012 on designated newspapers of the Company such as China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times.

(II) Adjustment of cash dividend policy

On 12 November 2012, the Company convened the general meeting to consider and approve the revised Articles of Association and made adjustment to its profit distribution policy. The profit distribution policy after adjustment is as follows:

The Company's profit distribution policy shall remain consistent and stable, and shall be in the interest of the Company in the long term and the interests of all shareholders as a whole and in line with the sustainable development of the Company. The Company may distribute dividends in the form of cash or shares or a combination of both at the same time. The Company gives priority to profit distribution in cash. The Company shall take full account of return to investors and distribute dividends to the shareholders in a certain proportion to the Company's distributable profit realised for the year as set out in that year's consolidated financial statements. The Company may distribute dividends in the form of cash or shares or a combination of cash and shares. Under favorable circumstances, interim profit distribution may be made by the Company. In the absence of certain special circumstances, if the Company records profit for the year and its accumulated undistributed profit is positive, and is capable of meeting the actual demand for distribution, the Company shall distribute dividends in cash, and the profit distributed in cash per annum shall not be less than 15% of the Company's distributable profit realised for the year as set out in that year's consolidated financial statements and the aggregate profits distributed in cash of every three years shall not less than 45% of the average annual distributable profits realised for the latest three years as set out in the Company's consolidated financial statements. When the Company is in a sound operating condition, and the Board considers that the Company's stock price does not reflect its scale of capital, and distributing dividends in shares will be in the interests of all shareholders as a whole, the Company may propose the distribution of dividends in shares upon fulfilment of the above conditions concerning cash dividends. The profit distribution plan of the Company shall be considered and approved at a meeting of the President's Office before being submitted to the Board and the Supervisory Committee of the Company for consideration. The Board shall thoroughly discuss the rationality of the profit distribution plan and form a special resolution, which will then be submitted to the general meeting for consideration. Where the Company resolves not to distribute cash dividend under special circumstances as specified in the Articles of Association or the proportion of the cash dividend is lower than that as specified in the Articles of Association, the Board shall explain the specific reasons for not distributing cash dividend, the exact purpose for the retained profit and the estimated investment return, and submit such to the general meeting for consideration after independent Directors have given their opinions thereon, and disclose the same in the designated media by the Company; access to online voting for shareholders shall be provided by the Company when the matters discussed in this paragraph is considered at the general meeting.

(III) Execution of cash dividend policy

According to relevant requirements in the Company Law, the Securities Law and the Articles of Association, in consideration of the financial position of the Company, the Board proposed a profit distribution to shareholders of RMB0.09 per share (tax inclusive). An aggregate of profits of approximately RMB1,242 million to be distributed, accounting for 30.98% of net profits attributable to shareholders of the Company in the consolidated financial statements, are in compliance with the requirements in the Articles of Association and Shareholders' Return Plan for safeguarding the interests of investors. The distribution proposal is subject to consideration and approval at the general meeting of the Company.

The Company will announce separately regarding the record date for the payment of H Share dividends and date of closure of register of members of the Company.

Under relevant regulations of China Securities Depository and Clearing Corporation and according to the market practice adopted for dividend distribution for A Shares, the Company will publish a separate announcement in respect of the dividend distribution to holders of A shares for the year 2012 after the 2012 annual general meeting to determine the record date and ex-rights date for dividend distribution to the holders of A Shares for the year 2012.

II. Dividend distributions or proposal, transfer of capital reserves to share capital or proposal in the recent three years (including the reporting period)

Unit: RMB0'000 Currency: RMB

Year of distribution	Amount of distribution per 10 shares *(tax inclusive)*	Amount of cash dividends *(tax inclusive)*	Net profit attributable to the shareholders of the Company in the consolidated financial statements during the year of distribution *(RMB)*	Percentage of net profit attributable to the shareholders of the Company in the consolidated financial statements *(%)*
2012	0.9	124,227	400,946	30.98
2011	1.8	248,454	386,415	64.30
2010	0.4	47,360	252,630	18.75

D. Tax and Tax Relief

In accordance with Enterprise Income Tax Law of the People's Republic of China and its implementation rules which became effective as of 1 January 2008, enterprise income tax shall be withheld at a rate of 10% when the Company pays final dividends to non-resident enterprises whose names appear on the register of H shareholders of the Company. The enterprise income tax shall be withheld for the dividends of any H Shares under the names of non-individual shareholders (any H Shares of the Company registered in the name of HKSCC Nominees Limited, other nominees and trustees, or other organisations and institutions, shall be deemed as shares held by non-resident enterprise shareholders). In accordance with Circular on Issues Relating to the Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H shares issued by the State Administration of Taxation (Guo Shui Han [2008] No. 897), enterprise income tax shall be withheld at a rate of 10% when a Chinese resident enterprise pays dividends for 2008 and subsequent years to overseas holders of H shares which are overseas non-resident enterprises.

According to Guo Shui Han [2011] No. 348 issued by the State Administration of Taxation, the Company shall withhold and pay the individual income tax for dividend payable to the individual H Shareholders. The individual H Shareholders are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements between the countries where they are residents and China or the tax arrangements between mainland China and Hong Kong (Macau). If the individual H Shareholders are Hong Kong or Macau residents or residents of the countries having an agreed dividend tax rate of 10% with China, the Company shall withhold and pay the individual income tax at a rate of 10%. Should the individual H Shareholders be residents of the countries having an agreed dividend tax rate of less than 10% with China, the Company would apply for entitlement of the relevant agreed preferential tax treatment on their behalf in accordance with the Notice of the State Administration of Taxation in Relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關于印發＜非居民享受稅收協議待遇管理辦法(試行)＞的通知》(國稅發[2009]124號)). Should the individual H Shareholders be residents of the countries having an agreed dividend tax rate exceeding 10% but lower than 20% with China, the Company shall withhold and pay the individual income tax at the actual agreed rate. In case the individual H Shareholders are residents of the countries having not entered into any tax agreement with China, or having an agreed dividend tax rate with China of 20% or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

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

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

E. Connected Transactions

I. Non-exempt continuing connected transactions

In accordance with the relevant requirements of the Hong Kong Listing Rules, the Company shall disclose its continuing connected transactions with CSRG. The annual caps for the Company's continuing connected transactions with CSRG and their actual transaction amounts during the reporting period are set out as follows:

Unit: RMB million

No.	Connected transaction	2012 annual cap	Actual transaction amount in 2012
1	Aggregate procurement value under Mutual Product Supply Framework Agreement with CSRG	**1,191.63**	344.93
2	Aggregate sales value under Mutual Product Supply Framework Agreement with CSRG	**925.98**	309.96

CSRG is a substantial shareholder and promoter of the Company. After the restructuring, CSRG retained part of assets and businesses to provide certain ancillary products for the core business of the Company. The Company and certain of its associates also provide raw materials and accessories for CSRG or its associates to be processed into rail transit facilities components, while CSRG or its associates sell back all or part of such components to the Company for use in its core business. The Company entered into the Mutual Product Supply Framework Agreement (as supplemented by a supplementary agreement dated 15 July 2008) with CSRG on 10 January 2008, to regulate such mutual supply of products between them. The agreement took effect on 1 January 2008 and expired on 31 December 2010. The Company published an announcement on 28 December 2010 in relation to the renewal of Mutual Product Supply Framework Agreement with CSRG and for the determination of annual caps of the transactions for years from 2011 to 2013. The renewal agreement officially came into effect on 1 January 2011. The main contents of the renewal 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 necessary ancillary products.

In respect of the aforesaid continuing connected transactions between the Company and CSRG in 2012, each of the applicable percentage ratios (as defined in the Hong Kong Listing Rules, other than the profit ratio) is below 5%. Therefore, the aforesaid continuing connected transactions were exempted from the independent shareholders' approval requirements, and are only subject to the reporting, annual review and announcement requirements under the Hong Kong Listing Rules. The Company has complied with the disclosure requirements of connected transactions in accordance with Chapter 14A of the Hong Kong Listing Rules.

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

- in the ordinary and usual course of business of the Group;

- conducted on normal commercial terms or if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable than terms available from/to (as appropriate) independent third parties, as far as the Group is concerned; and

- conducted on the terms of the relevant transaction agreements which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

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

- such transactions have received the approval of the Company's board of directors;

- such transactions are in accordance with the pricing policies of the Company;

- such transactions are entered into in accordance with the relevant agreement governing the transactions; and

- the disclosed continuing connected transactions have not exceeded the maximum aggregate annual cap disclosed in announcements made by the Company in respect of the disclosed continuing connected transactions.

Save as the above, pursuant to the Hong Kong Listing Rules, certain related party transactions in Note 42 to the consolidated financial statements of the Company also constitute continuing connected transactions (as defined in Chapter 14A of the Hong Kong Listing Rules). Such related party transactions have complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

II. Non-Competition Agreement

CSRG confirmed that it did not violate the commitments under the Non-Competition Agreement entered into with the Company on 10 January 2008 (as supplemented by a supplementary agreement dated 15 July 2008) in 2012. The independent non-executive Directors of the Company also reviewed the compliance of CSRG with the Non-Competition Agreement and considered that CSRG did not violate the requirements under the agreement in 2012.

F. 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 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.

Reserves

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

Reserves available for distribution

Please refer to Note 38 to the financial statements prepared under IFRSs in this annual report for details of the Company's reserves available for distribution.

Share capital

Please refer to relevant sections under "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 33 to the financial statements prepared under IFRSs in this annual report for details of the Group and the Company's bank loans and other loans as at 31 December 2012.

Property, plant and equipment

Please refer to Note 14 to the financial statements prepared under IFRSs in this annual report for details of changes in the Group and the Company's property, plant and equipment for 2012.

Donations

The Group's charitable and other donations amounted to approximately RMB5.165 million during the reporting period.

Service contracts of Directors and Supervisors

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

Directors and Supervisors' interests in contracts

None of the Company or its subsidiaries entered into any contract of significance in which Director or Supervisor of the Company held, either directly or indirectly, any material interests for the year ended 31 December 2012.

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

The Company or its subsidiaries did not provide Directors, Supervisors or other senior management members with any loans or quasi loans.

Directors' interest in businesses competing with the Company

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

Financial, business or family relationship among members of the Board

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

Management contracts

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

Pre-emptive rights

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

Employee retirement plan

Details of the Company's employee retirement plan are set out in Note 34 to the financial statements prepared under IFRSs in this annual report.

Directors, Supervisors, Senior Management and Staff

As at the latest practicable date prior to the printing of this report, members of the Board include

Zheng Changhong

Chairman, Executive Director

Liu Hualong

Executive Director, President

Chen Dayang

Executive Director

Zhao Jibin

Independent Non-executive Director

Yang Yuzhong

Independent Non-executive Director

Chen Yongkuan

Independent Non-executive Director

Dai Deming

Independent Non-executive Director

Tsoi, David

Independent Non-executive Director

(I) SHAREHOLDING CHANGES AND REMUNERATION

1. Shareholding Changes and Remuneration of Current and Retired Directors, Supervisors and Senior Management During the Reporting Period

Unit: RMB0'000

Name	Position	Gender	Age	Commencement of term of office	Expiration of term of office	Number of shares held at the beginning of the year *(share)*	Number of shares held at the end of the year *(share)*	Changes in number of shares for the year	Reason of the change	Remuneration received from the Company during the reporting period	Welfare expenses including basic pension insurance	Total remuneration received from the Company during the reporting period (before tax)	Total remuneration received from shareholders during the reporting period
Zheng Changhong	Chairman, Executive Director,	Male	57	2012.10.25	-	60,000	60,000	–	–	85.33	7.18	92.51	–
	Vice Chairman, Executive Director, President			2011.04.26	2012.10.25								
Zhao Xiaogang	Former Chairman, Executive Director	Male	61	2011.04.26	2012.10.25	80,000	80,000	–	–	71.11	5.94	77.05	–
Liu Hualong	Executive Director, President,	Male	50	2012.10.25	-	50,000	50,000	–	–	76.79	7.18	83.97	–
	Executive Director, Vice President			2011.04.26	2012.10.25								
Tang Kelin	Former Executive Director, Vice President	Male	60	2011.04.26	2012.10.25	50,000	50,000	–	–	63.99	5.94	69.93	–
Chen Dayang	Executive Director	Male	49	2012.11.12	–	–	–	–	–	46.19	7.18	53.37	–
Zhao Jibin	Independent Non-executive Director	Male	60	2011.04.26	–	30,000	30,000	–	–	–	–	16.50	–
Yang Yuzhong	Independent Non-executive Director	Male	68	2011.04.26	–	30,000	30,000	–	–	–	–	18.50	–
Chen Yongkuan	Independent Non-executive Director	Male	66	2011.04.26	–	34,100	34,100	–	–	–	–	16.50	–
Dai Deming	Independent Non-executive Director	Male	50	2011.04.26	–	30,000	30,000	–	–	–	–	18.10	–
Tsoi, David	Independent Non-executive Director	Male	65	2011.04.26	–	50,000	50,000	–	–	–	–	16.10	–
Wang Yan	Chairman of Supervisory Committee	Male	57	2011.04.26	–	30,000	30,000	–	–	–	–	–	60.93
Sun Ke	Supervisor	Male	57	2011.04.26	–	–	–	–	–	48.07	7.18	55.25	–
Qiu Wei	Employee Representative Supervisor	Male	53	2011.04.26	–	30,000	30,000	–	–	44.43	7.18	51.61	–
Zhang Jun	Vice President	Male	57	2011.04.26	–	50,000	50,000	–	–	75.09	7.18	82.27	–
Fu Jianguo	Vice President	Male	49	2011.04.26	–	50,000	50,000	–	–	75.09	7.18	82.27	–
Zhan Yanjing	Vice President, Chief Financial Officer	Female	49	2011.04.26	–	50,000	50,000	–	–	75.09	7.18	82.27	–
Wang Jun	Vice President	Male	49	2012.10.25	–	–	–	–	–	3.96	1.24	5.20	–
Lou Qiliang	Vice President	Male	49	2012.10.25	–	–	–	–	–	3.96	1.24	5.20	–
Xu Zongxiang	Vice President	Male	49	2012.10.25	–	–	–	–	–	3.96	1.24	5.20	–
Zhang Xinning	Chief Engineer	Male	48	2012.11.12	–	–	–	–	–	53.67	7.18	60.85	–
Shao Renqiang	Secretary to the Board, Chief Economist	Male	48	2011.04.26	–	30,000	30,000	–	–	54.12	7.18	61.30	–
				2012.11.12									

*Notes:*1. The remuneration of the 3 newly appointed senior management reallocated, who are Wang Jun, Lou Qiliang and Xu Zongxiang are for two months.

2. Zhao Xiaogang and Tang Kelin have rendered their resignation of directorship, with effect from October 2012 as they have reached the age of retirement. Their remuneration are for 10 months.

2. Major working experience of the current directors, supervisors and senior management for the recent 5 years

Directors

1 **Zheng Changhong**, aged 57, has served as chairman of the Board, executive Director and party secretary of the Company, and general manager and deputy party secretary of CSRG. Mr. Zheng had many years of senior managerial experience in manufacturing enterprises of rolling stock. Mr. Zheng possesses in-depth knowledge and extensive management experience in the industry. Mr. Zheng worked as deputy managing director of Beijing Feb. 7th Locomotive Works under the Ministry of Railways, director of the Head Office, a director and the deputy general manager of LORIC, CSRG's director and deputy general manager and Deputy General Manger and Party Secretary. Since December 2007 to October 2012, he served as the vice chairman, the executive Director and president as well as the Vice Party Secretary of the Company. Since October 2012, he has become the chairman, the executive Director and the Party Secretary of the Company. Mr. Zheng had consecutively graduated from the Lanzhou Railway University majoring in electronics technology and Northern Jiaotong University majoring in Accounting, and obtained a doctorate Research Studentship in Traffic and Transportation Planning and Management from Beijing Jiaotong University. He obtained the Senior Professional Manager qualification (a talent with unique contribution) awarded by China Enterprise Confederation and China Enterprise Directors Association, and is a professor-grade senior engineer, a member of the World Academy of Productivity Science (世界生產力科學院) and a part-time professor of Lanzhou Jiaotong University.

2 **Liu Hualong**, aged 50, has been the executive Director, president and the Vice Party Secretary of the Company, as well as the Party Secretary of CSRG.. Mr. Liu has in-depth knowledge in the business of, and extensive management experience in the industry which the Company specializes in. Mr. Liu served as the chairman, general manager and deputy Party secretary of CNRG Qiqihar Railway Rolling Stock (Group) Co. Ltd., the deputy general manager, deputy Party secretary and secretary of the disciplinary committee and chairman of the labor union of CSRG. From December 2007 to September 2011, he was an executive director, deputy Party secretary and the secretary of the disciplinary committee of the Company. From September 2011 to October 2012, he has served as the executive Director, the vice president and a standing member of the Party Committee of the Company. Since October 2012, he has become an executive director, the president and the deputy Party secretary of the Company. Mr. Liu graduated from Dalian Railway Institute majoring in welding technology and equipment. He has also awarded an MBA for senior management by the Tsinghua University. He obtained the Senior Professional Manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association, and is a professor level senior engineer.

3 **Chen Dayang**, aged 49, serves as an executive director, the deputy Party secretary and the secretary of the disciplinary committee of the Company as well as the deputy Party secretary, the secretary of disciplinary committee and chairman of the labour union of CSRG. Mr. Chen possesses substantial management skills and extensive experience in corporate management. Mr. Chen used to serve as the head of the human resource department of China Railway Construction Corporation and the head of the human resource department (division of cadre), the head of the human resource department (division of cadre of the Party Committee) and the assistant to president and the head of the human resource department (division of cadre of the Party Committee) of China Railway Construction Corporation Limited. Since September 2011, he served as the deputy party secretary, the secretary of the disciplinary committee and the head of the work committee of the labour union of the Company (up till October 2012). He has become an executive director of the Company since November 2012. Mr. Chen graduated from Shijiazhuang Railway University majoring in railway engineering. He is a senior engineer.

4 **Zhao Jibin**, aged 60, has been an independent non-executive Director of the Company. He also serves as the deputy general manager and member of party group of China Mobile Communications Corporation, and the chairman and party secretary of China Tietong Communications Corporation. Mr. Zhao served as the deputy and general head and party secretary of Shenyang Railway Bureau, the head and deputy party secretary of Hohhot Railway Bureau and Zhengzhou Railway Bureau successively, and has served as an independent non-executive Director of the Company since December 2007. Mr. Zhao graduated from Southwest Jiaotong University majoring in railway transportation and obtained a master's degree in management in Changchun Institute of Optics and Fine Mechanics. He was a Deputy to the 9th and 10th session of the National People's Congress and a National Model Worker. He is a senior engineer, and a part-time Professor at Beijing Jiaotong University.

5 **Yang Yuzhong**, aged 68, has been an independent non-executive director of the Company, an external director of China Materials Group Corp., Ltd., an independent non-executive director of Air China Limited and a consultant of China Aviation Industry Corporation. Mr. Yang also served as deputy chief of the China Aviation Research Institute; deputy head of the Science and Technology Bureau and head of the Technology and Quality Supervision Bureau of Aviation Industries of China; administrative deputy general manager and deputy party secretary of China Aviation Industry Corporation I; head of China Aviation Research Institute, chairman of AVICI Commercial Aircraft Co., Ltd. and an independent non-executive director of China Materials Group Corp., Ltd. Since December 2007, he has served as the independent non-executive Director of the Company. Mr. Yang graduated from Beijing Aeronautical and Astronautical Institute majoring in aircraft design and manufacture, and is a professor level senior engineer. He was offered the title of Foreign Member of the Royal Aeronautical Society in the United Kingdom. Mr. Yang receives a special government subsidy from the State Council.

6 **Chen Yongkuan**, aged 66, has been an independent non-executive director of the Company and an independent non-executive director of Metallurgical Corporation of China Ltd.. Mr. Chen served as deputy dean and dean of Changsha Communications University; director of the Education Division of the Ministry of Transport, party secretary and vice-president of China Harbour Construction (Group) Company; party secretary and vice chairman of China Communications Construction Group Company Ltd., vice chairman of China Communications Construction Group Company Ltd. and the vice chairman of China Communications Construction Company Ltd.. Since December 2007, he has served as an independent non-executive Director of the Company. Mr. Chen graduated from Wuhan Institute of Hydraulic and Electrical Engineering received obtained a master's degree. Mr. Chen is a professor who receives a special government subsidy from the State Council.

7 **Dai Deming**, aged 50, has been an independent non-executive director of the Company. He is also an external supervisor of China Construction Bank Corporation, an independent non-executive director of Shanxi Taigang Stainless Steel Co., Ltd., professor of the Accounting Department of the School of Business of Renmin University of China, vice-chairman of the China Accounting Institution, and vice secretary-general of the National MPAcc Education and Instruction Commission. Mr. Dai had served as Lecturer of Zhongnan University of Economics, as well as deputy director and director of the Accounting Department of Renmin University of China. Since December 2007, he has served as an independent non-executive Director of the Company. Mr. Dai graduated from Hunan College of Finance & Economics majoring in Industrial Financial Accounting, pursued master's and doctorate studies at Zhongnan University of Economics and Renmin University of China consecutively, and obtained a doctorate degree in Economics. He had conducted post-doctorate research at Hitotsubashi University and is an instructor to doctorate students.

8 **Tsoi David**, aged 65, has been an independent non-executive director of the Company. He also serves as the director and general manger of Alliott, Tsoi CPA Limited and independent non-executive directors of Melco LottVentures Limited and Enviro Energy International Holdings Limited. Mr. Tsoi has been the Chairman of the Asia-Pacific region of Alliot Group, Chairman of the Association of Chartered Certified Accountants (Hong Kong Division), President of the Society of Chinese Accountants and Auditors, Council Member of the Taxation Institute of Hong Kong and member of the Hong Kong Institute of Certified Public Accountants's Practice Review Committee, Ethics Committee, and Registration and Practising Committee. He was a council member of the Travel Industry Council of Hong Kong, a council member of Guangdong Overseas Friendship Association (廣東省海外聯誼會) and a director of Alliott Tsoi Ha CPA Limited. Since March 2008, he has served as the independent non-executive Director of the Company. Mr. Tsoi is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and Associate Member of the Association of Chartered Certified Accountants in the United Kingdom, the Society of Chinese Accountants and Auditors, the Association of Certified General Accountants of Canada, Macau Society of Certified Practising Accountants and Fellow Member of the Taxation Institute of Hong Kong. Mr. Tsoi is a member of the Selection Committee for the first Government of the Hong Kong Special Administrative Region. He graduated from the University of East Asia in Macau (the University of Macau) majoring in Business Administration and holds a master's degree in Business Administration. He is a Certified Public Accountant.

Supervisors

1 **Wang Yan**, aged 57, is the chairman of the Company's supervisory committee. He also serves as an assistant to general manager of CSRG and director of Assets Management Center of CSRG, the chairman of the supervisory committee of CSR Sifang, and a supervisor of CSR Ziyang. Mr. Wang is well-versed in policies and possesses significant knowledge in finance. He has many years of finance and management experience in the Company's specialized industry. Mr. Wang had served as the deputy director of the Finance Department of LORIC (中國鐵路機車車輛工業總公司), the head of the Finance Department of CSRG, and then the deputy chief accountant and head of the Finance Department of CSRG. He was also the assistant to the general manager of CSRG and head of the directors' and supervisors' office of CSRG. Since December 2007, he has served as the chairman of the Company's supervisory committee. Mr. Wang graduated from the Second College of Renmin University of China majoring in finance. He obtained the senior professional manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association. Mr. Wang is a senior accountant.

2 **Sun Ke**, aged 57, is a supervisor, the assistant to president and head of the Audit and Risk Department of the Company. He is a part-time supervisor of the Supervisory Committee of State-Owned Enterprises under SASAC. He has served as the chairman of supervisory committee of Times New Material. Mr. Sun has extensive knowledge and experience in operations and management in the Company's specialised industry. Mr. Sun had been deputy manager of Multi-economic Development Department of LORIC, deputy general manager, a director and general manager of Beijing Railway Industry Trade Company, deputy chief economist and director of Assets Management Center of CSRG as well as chairman of Beijing Railway Industry Trade Company. From January 2010 to November 2012, he was the deputy chief economist and the head of the Audit and Risk Department of the Company. He was a supervisor of the Company since April 2011 and the assistant to president as well as the head of the Audit and Risk Department of the Company since November 2012. Mr. Sun graduated from Northern Jiaotong University majoring in railway vehicles and accounting. He obtained the senior professional manager qualification from China Enterprise Confederation and China Enterprise Directors Association. Mr. Sun is a senior engineer.

3 **Qiu Wei**, aged 53, is an employee supervisor of as well as the deputy director of the Working Committee of Labor Union of the Company. He is also currently the vice chairman of CSRG's labour union. Mr. Qiu has extensive knowledge of, and management experience in, the Company's specialised industry. He served as deputy director of Party Committee Office of China National Railways Locomotive and Rolling Stock Industrial Corporation, and also head and deputy director of the General Affairs Division of the General Office of CSRG (南車集團公司辦公室綜合處). He has been the deputy director of the Working Committee of Labor Union of the Company since January 2008. Since December 2009, he has served as the employee supervisor of the Company. Mr. Qiu graduated from Chinese Communist Party's Central Party School majoring in Economic Management (distance-learning). He obtained the senior professional manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association, and is a senior political engineer.

Senior management

1 **Liu Hualong**, his biography is set out above.

2 **Zhang Jun**, aged 57, is the vice president and a standing member of the Party Committee of the Company as well as a standing member of the Party Committee of CSRG. Mr. Zhang has extensive knowledge of, and operations management experience in, the Company's specialized industry. Mr. Zhang served as, vice director, director and deputy Party secretary of Sifang Locomotive and Rolling Stock Works under the Ministry of Railways; director and deputy Party secretary, Party secretary of CSR Sifang Locomotive and Rolling Work. He also served as chairman of the board of directors and Party secretary of CSR Sifang; deputy Party secretary, secretary of Discipline Committee and chairman of labor union of CSRG. Mr. Zhang served as the vice president a standing member of the Party Committee of the Company since December 2007. Mr. Zhang graduated from Northern Jiaotong University majoring in industrial enterprise management. He also obtained a degree in enterprise management from Fudan University. He obtained the senior professional manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association, and is a senior engineer.

3 **Fu Jianguo**, 49, is a vice president and a standing member of the Party Committee of the Company and a standing member of the Party Committee of CSRG. Mr. Fu has extensive operational and management experience in the Company's specialized industry. Mr. Fu served as the vice director of Tangshan Locomotives Rolling Stock Works (唐山機車車輛廠), director and deputy Party secretary of CSR Shijiazhuang Rolling Stock Works and deputy general manager of CSRG. Since December 2007, he has served as the vice president and a standing member of the Party Committee of the Company. Mr. Fu graduated from Dalian Railway Institute specializing in rolling stock, and obtained his MBA from China Europe International Business School. He obtained the senior professional manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association, and is a professor-level senior engineer.

4 **Zhan Yanjing**, aged 49, is the vice president and chief financial office, as well as a standing member of the Party Committee of the Company and a standing member of the Party Committee of CSRG. She is also the chairman of CSR Finance Co., Ltd (南車財務有限公司). Ms. Zhan has extensive financial knowledge of, and management experience in, the equipment-manufacturing industry. Ms. Zhan served as chief economist as well as director and deputy general manager of Henan Diesel Engine Group Co., Ltd. (河南柴油機廠(集團公司)), a subsidiary of China Shipbuilding Industry Corporation; deputy manager of the Securities Department, manager of the Finance Department, deputy chief accountant and manager of the Finance Department, general manager assistant and manager of the Financial Planning Department, and then general manager assistant of Beiqi Foton Motor Co., Ltd. (北汽福田車輛股份有限公司) as well as chief accountant of CSRG. Since December 2007, she has served as the vice president and chief financial officer as well as a standing member of the Party Committee of the Company. Ms. Zhan graduated from Huazhong Institute of Technology specializing in measure technology and industrial automation instrument, Luoyang Institute of Technology majoring in financial accounting and obtained her MBA from Peking University. She obtained the senior professional manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association, and is a senior accountant and a senior economist.

1 **Wang Jun**, aged 49, the vice president and a standing member of the Party Committee of the Company, is also the standing member of the Party Committee of CSRG. Mr. Wang has extensive experience in the management of technology and operation in the industry where the Company specializes. Mr. Wang served as the chief engineer of Sifang Locomotive and Rolling Stock Works of CSRG and a director and chief engineer, director, general manager and deputy Party Secretary, vice chairman, general manager and deputy Party Secretary, chairman and Party secretary of CSR Sifang. Since October 2012, he has served as the vice president and the standing member of the Party Committee of the Company. Mr. Wang graduated from Changsha Railway University (長沙鐵道學院) majoring in thermal dynamic mechanical devices. He was also awarded an MBA degree for senior management in Tsinghua University. He also obtained the Senior Professional Manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association. In addition, he is a professor-level senior engineer who is entitled to a special government subsidy from the State Council.

2 **Lou Qiliang**, aged 49, the vice president and a standing member of the Party Committee of the Company, is also the standing member of the Party Committee of CSRG. Mr. Lou has extensive experience in operational and corporate management in the industry where the Company specializes. Mr. Lou served as the deputy head, head and deputy Party secretary of CSR Nanjing Puzhen Rolling Stock Works (中國南車集團南京浦鎮車輛廠), as well as the executive director, general manager and deputy Party secretary of CSR Puzhen. Since October 2012, he has served as the vice president and a standing member of the Party Committee of the Company. Mr. Lou graduated from Dalian Railway Institute majoring in machinery manufacture and design. He also obtained the Senior Professional Manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association, and is a senior engineer.

3 **Xu Zongxiang**, aged 49, the vice president and a standing member of the Party Committee of the Company, is also the standing member of the Party Committee of CSRG. Mr. Xu has extensive expertise and experience in operation management in the industry where the Company specializes. Mr. Xu served as the deputy head of CSR Zhuzhou Electric Locomotive Works, the director and general manager, director, general manager and deputy Party secretary, executive director, general manager and deputy Party secretary of CSR Zhuzhou. Since October 2012, he has served as the vice president and a standing member of the Party Committee of the Company. Mr. Xu graduated from Xi'an Jiaotong University majoring in electric technology. He was also awarded a doctorate degree of the planning and management of civil engineering and a doctorate degree of engineering by Central South University. He also obtained the Senior Professional Manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association. In addition, he is a professor-level senior engineer.

4 **Zhang Xinning**, aged 48, the chief engineer of the Company and a director of CSR Ziyang. Mr. Zhang has extensive expertise and experience in technological management n the industry where the Company specializes. Mr. Zhang served as the deputy head of the equipment technology division of the department of technology and education of the Ministry of Railways (鐵道部科技教育司裝備技術處), the deputy chief engineer, deputy chief engineer and the general manager of the locomotives business department of CSRG. He also served as the deputy general manager and chief engineer of CSR Zhuzhou, as well as the chief engineer of CSRG. Since December 2007, he has served as the chief engineer of the Company. Mr. Zhang graduated from the faculty of Electrical Engineering of Beijing Jiaotong University, majoring in electric traction and transmission control. He was also awarded a doctorate degree and a master's degree of engineering by Beijing Jiaotong University. In addition, he obtained the Senior Professional Manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association. He has been selected as a candidate of "Hundred Talents Program of the Chinese Academy of Sciences" at national level, and is a professor-level senior engineer who is entitled to a special government subsidy from the State Council.

5 **Shao Renqiang**, aged 48, is the secretary of the Board, the chief economist, the joint company secretary and news spokesperson of the Company. Mr. Shao has extensive financial management and corporate management experience in the Company's specialized industry. Mr. Shao served as the chief accountant of CSR Sifang Locomotive and Rolling Work; a director (with a term until December 2012), chief accountant, deputy general manager and chief accountant of Sifang Locomotive Holding (四方機股份); and head of audit department of CSRG. Since December 2007, he has served as the secretary of the Board, joint company secretary and the news spokesperson of the Company. He has become the chief economist of the Company since October 2012. Mr. Shao graduated from Northern Jiaotong University specializing in financial accounting, and obtained his MBA from Tongji University. Mr. Shao obtained the senior professional manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association, and is a senior accountant.

3. Share Incentive Scheme Granted to Directors, Supervisors and Senior Management During the Reporting Period

Unit: Share

Name	Duty	Number of share options held at the opening of the year	Number of share options newly granted during the reporting period	Shares bearing exercisable options during the reporting period	Shares granted upon exercise of share options during the reporting period	Exercising price of share options (RMB)	Number of share options held at the end of the reporting period	Market price at the end of the reporting period (RMB)
Zheng Changhong	Chairman, Executive Director	200,000	No	No	No	5.43	200,000	4.96
Zhao Xiaogang	Former Chairman, Executive Director	200,000	No	No	No	5.43	200,000	4.96
Liu Hualong	Executive Director, President	170,000	No	No	No	5.43	170,000	4.96
Tang Kelin	Former Executive Director, Vice President	170,000	No	No	No	5.43	170,000	4.96
Zhang Jun	Vice President	170,000	No	No	No	5.43	170,000	4.96
Fu Jianguo	Vice President	170,000	No	No	No	5.43	170,000	4.96
Zhan Yanjing	Vice President, Chief Financial Officer	170,000	No	No	No	5.43	170,000	4.96
Wang Jun	Vice President	141,400	No	No	No	5.43	141,400	4.96
Lou Qiliang	Vice President	141,400	No	No	No	5.43	141,400	4.96
Xu Zongxiang	Vice President	141,400	No	No	No	5.43	141,400	4.96
Zhang Xinning	Chief Engineer	150,000	No	No	No	5.43	150,000	4.96
Shao Renqiang	Secretary to the Board of Directors, Chief Economist	150,000	No	No	No	5.43	150,000	4.96

* The share option scheme set out in the above table comprised A share options under the share option scheme considered and approved at the extraordinary general meeting of the Company held on 26 April 2011.

(II) POSITIONS HELD BY CURRENT AND RETIRED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

1. Positions held in shareholders

Employee's name	Name of the shareholder	Position held in the shareholder	Commencement of term of office	Expiration of term of office
Zheng Changhong	CSRG	General Manager	October 2012	—
Zhao Xiaogang	CSRG	General Manager	September 2000	October 2012
Wang Yan	CSRG	Assistant to General Manager	March 2007	—

2. Positions held in other entities

Name	Names of other entities	Position held in other entitiles	Commencement of term of office	Expiration of term of office
Zhao Jibin	China Tietong Communications Corporation	Chairman, Party Secretary	October 2003	—
	China Mobile Communications Corporation	Deputy General Manager, Party Member	May 2008	—
Yang Yuzhong	China Aviation Industry Corporation	Consultant	August 2006	—
	China Materials Group Corp., Ltd.	External Director	December 2009	—
	Air China Limited(1)	Independent Non-executive Director	May 2011	—
Chen Yongkuan	Metallurgical Corporation of China Ltd.(2)	Independent Non-executive Director	November 2008	—
Dai Deming	Renmin University of China	Professor	June 1996	—
	China Construction Bank Corporation	External Supervisor	June 2007	—
	Shanxi Taigang Stainless Steel Co., Ltd.(3)	Independent Non-executive Director	July 2011	—
Tsoi, David	Melco LottVentures Limited(4)	Independent Non-executive Director	October 2001	—
	Alliott, Tsoi CPA Limited	Director and General Manager	September 2004	—
	Enviro Energy International Holdings Limited(5)	Independent Non-executive Director	July 2008	—
Wang Yan	CSR Sifang	Chairman of the Supervisory Committee	July 2002	—
	CSR Ziyang	Supervisor	May 2006	—
Sun Ke	Times New Material	Chairman of the Supervisory Committee	December 2008	—
	Supervisory Committee of State-Owned Enterprises under SASAC	Part-time Supervisor	June 2010	
Shao Renqiang	CSR Sifang	Director	July 2002	December 2012

Notes:

(1) Air China Limited is a company listed on the Shanghai Stock Exchange (stock code: 601111) and the Main Board of the Hong Kong Stock Exchange (stock code: 0753).

(2) Metallurgical Corporation of China Ltd. is a company listed on the Shanghai Stock Exchange (stock code: 601618) and the Main Board of the Hong Kong Stock Exchange (stock code: 1618).

(3) Shanxi Taigang Stainless Steel Co., Ltd. is a company listed on the Shenzhen Stock Exchange (stock code: 000825).

(4) Melco LottVentures Limited is a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange (stock code: 8198).

(5) Enviro Energy International Holdings Limited is a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1102).

(III) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures 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 management. The general meeting of the Company decides matters relating to the remuneration for the relevant Directors and Supervisors.
Determination basis of the remuneration of Directors, Supervisors and Senior Management	The Company determined the remuneration of Directors, Supervisors and Senior Management with reference to the Articles of Association and relevant requirements.
Actual payment to the remuneration of Directors, Supervisors and Senior Management	The Company, pursuant to relevant provisions, paid remunerations to the Directors, Supervisors and Senior Management, except for Mr. Wang Yan, the chairman of the Supervisory Committee, who did not receive remuneration from the Company.
Total actual remuneration of all the Directors, Supervisors and Senior Management at the end of the reporting period	As at the end of the reporting period, except for Mr. Wang Yan, the chairman of the Supervisory Committee, who did not receive remuneration from the Company, the total actual remuneration paid to other current Directors, Supervisors and Senior Management and 2 Directors who resigned during the reporting period was RMB7,808,500 and the total welfare funds including the basic contribution to the Employee Retirement Insurance Scheme paid for them by the Company was RMB874,000.

* During the reporting period, none of the Directors or Supervisors of the Company waived or agreed to waive the remuneration arrangements.

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

Name	Position held	Changes	Reasons
Zheng Changhong	Chairman, Executive Director	Election	Elected as the Chairman and resigned as the President
Zhao Xiaogang	Former Chairman, Executive Director	Resignation	Resigned since reaching the age of retirement
Liu Hualong	Executive Director, President	Appointment	Newly appointed as the President
Tang Kelin	Former Executive Director, Vice President	Resignation	Resigned since reaching the age of retirement
Chen Dayang	Executive Director	Election	Newly elected as the Director
Wang Jun	Vice President	Appointment	Newly appointed as the Vice President
Lou Qiliang	Vice President	Appointment	Newly appointed as the Vice President
Xu Zongxiang	Vice President	Appointment	Newly appointed as the Vice President
Zhang Xinning	Chief Engineer	Appointment	Classified as the Senior Management as the Chief Engineer
Shao Renqiang	Secretary to the Board, Chief Economist	Appointment	Appointed as the Chief Economist concurrently

(V) THE CORE TECHNICIAL TEAM OR KEY TECHNICAL STAFF OF THE COMPANY

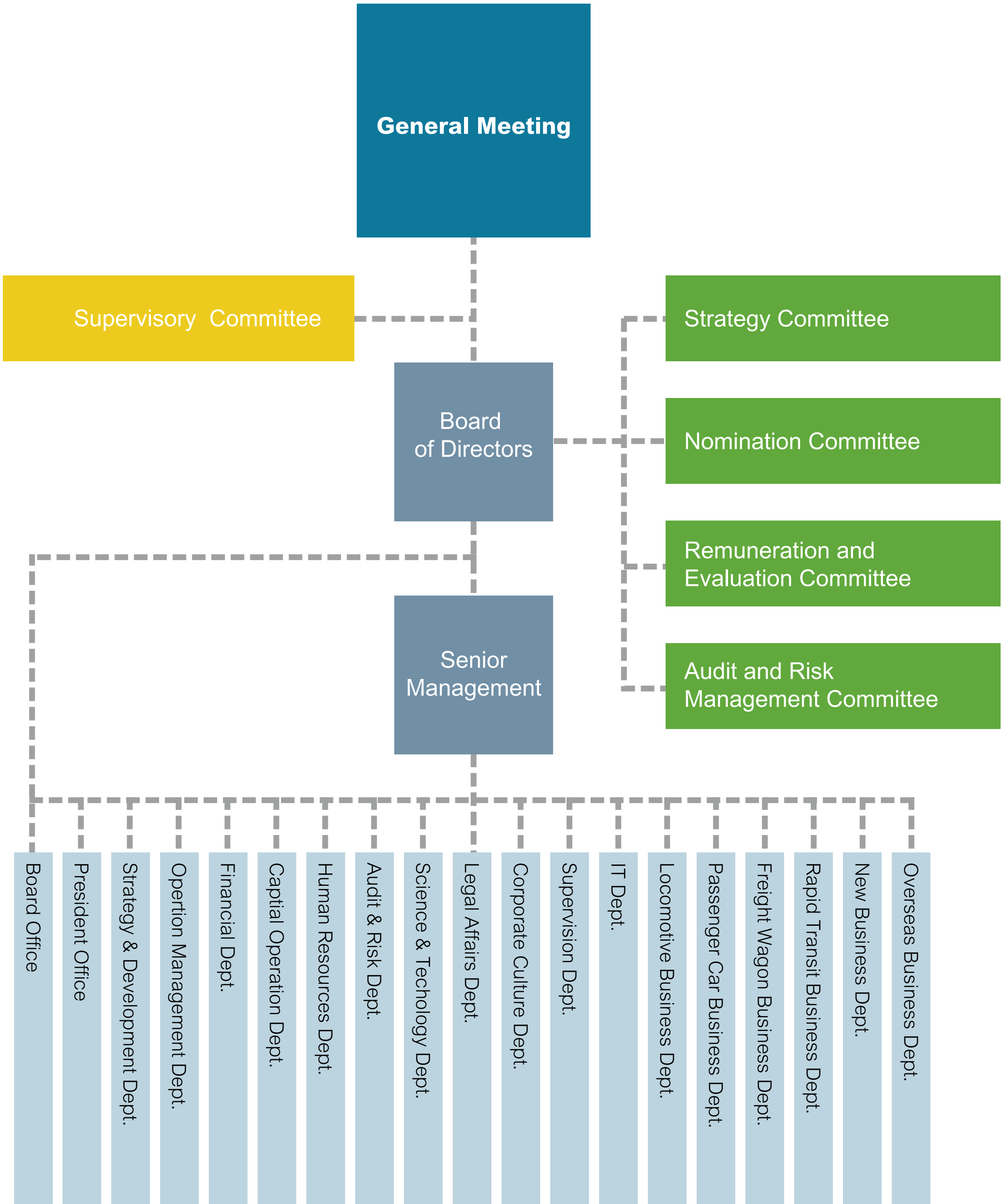
During the reporting period, there was no significant change in the core technical team and key technical staff of the Company. In 2012, 16 employees of the Company were granted the "special government subsidy from the State Council", 4 employees were granted the youth award of "Zhan Tianyou Award for Railway Science and Technology (詹天佑鐵道科學技術獎)", 1 employee was selected as the "National (Leading) Reserve Talents in Accounting (全國會計(領軍)後備人才)", 1 employee received the "Entrepreneurial Talents Award (創業人物獎)" in the list of Female of the Year in Chinese Economy(中國經濟女性年度人物)and 8 employees obtained "Mao Yisheng Award for Railway Engineer(茅以升鐵道工程師獎)".

(VI) STAFF OF THE PARENT COMPANY AND PRINCIPAL SUBSIDIARIES

Details of the staff of the Group are set out in the section headed "Report of Directors-Staff of the Company".

Corporate Governance Report

The overall governance structure of the Company is set out below:



(I) CORPORATE GOVERNANCE

During the reporting period, the Company put forward corporate governance work in compliance with requirements of the laws, regulations and the listing rules of stock exchanges such as the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules. It established a modern corporate governance structure featuring "three meetings and one management" and an effective corporate governance mechanism consisting of the general meeting (as the highest authority), the Board (as the decision-making body), the Supervisory Committee (as the supervisory body) and the management (as the executive body). Through continuous efforts in improving all internal control systems of the Company, strengthening its information disclosure and standardising corporate operations, the Company aspires to develop itself into a listed company with quality and sound market image. 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 formulated two set of rules, namely the Rules of Regular Meetings of the Board (董事會工作例會制度) and the Management Rules Governing Information Disclosures of Debt Financing Instrument of Non-financial Institutions (非金融企業債務融資工具信息披露事務管理制度), and amended eight sets of rules, namely the Articles of Association, Rules of Procedure for General Meetings, Rules of Procedure for the Board of Directors, Working Rules for the Remuneration and Evaluation Committee of the Board, Working Rules for the Nomination Committee of the Board, Working Rules for the Audit and Risk Management Committee of the Board, President's Manual and Management Measures on External Guarantees.

The Company established its corporate governance rules according to the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Hong Kong Listing Rules. In certain aspects, the corporate governance practices adopted by the Company are more stringent than the code provisions set out in the Code. After reviewing the corporate governance documents adopted by the Company, the Board is of the opinion that the Company's corporate governance is in compliance with all the principles, code provisions and part of the recommended best practices in the Code (for the period from 1 April 2012 to 31 December 2012) and with all the principles, code provisions and part of the recommended best practices in the Code on Corporate Governance Practices (the previous version of the Code) (for the period from 1 January 2012 to 31 March 2012).

(II) SHAREHOLDERS AND GENERAL MEETINGS

1. Shareholders and general meetings

Safeguarding shareholders' interests and promoting their values always serve as the Company's goal of development. The general meeting is the highest authority of the Company, through which shareholders may exercise their powers. The Company convened and held general meetings to resolve on related matters in strict compliance with relevant laws and regulations as well as the requirements under the Rules of Procedure for General Meetings of the Company. The Company ensured that all shareholders, especially minority shareholders, are entitled to enjoy their legal interest based on their shareholdings in the Company and to fully exercise their rights.

2. Relationship between the controlling shareholder and the Company

The Company is strictly independent from its controlling shareholder in terms of assets, business, organisation, finance and personnel. The Board, Supervisory Committee and internal departments are able to operate independently. The controlling shareholder of the Company put stringent constraint on individual behaviours and exercised rights and undertook obligations as shareholder pursuant to laws. The Company is not aware of any appropriation of the Company's capital and assets by the controlling shareholder.

(III) DIRECTORS AND THE BOARD

1. Directors and the Board

The Board comprises eight Directors, including five independent non-executive Directors. The Board acts in the best interests of the Company and shareholders and is responsible for the consideration and approval of business strategies and material investment and other significant matters of the Company. The main duties of the Board shall also include consideration and approval of the Company's regular announcements on results and operating condition. The convening, holding, voting and other relevant procedures of the Company's Board meetings were executed in strict compliance with relevant laws and regulations, and the Rules of Procedure for the Board of Directors. The Board of the Company has a number of entrepreneurs possessing extensive experiences in operation and management and some famous experts and scholars in the fields such as finance and taxation. All Directors of the Company are highly familiar with their rights, obligations and responsibilities as Directors and are capable of performing their functions with due diligence in a faithful and diligent manner. All Directors are punctual at Board meetings. They duly consider every resolution proposed at the Board meetings and the general meetings and give constructive advice thereof, bringing into full play Directors' decision-making role in corporate governance.

The Board of the Company has established four committees, namely the Strategy Committee, Audit and Risk Management Committee, Remuneration and Evaluation Committee and Nomination Committee. During the reporting period, all the committees carried out work in a regular manner, presented work proposals from their respective professional perspectives independently for discussion and consideration, whereby providing strong support to the Board. The Board is mainly responsible for formulating and reviewing the corporate governance policies and practices of the Company, and authorizing the Board committees to perform specific functions of corporate governance. Details of the Board committees performing corporate governance functions are set out in the section headed "Board Committees" in this chapter.

The composition of the Board, biographical details of Directors and relationship between them are detailed in the chapter headed "Directors, Supervisors, Senior Management and Staff" and the section headed "Financial, Business or Family Relationship among Directors" in "Report of Directors". Each Director is appointed for a term of three years. Upon expiry, such term is renewable upon re-election. In 2012, the Company purchased liability insurance for Directors, Supervisors and Senior Management of the Company to provide security for the compensation liabilities that may arise during the performance of their duties under the laws.

Upon reaching their retirement age, Mr. Zhao Xiaogang and Mr. Tang Kelin resigned as executive Directors of the second session of the Board of the Company on 25 October 2012. The Company convened an extraordinary general meeting on 12 November 2012, on which Mr. Chen Dayang was elected as an executive Director of the second session of the Board of the Company.

2. Attendance of directors at the Board meetings and the general meetings

Name of director	Independent director or not	Attendance at the Board meetings					Attendance at the general meetings
		Required attendance during the year	Attendance in person	Attendance by proxy	Absence	Absence from two consecutive meetings or not	Attendance at the general meetings
Zheng Changhong	No	13	13	—	—	No	2
Zhao Xiaogang	No	10	10	—	—	No	1
Liu Hualong	No	13	13	—	—	No	2
Tang Kelin	No	10	10	—	—	No	1
Chen Dayang	No	1	1	—	—	No	—
Zhao Jibin	Yes	13	13	—	—	No	2
Yang Yuzhong	Yes	13	13	—	—	No	2
Chen Yongkuan	Yes	13	13	—	—	No	2
Dai Deming	Yes	13	13	—	—	No	2
Tsoi, David	Yes	13	13	—	—	No	2

Number of Board meetings convened during the year		13
Among which:	number of meetings convened on-site	7
	number of meetings convened by means of communication	6
	number of meetings convened in combination of on-site and communication	—

Notes:

1: Director Zhao Xiaogang and Director Tang Kelin retired in October 2012 upon reaching their retirement age.

2: Chen Dayang was elected as an executive Director of the Company upon consideration and approval at the 2012 first extraordinary general meeting held on 12 November 2012.

3. Development and refreshment of knowledge and skills by Directors

The Board Office provided comprehensive services and sufficient information for Directors, so that Directors can understand the conditions of the Company in a timely manner. The Board Office delivered to Directors the latest information and bulletins relating to the business changes and development of the Group and the latest laws, rules and regulations in relation to their positions and responsibilities. The Board Office also arranged themed trainings and seminars for Directors. In 2012, pursuant to the requirements under code provision A.6.5 of the Code, Directors of the Company all participated in the continuous professional development in relation to their positions and responsibilities, developing and refreshing their knowledge and skills, so as to ensure that their contribution to the Board remains informed and relevant. Based on the trainings arranged for the Directors by the Company and the records of learning and trainings submitted by the Directors, the trainings received by each Director in 2012 are as follows:

Name	Trainings *(Note)*
Executive Directors	
Zheng Changhong	B,C
Liu Hualong	A,B
Chen Dayang	B,C
Independent Non-executive Directors	
Zhao Jibin	B,D
Yang Yuzhong	C,D
Chen Yongkuan	C,D
Dai Deming	A,C
Tsoi, David	B,C
Former Executive Directors	
Zhao Xiaogang	C
Tang Kelin	C

Notes 1: Mr. Zhao Xiaogang and Mr. Tang Kelin resigned as executive Directors in October 2012 upon reaching their retirement age.

2: Mr. Chen Dayang was elected as an executive Director of the Company upon consideration and approval at the 2012 first extraordinary general meeting held on 12 November 2012.

3. A, B, C and D in the above table represent trainings of the following types respectively:

A. 2012 training session for directors, supervisors and senior management organized by the Beijing Securities Regulatory Bureau

B. Attending seminar trainings in aspects such as legal regulation, corporate governance and financial control organized by professional institutes

C. Studying and reading relevant laws and regulations (revised and amended) such as the Hong Kong Listing Rules

D. Attending trainings on relevant laws and regulations such as the Hong Kong Listing Rules organized by the Company.

4. Independent non-executive Directors and their independence

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

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

5. Responsibilities of the Board

The Board is the decision-making body of the Company. It reports to the general meeting and exercises the following powers in accordance to the Articles of Association: (1) to convene 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 accounts, 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 members and, to decide on their remuneration and award and punishment matters; (6) to formulate the Company's basic management system; (7) to decide on the establishment of special committees of the Board and to consider and approve the resolutions proposed by each special committee of the Board; and (8) to manage information disclosure of the Company, etc..

6. Board committees

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

(1) Strategy Committee

The role, composition, terms of reference, decision-making procedures and rules of procedures of the Strategy Committee are clearly defined in the Working Rules for Strategy Committee of the Board of the Company. At the beginning of the reporting period, the members of the Strategy Committee were executive Directors including Mr. Zhao Xiaogang, Mr. Zheng Changhong, Mr. Tang Kelin and Mr. Liu Hualong and independent non-executive Directors including Mr. Yang Yuzhong and Mr. Zhao Jibin. Mr. Zhao Xiaogang served as the chairman of the committee while Mr. Yang Yuzhong served as the vice-chairman of the committee. After October 2012 when Mr. Zhao Xiaogang and Mr. Tang Kelin resigned upon reaching their retirement age, the members of the Strategy Committee were Mr. Zheng Changhong, Mr. Liu Hualong, Mr. Yang Yuzhong and Mr. Zhao Jibin. Mr. Zheng Changhong serves as the chairman of the committee while Mr. Yang Yuzhong serves as the vice-chairman of the committee. The primary responsibilities of the Strategy Committee are to study and make recommendations on the long-term development strategies and major investment decisions of the Company, and to supervise and examine the annual business plan as well as the implementation of investment plan under the authorisation of the Board. The Strategy Committee shall be held accountable to the Board.

During the reporting period, the Strategy Committee strictly complied with requirements of Working Rules for Strategy Committee of the Board, performed its duties independently and objectively, and studied and made proposals for the Company's development strategies and major investment decisions. A total of seven meetings were held, at which the Proposal in Relation to the 2011 Final Accounts of the Company, the Proposal in Relation to the 2011 Profit Distribution Plan of the Company, the Proposal in Relation to the Specific Report on Deposit and Actual Use of Proceeds Raised from A Share Offering of the Company in 2011, the Proposal in Relation to 2011 Social Responsibility Report of the Company, the Proposal in Relation to the Amendments to the Proceeds Limit of Certain Projects Funded by the Proceeds and the Proposal in Relation to the 2012 Annual Operation Plan were considered and approved.

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

Name of Director	Number of attendance/ Number of meeting	Attendance rate
Zheng Changhong	7/7	100%
Yang Yuzhong	7/7	100%
Liu Hualong	7/7	100%
Zhao Jibin	7/7	100%
Zhao Xiaogang	5/7	71%
Tang Kelin	5/7	71%

Note: Director Zhao Xiaogang and Director Tang Kelin retired in October 2012 upon reaching their retirement age

(2) Nomination Committee

The Nomination Committee is a specialised body established under the resolution of the Board. It Is comprised of five Directors, namely Mr. Zheng Changhong, Mr. Zhao Jibin (independent non-executive Director), Mr. Yang Yuzhong (independent non-executive Director), Mr. Chen Yongkuan (independent non-executive Director) and Mr. Liu Hualong, with Mr. Zhao Jibin as the chairman of the Nomination Committee.

The primary responsibilities of the committee are to formulate the nomination procedures and selection standards of Directors and Senior Management, and preliminarily review the eligibility and other qualifications of the candidates for Directors and Senior Management. The standards of recommendation on the nomination of Directors include suitable professional knowledge and industry experience, personal conduct, integrity and skills, as well as the commitment of sufficient time devotion of the Directors.

The candidates for Directors, except independent Directors, shall be nominated by the Board or shareholders individually or collectively holding more than 3% of the shares of the Company with voting rights, and elected at a general meeting of the Company. The candidates for independent Directors shall be nominated by the Board and Supervisory Committee of the Company, shareholders individually or collectively holding more than 1% of the shares of the Company and elected at a general meeting.

During the reporting period, the Nomination Committee strictly complied with requirements of Working Rules for Nomination Committee of the Board and performed its duties independently and objectively. A total of three meetings were held. The third meeting of the second session was held on 30 March and the Proposal in Relation to Amendments to Working Rules for Nomination Committee of the Board of the Company was considered and approved. The fourth meeting of the second session was held on 25 October and the Proposal in Relation to the Recommendation of Mr. Liu Hualong as the Candidate for the President, the Proposal in Relation to the Recommendation of Mr. Chen Dayang as the Candidate for Executive Director of the Company, the Proposal in Relation to the Recommendation of Mr. Wang Jun, Mr. Lou Qiliang and Mr. Xu Zongxiang as Candidates for the Vice President of the Company were considered and approved. On 12 November, the fifth meeting of the second session was held and the Proposal in Relation to the Recommendation of Mr. Zhang Xinning as the Candidate for the Chief Engineer of the Company, and the Proposal in Relation to the recommendation of Mr. Shao Renqiang as the Candidate for the Chief Economist of the Company were considered and approved. The Report on the Recent Adjustments of Certain Staff of the Directly-held Subsidiaries and the Headquarter was debriefed.

During the reporting period, the Nomination Committee held three meetings in total. The attendance of each Director is as follows:

Name of Director	Number of attendance/ Number of meeting	Attendance rate
Zhao Jibin	3/3	100%
Zheng Changhong	2/3	67%
Liu Hualong	3/3	100%
Yang Yuzhong	3/3	100%
Chen Yongkuan	3/3	100%
Zhao Xiaogang	1/3	33%

Note: Director Zhao Xiaogang reached his retirement age and retired in October 2012, and Mr. Zheng Changhong was elected as a member of the Nomination Committee of the Board.

(3) Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is a specialised body established under the resolution of the Board. It is comprised of three independent non-executive Directors, namely Mr. Chen Yongkuan, Mr. Dai Deming and Mr. Tsoi, David, with Mr. Chen Yongkuan as the chairman of the Remuneration and Evaluation Committee.

The primary responsibilities of the committee are to submit proposals to the Board on the general policies and structure of the remuneration of Directors and Senior Management, as well as the procedures in the formulation of standardised and transparent remuneration policies. It is also responsible for reviewing the compensation policies and schemes for Directors and Senior Management of the Company, formulating the evaluation standards for them and evaluating their performance of duties. In addition, the committee submits proposals to the Board on the formulation of the remuneration packages for individual executive Director and Senior Management. It also reviews and supervises the continuous professional development of Directors and Senior Management, and supervises the implementation of the remuneration system of the Company.

During the reporting period, the Remuneration and Evaluation Committee of the Board strictly complied with requirements of Working Rules for Remuneration and Evaluation Committee of the Board and performed its duties independently and objectively. A total of one meeting was held. The second meeting of the second session was held on 30 March, at which the Proposal in Relation to the Remuneration and Welfare of the Senior Management of the Company in 2011, the Proposal in Relation to the Remuneration and Welfare of the Directors and Supervisors of the Company in 2011 and the Proposal in Relation to the Amendments to Working Rules for Remuneration and Evaluation Committee of the Board of the Company were considered and approved.

During the reporting period, the Remuneration and Evaluation Committee held one meeting in total. The attendance of each Director is as follows:

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

(4) Audit and Risk Management Committee

A total of 13 meetings were held by the Audit and Risk Management Committee, at which the quarterly, half-yearly and annual financial reports of the Company, and the proposals such as Work Plan for the Company's Internal Audit, Internal Control and Risk Management in 2011, Self-assessment Report on Internal Control of the Company in 2011, the amendments to Working Rules for the Audit and Risk Management Committee of the Board of the Company were considered and approved. In addition, the committee performed the following corporate governance functions: (1) to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements; (2) to self-assess the compliance of the Company with Corporate Governance Code and consider and approve the Self-assessment Report on Internal Control and the Corporate Governance Report as required under the listing rules; and (3) to participate in the formulation, review and monitor of the code of conduct applicable to Directors and other staff, and review and amend the internal control manual according to the need of management of the Company.

The role, composition, terms of reference, decision-making procedures and rules of procedures of the Audit and Risk Management Committee are clearly defined in the Working Rules for Audit and Risk Management Committee of the Board of the Company, which specifies that all members of the Audit and Risk Management Committee shall be independent non-executive Directors. The Audit and Risk Management Committee of the second session of the Board was officially established on 26 April 2011, which was served by three independent non-executive Directors, namely, Dai Deming, Yang Yuzhong and Tsoi, David, among which Mr. Dai Deming is an accounting professional and Mr. Tsoi, David is a Certified Public Accountant. Mr. Dai Deming serves as the chairman of the Audit and Risk Management Committee. The primary responsibilities of the Audit and Risk Management Committee are to monitor the external audit procedures and quality of the Company, supervise the internal audit system and its implementation, and review the Company's financial information and other information disclosure as well as its internal control system. The terms of reference of the Audit and Risk Management Committee comply with the relevant requirements under the Hong Kong Listing Rules and the committee shall be held accountable to the Board.

During the reporting period, in strict compliance with the provisions of the Articles of Association, Working Rules for Audit and Risk Management Committee of the Board and Annual Report Working Procedures for the Audit and Risk Management Committee of the Board, all members performed their functions and carried out their responsibilities conferred by the Board in a diligent and earnest manner. All members attended meetings on time, studied, examined and approved proposals in compliance with requirements of regulatory authorities and the Company, actively communicated with external accountants and relevant departments of the Company, and completed all following work successfully.

(1) Convening various meetings. During the reporting period, the Audit and Risk Management Committee held 13 meetings in total. It considered and approved, among others, the followings proposals: Work Plan for the Company's Annual Internal Audit, Internal Control and Risk Management in 2012, Credit Limit of the Company for 2012, the Annual Report of the Company for 2011, Self-assessment Report on the Internal Control of the Company in 2011, Relevant Matters on A Share Connected Transactions of the Company in 2012 and the amendments to Working Rules for the Audit and Risk Committee of the Board of the Company.

(2) Supervising external audit procedures and quality as well as the audit conducted by the accounting firms. The Audit and Risk Management Committee communicated with auditors for annual audit plan in respect of 2012 annual audit arrangement and timetable. Having been debriefed special reports from the accounting firms and financial officers of the Company respectively, the committee determined the audit work arrangement of the Company for 2012. After commencement of audit by the accounting firms with respect to the Company's annual audit, the representatives of the Audit and Risk Management Committee had urged the accounting firms for a number of times through the financial officers and Secretary to the Board of the Company to complete the auditors' report on time and according to the working schedule, and sent supervision letter to the accounting firms.

(3) Evaluating and summarizing the annual audit work done by the accounting firms. The Audit and Risk Management Committee assessed and summarized the audit work done by the accounting firms who provided audit service in respect of the Company's annual report. The assessment of the annual audit work done by the accounting firms was arrived at by taking the three aspects, audit plan, on-site operation and audit report into consideration. The committee then reported the assessment results and the summary to the Board.

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

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

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

(7) Carrying out investigation and research on subsidiaries. In order to gain a deeper understanding of the corporate development, the members of the Audit and Risk Management Committee set out to the grassroots to conduct investigation and research on the operation and management of the Company's subsidiaries such as CSR Guangji and CSR Chengdu so as to make recommendation in respect thereof.

(8) Issuing review opinions on 2012 annual financial report of the Company and its relevant internal control and audit reports. The Audit and Risk Management Committee issued its review opinions on the annual financial report of the Company and its relevant internal control and audit reports twice pursuant to the relevant requirements of CSRC: (1) the Audit and Risk Management Committee issued a written opinion on the unaudited financial report and its relevant internal control and audit reports, and (2) after the auditors for annual audit issued preliminary audit opinion, the Audit and Risk Management Committee reviewed again the financial report of the Company and its relevant internal control and audit reports, and issued a written opinion, agreeing to submit the audited 2012 financial report of the Company and its relevant internal control and audit reports to the Board of the Company for consideration.

During the reporting period, the Audit and Risk Management Committee held 13 meetings in total. The attendance of each Director is as follows:

Name of Director	Number of attendance/ Number of meeting	Attendance rate
Dai Deming	13/13	100%
Yang Yuzhong	13/13	100%
Tsoi, David	13/13	100%

(IV) CHAIRMAN AND PRESIDENT

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

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

(V) SUPERVISORS AND THE SUPERVISORY COMMITTEE

The Supervisory Committee is the supervisory body of the Company. It reports to the general meeting of the Company and is responsible for supervising the Company's financial condition and compliance of the duty performance of Directors and Senior Management, so as to protect the interests of the Company and shareholders under the laws. The holding and convening procedures of the meetings of the Supervisory Committee were all in compliance with the requirements of the Rules of Procedures for the Supervisory Committee. The Company has taken effective measures to ensure the Supervisor's rights to be informed. All Supervisors were able to duly discharge their respective duties and acted in the interests of the shareholders. Besides, they supervised all significant events, financial affairs of the Company as well as the legal compliance of the performance of duties by the Directors and Senior Management of the Company.

(VI) RESPONSIBILITIES OF THE MANAGEMENT

The Board is responsible for reviewing and approving the overall strategies and significant events of the Company. The Board delegates to the management of the Company to be in charge of the management of the daily operation and strategy implementation of the Company. The main responsibilities of the management include taking charge of the operation and management of the Company, organising and implementing the resolutions of the Board, and reporting its work to the Board. The management also organises and implements the annual business and investment plans of the Company. In addition, the management proposes the annual targets and development plans of the Company based on the industry policies and the demand of markets and organises and implements the same upon consideration and approval at the Board meetings and general meetings. The Board gives clear guidelines on the delegation to the management and regularly review the responsibilities delegated to the management and their performance so as to ensure the overall interest of the Group. The management of the Company submit briefing reports to the Board on a monthly basis, which set out the financial position and significant operating performance of the Company. Issues such as the significant activities and decisions in the operation and management will also be reported to the Board or Supervisory Committee by the management.

(VII) SHAREHOLDERS' RIGHTS

1. Convening an extraordinary general meetings by shareholders

Pursuant to the Articles of Association, shareholders individually or collectively holding more than ten (10) percent of the issued shares of the Company with voting rights are entitled to convene an extraordinary general meeting by written request. Feedback on whether agreeing to convene the extraordinary general meeting shall be given by the Board within ten (10) days upon receipt of the request. Shareholders proposed to convene the extraordinary general meeting by written request are entitled to propose to the Supervisory Committee for convening the extraordinary general meeting upon disagreement or no feedback on convening the extraordinary general meeting from the Board. Notice on convening the meeting shall be issued by the Supervisory Committee within five (5) days upon receipt of request where the committee agrees to convene the meeting. The Supervisory Committee is deemed to not to convene and host the general meeting if notice on convening the meeting is not issued by the committee within the stipulated period. Shareholders individually or collectively holding more than ten (10) percent of the shares of the Company for a consecutive period of ninety (90) days can themselves convene and host the meeting.

2. Putting enquiry to the Board by shareholders

Shareholders can raise enquiries to the Board at any time by contacting the Board Office. Shareholders who raise enquiries shall provide evidence on their interests in the Company's shares, such as documents of shareholding. Written means such as email, facsimile and post with sufficient contact details are recommended by the Company for timely and appropriate handling and recording of the enquiries.

The contact details of the Board Office of the Company are as follows:

Tel:	(8610)5186 2188
Fax:	(8610)6398 4785
Email:	csr@csrgc.com
Postal address:	No.16, Central West Fourth Ring Road, Haidian District, Beijing, the PRC

3. Submission of proposals to the general meetings by shareholders

Shareholders individually or collectively holding more than three (3) percent of the shares of the Company can submit additional proposal(s) in writing to the convenor on or before ten (10) days prior to the date of the general meeting. The additional proposal(s) should be within the terms of reference of the general meeting and with explicit subject and specific matters to be resolved on. Shareholders can contact the Board Office of the Company for submitting proposal(s) to the general meeting, the contact details of which are set out in the section headed "Putting enquiry to the Board by shareholders".

(VIII) SIGNIFICANT CHANGE IN THE ARTICLES OF ASSOCIATION DURING THE REPORTING PERIOD

In 2012, the Company made amendments to the Articles of Association twice.

1. Amendments to the articles on the shareholding structure and registered capital in the Articles of Association approved by the Board

The Company issued 1,963,000,000 ordinary shares denominated in Renminbi in a non-public issue to domestic investors on 15 March 2012. Upon completion of the issue, the total share capital of the Company changed to 13,803,000,000 shares, of which 11,779,000,000 shares are A shares and 2,024,000,000 shares are H shares. The registered capital of the Company was changed to RMB13,803,000,000.

The Board amended relevant articles in the Articles of Association based on the actual situation of the aforementioned issue in accordance with the authorization of the 2011 second extraordinary general meeting of the Company held on 7 November 2011.

Details of the above-mentioned amendments to the Articles of Association are set out in the announcement of the Company dated 31 March 2012 published on the website of the Hong Kong Stock Exchange.

2. Amendments to certain articles in the Articles of Association approved at the 2012 first extraordinary general meeting

Pursuant to the "Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies" (Zheng Jian Fa [2012] No. 37) (《關於進一步落實上市公司現金分紅有關事項的通知》(證監發[2012]37號)) issued by CSRC and the relevant requirements of CSRC Beijing Bureau on profit distribution, and in order to further expand the management of the Company, optimise corporate governance structure and standardise internal approval procedures on material operation and investment matters, the amendments and improvements on articles in the Articles of Association on profit distribution, expansion of management, corporate governance and standardising internal approval procedures on material operation and investment matters were approved at the 2012 first extraordinary general meeting of the Company.

Details of the above-mentioned amendments to the Articles of Association are set out in the announcement of the Company dated 26 October 2012 published on the website of the Hong Kong Stock Exchange.

The consolidated version of the Articles of Association after the above-mentioned two amendments has been published on the websites of the Company and the Hong Kong Stock Exchange.

(IX) ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

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

1. Statement on the responsibility of internal control and development of internal control system

The Company placed strong emphasis on the development of internal control and has established a comprehensive internal control system according to the requirements under the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Hong Kong Listing Rules, Basic Standards for Enterprise Internal Control as well as complementary guidelines and other laws, regulations and regulatory documents. The Company continued to develop a sound internal control system and enhance its standard on corporate governance, so as to further standardise its operations. The general objective of the Company's internal control is to ensure legal and compliant corporate operation and governance, safety of assets, truthful and complete financial report and relevant information, as well as enhancement on the efficiency and results of operation and management, so as to facilitate the accomplishment of the corporate strategy of rapid growth. In addition, the establishment of sound internal control and the effective implementation thereof is the responsibility of the Directors of the Company, and the Supervisory Committee supervises the establishment and implementation of internal control by the Board. On the other hand, the operating divisions are responsible for organising and leading the daily operation of the Company's internal control. The Board of the Company issues statement annually on self-assessment report on the internal control of the Company and the responsibility of internal control.

With a view to ensuring the effectiveness of corporate governance, the Company formulated the following rules and regulations: Articles of Association, Rules of Procedure for General Meetings, Rules of Procedure for the Board of Directors, Rules of Procedure for Supervisory Committee, Independent Directors' Manual, Working Rules for the Strategy Committee of the Board, Working Rules for the Audit and Risk Management Committee of the Board, Working Rules for the Nomination Committee of the Board, Working Rules for the Remuneration and Evaluation Committee of the Board, President's Manual, Management Measures on Use of Proceeds, Management Measures on Related Party Transactions, Management Measures on Information Disclosure, Management Measures on Investor Relations, and Management Measures on External Guarantees, etc.. In addition, the Company has already compiled Employee Handbook, Compilation of Rules and Regulations, Risk Management Manual, Internal Control Manual, Internal Control Assessment Manual and Audit System Manual, and issued the Measures of Supervision and Administration on the Management and Inspection of Internal Control and the Rules on the Regular Meetings of the Board of Directors in 2012 with a view to standardizing its internal control practices. Furthermore, in compliance with Basic Standards for Enterprise Internal Control and the Complementary Guidelines jointly issued by the Ministry of Finance and other four Ministries, Internal Control Guidance for Listed Company by Shanghai Stock Exchange, Corporate Governance Code by the Hong Kong Stock Exchange and Comprehensive Risk Management Guidance for Central Enterprises by SASAC, the Company, by reference to its own characteristics, established internal control system including control over financial reporting, which was strictly operated in compliance with such system.

The Company is not aware of any material or significant deficiency in internal control during the year.

2. Information of the audit report on internal control

The Board of the Company has required assessments on the internal control related to financial reporting in accordance with the Basic Standards for Enterprise Internal Control, and recognised that such internal control was effective as at 31 December 2012. The Company is not aware of any material or significant deficiency in the design or implementation of internal control in the process of the self-assessment on its internal control.

Ernst & Young Hua Ming LLP, engaged by the Company, has audited the effectiveness on the internal control of the Company related to financial reporting, and has issued an audit report with unqualified opinion.

The result of the self-assessment on the internal control of the Company is consistent with the opinion in the audit report on internal control issued by Ernst & Young Hua Ming LLP.

3. Accountability mechanism for major errors in annual report and relevant information on its implementation

The Management Measures on Information Disclosure of the Company sets out detailed provisions with respect to the accountability mechanism for major errors in information disclosure: obligors and other insiders for information disclosure shall be held liable for the non-compliance by the Company with the laws and regulations in relation to information disclosure which has resulted in any adverse effect or loss to the Company as a result of the breach of duty of such persons or violation of relevant provisions by such person.

During the reporting period, the Company had no significant errors in the disclosure of annual report of the Company.

4. Information disclosure and transparency

In strict compliance with the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Hong Kong Listing Rules, the Articles of Association and the Management Measures on Information Disclosure of the Company, the Company performed its information disclosure obligations by publishing information in a true, accurate, complete and timely manner through statutory ways such as designated newspapers or websites in strict compliance with laws and regulations, ensuring that shareholders have access to information of the Company on equal basis.

(X) ESTABLISHMENT AND IMPLEMENTATION ON THE EVALUATION AND INCENTIVE SYSTEM FOR THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The Company conducts annual evaluation on the performance of the Senior Management, by focusing on the evaluation and appraisal on the work performance, personal objective and behaviour as well as teamwork. The remuneration of the Senior Management, including basic salary and performance bonus is determined based on performance evaluations by the Company. The Company values long-term incentives to the Senior Management and has established a scheme of share option to grant share options of different quantity to Senior Management members of different levels, with an aim to encourage the Senior Management to pay attention to and promote the mid-term and long-term corporate development on an on-going basis. Details of the share option scheme of the Company are set out in the section headed "Implementation of the Company's share option incentive scheme and its effects" in "Significant Events".

(XI) DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors confirm that they have the responsibility for preparation of the financial statements for the Company for the year ended 31 December 2012, in order to truly and impartially report the financial conditions and business results of the Company and the Group, and undertake relevant responsibilities for preparation of the financial statements of the Group. The Audit and Risk Management Committee of the Company has reviewed the financial statements of the Company for the year ended on 31 December 2012.

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

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

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

The Company has adopted the Management Method Regarding the Shareholding of Directors, Supervisors and Senior Management on terms no less exacting than the required standards of securities transaction set out in the Model Code. Relevant employees who are likely to possess inside information in relation to the securities of the Company are also subject to the rules required under such document.

As at 31 December 2012, after making specific inquiries with all Directors and Supervisors, the Company confirmed that all Directors and Supervisors have complied with the relevant codes on securities transactions by Directors and Supervisors as set out in the Model Code and the Management Method regarding Shareholding of Directors, Supervisors and Senior Management of the Company.

(XIII) AUDITORS

The Company has appointed Ernst & Young and Ernst & Young Hua Ming LLP as its international and domestic auditors respectively since its establishment. During the reporting period, the Company made no change in this respect, and continued to engage Ernst & Young Hua Ming and Ernst & Young as its domestic and international audit firms respectively for the audit of its 2012 annual financial report.

In 2012, the Company had paid Ernst & Young and Ernst & Young Hua Ming LLP an aggregate fee of RMB11.07 million, which included advance payments, business trip costs and communication costs, among which, the audit fees paid to Ernst & Young and Ernst & Young Hua Ming LLP in respect of financial statements and internal control amounted to RMB9.80 million and RMB1.27 million, respectively. In 2012, the Company also paid them RMB2.45 million for agreed-upon procedures. Apart from the above, the Company had not engaged Ernst & Young or Ernst & Young Hua Ming LLP for any major non-auditing service.

Certain subsidiaries of the Company engaged Ernst & Young Hua Ming LLP as their auditors for their respective financial report of 2012 and paid a total of RMB3.98 million as auditors' remuneration.

Investor Relations

While 2012 was a year of global economic slowdown with domestic economy experiencing pressure of going down and the Ministry of Railways facing institutional reform, CSR nevertheless push forward the Twelfth Five-year development strategy, responded positively to market changes and enhanced operational control. The revenue increased by 11.95% to RMB 89.02 billion. Through accurate, timely and clear communication with investors, the Company effectively gained investors' recognition of the Company values, and hence helped increase the market value of the Company and achieve the balance of maximizing the interest of our shareholders and elevation of the Company's intrinsic value.

In 2012, in response to the doubts and expectation of both the domestic and global capital markets, the Company aspired to strengthen interaction with the capital markets and achieved positive results. Through various means including results presentations, roadshows, annual general meeting, investment forums, company visits and telephone conferences, the Company interacted positively, frankly and directly with investors and analysts. A news conference was held in Hong Kong in April 2012 to release the annual results of 2011 as well as the outlook for 2012. During this event, general concerns in the market raised by reporters were addressed, helping to strengthen the confidence of the public and small to medium sized investors in the industry as well as our Company. In May 2012, the management of the Company led a roadshow in the United States, with 21 one-on-one and one-to-many investor meetings held in cities including Boston and New York. In late October 2012, Mr. Zheng Changhong, the Chairman, led his team to hold the third quarterly results presentation in Hong Kong in just 5 days after he had taken the office as our Chairman. A total of 110 fund managers and analysts from 75 domestic and international organizations attended the events which promoted investors' understanding and recognition of the company, and let investors further explored the investment value of CSR. During 2012, 69 groups of investors visited our headquarters, more than 20 telephone conferences were held and 33 groups of investors were arranged to visit the subsidiaries of the Company through which we had approximately 1,100 person-time interactions with investors, analysts and fund managers.

CSR believed the core to maintain investor relations is to strengthen communication with investors and potential investors. The Company has built its brand image through media events, fans events and participating in exhibitions and conventions. In February, the Company, in collaboration with bbs.hasea.com, held the event CSR Visit for Fans. More than 20 fans and netizens as well as 12 reporters from People's Railway Daily, Yangtze Evening Post, and well-known websites including Sina, QQ, NetEase and Huanqiu visited CSR Sifang for first-hand experience at the base of manufacturing national high-speed trains and looked into the process of researching and developing high-speed MUs. In September, CSR took part in the 2012 InnoTrans trade fair held in Berlin and was well-received by expert teams, media and professionals from the industry, demonstrating to the world the potentials of CSR.

During the reporting period, in compliance with the Company Law, the Securities Law, the Working Guidelines for the Relationship Between Listed Companies and other relevant regulations and requirements, and in accordance with the actual situation of the Company, our management systems including Management Measures on Investor Relations, Management Measures on Information Disclosure and Management Measures on News Release were refined and improved, hence further regulating our management of relations between CSR and investors.

Meanwhile, to ensure the continual development of the relations between CSR and investors, this year, the Company continued to update investors' portfolios. Our external website was also constantly updated with investor relations columns for the investors to receive timely information about the Company. Proactive gathering of information concerning the capital market and following the actions of shareholders enabled the management of the Company to receive timely information, providing first-hand intelligence to plan and arrange important events on investor relations. Common means of direct communications including phone calls and emails were still in use to interact with investors of all levels. Last but not least, non-deal roadshows, investor strategy conference, results briefing, one-on-one investor visits and telephone meetings were held periodically so as to strengthen the communication with investors and maintain long-term relations.

With effective investor relations management, we promoted positive interaction between the Company and investors, hence building stable and high quality investor base. The Company successfully cultivated a culture to serve the investors and respect the investors. It also built an investment philosophy to achieve maximum Company interest while increasing the asset of shareholders. By 31 December 2012, the market value of CSR reached RMB 69.519 billion.

Awards granted to CSR in 2012 are as follows:

Time	Award	Presenter
February 2012	"Most Responsible Enterprise in China in 2011"	Organized by PRC News Association and China Newsweek (中國新聞周刊)
April 2012	CSR heads the list of the world's top 10 rail transit equipment manufacturers (new manufacturing) in 2010	SCI Verkehr, a renowned consultancy in Germany
May 2012	CSR won the title of "China Energy Conservation Top 10 Contribution Entities in 2012"	Co-organized by "China Energy Conservation Council" and "Group Committee of High-tech Expo Forum of China Energy Strategy" (科博會中國能源戰略高層論壇組委會)
May 2012	"Best Board Award" in the Gold Prize of Round Table	Organized by Board of Directors magazine and supported by the listed companies association of all provinces and cities
May 2012	Ranked 25 among "Top 100 Listed Companies in the PRC with Capital Brands in 2012"	Promulgated by Research Center of Market Value Management in Chinese Listed Companies
May 2012	Winner of various awards of the 2012 Annual Conference of China Manufacturing at the 4th Annual Conference of China Manufacturing	Organized by Asian Manufacturing Association
June 2012	Acclaimed to be the 54th most valuable brand name in China in 2012 and ranked first in machinery industry	Organized by the World Brand Lab
June 2012	2012 Best Board of State-owned Companies of China (中國央企控股上市公司最佳董事會20強)	Organized by Wealth management media Money Week
July 2012	Won the Silver Award for "Equipment Manufacturing" enterprises at a level of over 10 billion U.S. dollars and ranked among the top 50 in the Asia-Pacific region in terms of annual report for 2011 Vision Awards Annual Report Competition	LACP
September 2012	Ranked 57 in the "7th Session of Asia's 500 Most Influential Brands of the Year 2012" (2012第7屆亞洲品牌500強排行榜)	Co-organized by Asia Brand Association (亞洲品牌協會) and relevant research institutions and media such as Global Times and China-Japan-Korea Economic Development Association
October 2012	Won the Award for Annual Report in the 26th International ARC Awards (第二十六屆ARC國際年報大獎) as well as Bronze Award-Cover Photo/Design and Honors for Interior Design (Manufacturer-Locomotive & Rolling Stock) for 2011 Annual Report (2011年報獲裝備製造業封面設計銅獎及內頁插圖榮譽獎)	Organized by MerComm, Inc in the United States
November 2012	Being one of the "Top 100 Hong Kong Listed Companies" and ranked 41st among "Top 100 - Comprehensive Strength" in 2012	Organized by QQ and Finet
November 2012	Awarded the honorary title of "China's Internal Audit Leader" (中國內部審計領軍企業)	Organized by the National Audit Office and the China Institute of Internal Audit
November 2012	Elected as the "Most Valuable Listed Company"	Ta Kung Pao

Fulfilling Social Responsibilities

CSR consciously acted to fulfill social responsibilities by consistently implementing scientific development and actively promoting sustainable development of economy, society, environment and ecology. In 2012, the Company strictly adhered to the social responsibility philosophy of "Responsibility, Hand in Hand with Speed." Social responsibilities were integrated into the development strategy and operational management of the Company. While pursuing economic efficiency and protecting the interests of shareholders, the Company was also keen on protecting the legitimate rights of employees, and treating users and suppliers with integrity. It continuously enhanced the capability of independent innovation and strived to build its own brand and provide comfortable, safe and reliable green products to the society. It promoted resource conservation and environmental protection, actively participated in social charities, and hence promoted the harmonious development of the Company with the society. The Company manufactured with environmental friendly method, produced green products and provided green transport, making the high-technology and low-carbon high-speed MUs well-known by the public, representing CSR's commitment to social responsibilities. With solid commitment and concrete actions to provide comfortable, safe and reliable low-carbon green products to the society, users and the public, the Company was awarded the title of the "Most Responsible Enterprise in China in 2012" (2012最具責任感企業), which was elected in collaboration by the National Development and Reform Commission, the Ministry of Commerce, State-owned Assets Supervision and Administration Commission of the State Council and the State Administration for Industry and Commerce. The Company has been awarded of such title for four years in a row.

DEVELOPMENT STRATEGY AND SOCIAL RESPONSIBILITY MANAGEMENT

To fulfill social responsibilities is the root of sustainable development of an enterprise and the strategic choice of its scientific development. The Twelfth Five-year development strategy of CSR defined clearly the core value and strategic measures of the Company. The strategy ruled the overall development and guided the business planning of the Company, so as to better fulfill social responsibilities and promote economic and social development.

The Philosophy of Social Responsibilities: Responsibility, Hand in Hand with Speed.

Our products constantly broke speed records of rolling stock equipment in China as well as around the world. Responsibility, hand in hand with speed. We were dedicated to provide safe, comfortable and environmental friendly products to the society, and we ensured our products delivering speed with responsibility.

Our development was always based on the understanding and support of interested parties. Responsibility, hand in hand with speed. We were willing to share the benefits of our high-speed development with interested parties, resulting in a win-win situation that all parties were benefited.

We promoted the development of the rolling stock industry in China and around the world. Responsibility, hand in hand with speed. We continuously vitalized economic and social development in China and around the world.

Led by the Company's senior management, the Social Responsibility Guiding Committee was established by CSR and consisted of social responsibility working group. The working group was responsible for relevant duties, initially to establish the social responsibility mechanism, and systematically promote social responsibility work in accordance to the social responsibility plan as stated in the Twelfth Five-year development strategy of the Company.

CSR truly understands that while pursuing economic efficiency and protecting the interests of shareholders, the Company should also protect the legitimate rights of creditors and employees; treat users and suppliers with integrity; provide comfortable, safe and reliable green products to the society; promote resource conservation and environmental protection, actively participate in social charities, and promote the harmonious development of the Company with the society.

ACTIVELY PROTECTING THE RIGHTS OF INVESTORS AND CREDITORS

The Company constantly refines corporate governance structure and enhances internal control and risk management with increasingly scientific corporate governance. The general meeting, the Board, the Supervisory Committee and the management have performed their duties respectively. Meanwhile, the rules of procedures governing the general meetings, Board meetings and the meetings of the Supervisory Committee have been strictly followed to ensure the making of major decisions scientifically, the open information disclosure and the effective risk control, thus effectively protecting shareholders' interests and creditors' legitimate rights. The Company had been granted the "Best Board Award" (最佳董事會獎) in the 8th Gold Prize of Round Table of Chinese Boards of Listed Companies (第八屆中國上市公司董事會「金圓桌獎」). It was also named as one of the "Top 100 Hong Kong Listed Companies", which was the only company from the rolling stock industry that made the list. The Company was awarded the honorary title of "China's Internal Audit Leader" (中國內部審計領軍企業) by the National Audit Office and the China Institute of Internal Audit, which marked the achievement of CSR as the industry benchmark of internal audit for all enterprises across the whole country, and the pioneer in internal audit of Chinese enterprises. Aspired to enhance management methodology, the Company drew up a work enhancement plan that covered 15 specific areas of enhancement, built a regular working mechanism that improved management efficiency and focused on operational effectiveness.

The Company strictly complied with the rules regulating listed companies and implemented regulations as required on information disclosure. Preparation and organization work on information disclosure was carefully coordinated, with information disclosed timely as required by the Shanghai Stock Exchange and the Hong Kong Stock Exchange. Any information that may induce significant effect on the Company's securities transaction or price, share price-sensitive information and other information as required by law or regulated bodies to be disclosed was disclosed timely and symmetrically by the Company. Through strengthening investor relations management, disclosing information in a timely, accurate, open and impartial manner, organizing and holding shareholders' general meeting, results presentations, roadshows of additional stock issue, initializing one-on-one communications, roadshows, surveys, email surveys, arranging onsite visit, releasing information on Company website and taking media interviews with news exposure, the Company continually strengthened external communications and promoted transparency of the Company, and hence increased investors' understanding and recognition of the Company and assured the shareholders' right to be informed. The Company was elected as the "Most Valuable Listed Company" in the China Securities Golden Bauhinia Awards 2012 organized by Ta Kung Pao.

The Company was dedicated to improve management quality, continually improve the Company's performance, and create more value for all shareholders. In the process of operational decision-making, the protection of creditors' legitimate rights was of high priority. Any significant information affecting creditors' legitimate rights was informed to creditors in a timely manner.

PROVIDING QUALITY AND RELIABLE PRODUCTS THROUGH INDEPENDENT INNOVATION

The mission statement of the Company is "Be the Pioneer to Equip the World with "Green" Technology". With a core brand value of being "Reliable, Creative, Global, Transcendent and Green", creativity is the essence in the pursuit of perfection. The goals are to constantly improve the quality of products and services, actively provide the society with energy efficient and environmental friendly green transportation and equipment products, and to build a brand image as well as social responsibility image that lives up to the slogan of "New CSR, New Creation".

The Company won the "China Creativity Technology Award" (中國創造力技術) on the "High Level Strategy Seminar on Discovering China Creativity and 2012 China Creativity Award Ceremony" (發現中國創造力高層戰略研討會暨2012中國創造力年度盛典). The High Level Strategy Seminar on Discovering China Creativity was organized by the Xinhua News Agency. The mission was to discover the achievement of creativity in China, and hence to promote and encourage creativity across the country. And at the 4th China Manufacturing Forum organized by the Asian Manufacturing Association, CSR Sifang, a subsidiary of the Company, also won the "2012 Top 10 Innovative Chinese Manufacturing Figures Award" (2012中國製造業十大創新企業).

Through its independent innovation, the Company developed a range of core technologies and products with proprietaries. The research and development success of new products was prominent, making breakthrough in speed, hauling capacities, environmental protection and intelligence technology. The trail railway operations with the high speed of 500 km per hour could even reach 605 km per hour in the laboratory platform setting, breaking the highest laboratory record achieved in China, symbolizing the improvement in laboratory operation experiment. Meanwhile, from plateau electric locomotives (高原電力機車), 160 km/hour passenger electric locomotives, the new eight-axle electric locomotives, HXN5 dual-cab internal combustion locomotives (HXN5型雙司機室內燃機車), to the 4400-horsepower switching internal combustion locomotives (4400馬力調車內燃機車) were all developed successfully. Our new international multi-model transport passenger carriages, which represents the highest technological standard in China, were rolled off production line. The independently developed railway ballast wagons with the biggest hauling capacities internationally and the most advanced technology were also delivered to Australia to the clients. The first set of independently developed electric MU electric traction system, network control system and traction motor exported to Georgia was officially delivered, meaning for the first time, the complete MU core technology was exported from China. The first lightweight stainless steel Type A metro cars in China was put into service. The medium and low-speed maglev train, which is the first new green transportation used in commercial operation in China was also put into service. The world's first super-capacity light rail train was successfully developed and played an important role in demonstrating the development of urban rail transit in our country.

The Company made continuous effort in enhancing the quality of our products and services. Combining the three technology platforms, great improvement was made in terms of meeting international standards, meaning the reliability, usability, maintainability and safety of products were all enhanced. The Company also sought to optimize manufacturing workflow, organized and established working guidelines for different job duties, and pushed for the evolution of manufacturing methods of CSR. It actively explored different ways and ideas to enhance onsite facilities as well as to improve management methodology. Infrastructure at the model area was ever transforming. Factory facilities enhancement was preceded in specific pilot project. Management improvement activities were intensified. The fundamentals of 5S, TPM, creative proposals and team building were implemented pragmatically. Quality and safety inspections were carried out thoroughly while advocating the Year of Quality, effectively improving the intrinsic safety of products. With more sophisticated methods to collect information, better after-sale services, and ever improving quality of products and services, the safety and reliability of railway transport and city rail transportation were guaranteed, ensuring harmony and stability even during the busiest time of Chinese New Year, summer holiday and the Golden Week.

The Company had strengthened the organization of production, ensured orders to be honored; continued to adapt to the pressing needs of freight and passenger transport brought about by economic development; answered people's higher expectation on more comfortable and convenient travel; and actively provided safe and efficient equipment products as well as energy-saving transport system to railway transport and intercity transportation. As a safe and reliable, fast and comfortable, high capacities and low-carbon environmental friendly way of transport, high speed railway network is now leading the trend of railway development around the world. The Company had successively accessed the Beijing-Tianjin, Wuhan-Guangzhou, Zhengzhou-Xi'an, Shanghai-Nanjing, Shanghai-Hangzhou, Beijing-Shanghai and Beijing-Guangzhou high-speed railways by providing large quantity of advanced, maturely developed, safe and reliable MU rolling stock to the market. This effectively helped to ease the demand pressure on railway transport by adapting to the development direction of a low-carbon economy and was well-received by users and the general public, contributing precious benefits to the society. The Beijing-Guangzhou high-speed railway, which was the longest high-speed railway in the world, was put into full service on 26 December, 2012. Type CRH380A(L) MU developed by CSR set off respectively from five railway stations, including Beijing, Zhengzhou, Wuhan, Xi'an and Shijiazhuang, officially as the first batch of trains put in operation. They were also responsible to provide over 70% of operations for the Beijing-Guangzhou high-speed railway. By the end of 2012, Type CRH380A(L) MU had already safely travelled over 400 million km in operation, equivalent to travelling around the globe for more than 10,000 times.

Meanwhile, the Company lately had successfully developed Hexiehao CRH6 intercity EMU, featured in large transport capacity, fast start and stop, convenient and fast boarding and alighting, fast and effective dispersion, seating comfort, safety and reliability, energy conservation and environmental friendliness. As the bond linking high-speed railways and urban rail transit, intercity railways was of great significance to accomplishing "tri-network" integration, forming the architecture of China's rail transit, changing the travel models of our people and increasing passenger turnover. The core technology of Hexiehao CRH6 intercity EMU had embodied independent innovation and industrialization. It was another iconic achievement in the innovation system integrating "production, teaching, research and use". The achievement had filled in a gap in China's field of rail transit and passenger transport equipment, had perfected China's rail transit equipment system, and was of far-reaching significance to promoting the sustainable development of Chinese city circles and clusters, optimizing regional transport structures, accelerating national economic transformation and pushing forward the development of the national economy.

ENCOURAGING CAREER GROWTH OF EMPLOYEES AND PROTECTING THEIR INTERESTS

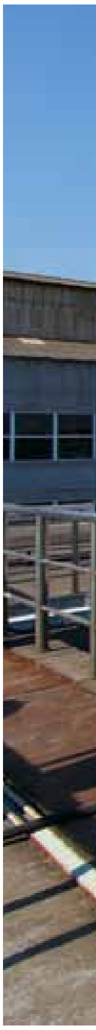
The Company sticks to the people-oriented concept. The Company proactively builds platform for employees to achieve their personal values, creates favorable working environment and fosters career growth space for employees, thus allowing every employee to share success with CSR.

The Company also attaches importance to staff training and career planning. The CSR University (中國南車大學) was established to train professionals with global vision and global mentality, including senior management personnel, cross-skill personnel, core technology personnel and onsite management personnel. 15 semesters of training courses were organized including middle-level management training, supervisor training, senior technician training and labor training workshop, attracting over one thousand participants. The Company has set 69 research topics for CSR's skill masters and skill experts to apply for. It also explored on establishing a skill master trainer system, meanwhile named and licensed 12 skill master workshops and 24 skill expert workshops, so as to set the platform for core skill talents to play a leading role. In the 2012 Beijing "ARC Cup" International Welding Competition (2012北京"嘉克杯"國際焊接技能大賽) organized by the State-owned Assets Supervision and Administration Commission of the State Council, the team won the first runner-up, and one person from the team won in the individual session as the champion and one as the first runner-up. The Company also further stressed on the training of advanced skill personnel and cross-skill personnel. In 2012, number of personnel taking part in the technician and the senior technician evaluations exceeded 2,000 for the first time. 302 of them were qualified as senior technicians, 820 qualified as technicians, and over 900 newly qualified as cross-skill personnels by successfully acquiring a second skill, breaking all records in history. In the national award of recognition, one personnel from the Company won the honorary title of "China Skill Award" (中華技能大獎) and 4 personnel won the honorary title of "National Skill Expert" (全國技術能手), while one company and one personnel won the honorary title of "National Outstanding Contribution Award in Skill Talent Training" (國家技能人才培育突出貢獻獎). Based on the campus recruitment program held in autumn, 2011, representatives from five subsidiaries were arranged to hold recruitment seminars at the University of Nottingham Ningbo China while taking part in graduate recruitment and field recruitment programs targeting high school in Tibet, Qinghai and Xinjiang. The high school recruitment programs were of a great success that helped promoting the brand of CSR and attracting talented students.

While the enterprise was growing rapidly, income of employees also grew with the same pace. Remuneration system of subsidiaries was fully reformed. The new remuneration rating system has embodied the three major targets. Performance management for all staff was systematically implemented. Job value system was improved. Employees had more opportunities of promotion. All the above had great effect on stimulating initiatives in all employees. The Company had also commenced annuity program and strengthened its management and regulated its operation so as to ensure that the annuity program was safely operated with stable profit. A CSR multi insurance retirement system was also established to safeguard and improve the basic living standard of retired employees, remuneration and benefit system improved, hence promoted cohesion and competitiveness of the enterprise.

The Company strictly complied with the Labor Contract Law and the Implementation Regulations of Labor Contract Law and signed the first round of Special Agreement on Salary of CSR. In strict compliance with state laws and regulations, the Company further improved and regulated the implementation of consultation by equality and collective contract system, actively carried out collective contract negotiation, and established a supervision system on the enterprise's implementation of union and labor laws, a supervision and inspection system of labor protection and an alarm and mediation system on labor dispute, so as to protect the legitimate rights and interests of the employees in accordance with the laws and regulations.

To strengthen the work on "three caring and three promises", the Company strived to provide more support to the employees and explore different ways to help the needed according to new circumstance and new demands. By improving the system and measures, support work would be carried out regularly and persistently. Apart from paying visits to employees in need during the holiday seasons, incidental and temporary support effort was also strengthened. The Company deeply cared for both the work and life of every employee, from the disadvantaged, those in time of difficulties, manufacturing workers, after sale services staff to model staff, and hence creating a stable and harmonic working environment. Based on the advocating activity of "seeing the face, listening to the heart, helping the needed, serving employees from the basic", caring programs including "sending cool to the team", "sending cool, keeping safe", "autumn scholarship" and sending warmth to "mother-in-need" were organized to provide incidental and temporary support to employees. In the "sending warmth activities" during the two major holiday seasons in 2012, RMB 19.43 million was raised, 1,733 families in difficulties were supported, 16,829 model labor and retired comrades were visited. The Company also supported the union to help mediating disputes and monitoring labor laws implementation, to help workers voicing out their demands in accordance with laws. Work-related recuperation, medical check-up and post check-up consultations were arranged. Psychological health of employees was also cared for with psychological consultation and relaxing activities in order to help employees adopting a healthy and enthusiastic attitude and lifestyle. To facilitate the idea of "the same CSR", varies cultural and sports activities were organized as advocated by the National Fitness Day while incorporating the culture characteristics of the enterprise, providing the employees with wonderful and healthy leisure and enriching their cultural and spiritual life.



IMPROVING PRODUCTION SAFETY AND ENVIRONMENT FRIENDLINESS

To strengthen production safety, an accountability system on production safety was strictly enforced to promote standardization of safety management, operation procedures, team safety management and safety inspection. Safety management involvement was intensified to improve the standard of production safety and safety management. The Company actively organized activities like "team safety briefing" and "Ankang Cup" (安康杯) competition and strengthened production safety trainings in order to raise the employees' awareness on safety and workplace protection, and hence effectively limiting the risks of serious safety incident and protecting the life and ensuring the safety of employees. The Company had also enhanced occupational safety and health facilities, paid attention to the occupational health of employees, improved labor protection and monitored occupational hazards; and provided safe, healthy and hygienic working conditions and living environment. The Company had met the standard of first grade production safety standardization and committed in other specialized control programs, achieving zero accountable major injuries, zero major fire incident, zero accountable major traffic accident and zero new occurrence of occupational diseases. The Company had comprehensively fulfilled its legal obligations by meeting the requirement of occupational hazards disclosure and occupational health inspection. All employees of the Company were covered by work-related injuries insurance. With strengthened effort on occupational health inspection and protection and the examination of toxic and hazardous worksites, point detection efforts, the standard of health care was improved and truly protecting both the physical and psychological health of employees. CSR Zhuzhou and CSR Qishuyan had been awarded the honorary titles of "National Safety Culture Construction Demonstration Enterprise" (全國安全文化建設示範企業) and the "National 5.1 Labor Award" (全國五一勞動獎) of the "Ankang Cup" (安康杯) competition.

With the increasing significance of low-carbon economy and energy efficient environmental protection, chosing to use the more energy efficient and environmental friendly means of transport and low-carbon products has become the underlying consensus of the society, and the company is also continually committed to take up the responsibility of researching and developing in this direction. Railway transport is the most energy efficient and environmental friendly means of transport. It is estimated that with the same loading capacities, the ratio of energy consumption by railway, aviation and automotive transport is 1:4:6, and that of carbon dioxide emission is 1:6:10. The Company strictly adhered to the development responsibility of a "resource efficient and environmental friendly enterprise", and was committed to develop in strategic emerging industries as advocated by the government. On the one hand, the Company strived to reduce resources and energy consumption in the process of production and operation and to reduce pollutant emissions so as to satisfy the requirement of the central government and local governments as well as the demand of the community. On the other hand, the Company was also developing and manufacturing new products of high technology, energy efficient, environmental friendly and high performance to supply to the users and provide efficient green products and equipment for rolling stock transport.

Through technology innovation, improving craftsmanship, strengthened management and product research and development, the Company aspired to commit itself into a resource efficient enterprise which implements clean production and develops cyclic economy. Reducing resources and energy consumption and protecting the environment are both included in the enterprise's development strategy and planning and were listed on the agenda as important issues of day-to-day operation. Reduction on resources and energy consumption is seen as an important means to lower the operational costs of the enterprise, improve economic efficiency and enhance competitiveness. All kinds of rolling stock manufactured by the Company had met the requirements of high speed and high loading capacities of railway transport and provided safe and reliable equipment for the harmonic development of the railway system. Emphasis was also put on the energy efficiency index of the products.

The rapid transit vehicles manufactured by the Company had played an important role in the urban transportation of Beijing, Shanghai, Nanjing, Guangzhou, Shenzhen, Wuhan, Chengdu and other cities to improve urban traffic capacity, reduce energy consumption and reduce operation time. The Company has successfully developed the medium & low-speed maglev train, the super-capacity light rail train, the diesel electric hybrid AC transmission shunting locomotives and other green products that meet the requirements of low-carbon environmental friendly development of our country. Meanwhile, making use of the proprietary technologies in rolling stock, the Company ambitiously developed related products that meet the requirements of low-carbon economy and green economy, committed to develop wind power equipment, electric vehicles, gas engines, photovoltaic power generation and other new energy and new materials, swiftly achieved industrialization.

The Company had also strengthened energy conservation work, actively promoted clean production and vigorously promoted energy conservation and innovative environmental friendly technology, winning the title of the third year of "China Energy Conservation Top 10 Contribution Units" (第三屆節能中國十大貢獻單位).

DEDICATION TO POVERTY ALLEVIATION AND CHARITY ACTIVITIES

The company is actively involved in public charity causes and enthusiastically engaged in the targeted poverty relief work in the two counties of Baise Napo and Jingxi, Guangxi. In this poverty relief project, the primary tasks and missions are to change the outlook of the two counties, improve production and living conditions of the vast number of poor rural inhabitants, improve living standards, and accelerate the economic as well as social development of the two counties comprehensively, so as to help the two counties to focus on industrial development and to improve and develop the education system as well as rural infrastructure. In this way, the income of the poor local inhabitants is expected to increase steadily so as to contribute to the sustainable development.

In 2012, a relief fund of RMB 4.08 million was distributed to help the two counties in building infrastructure, which effectively improved the production and living conditions of the poverty-stricken villages in the two counties. Living standard of the village inhabitants was considerably improved. Meanwhile, by insisting on the principle of "education goes before poverty relief", the Company changed its mode of poverty relief from the original "blood transmission" to "blood generation" by helping students in poverty through technical training with a view to improving human resource quality of such regions. The project also encouraged mobilizing the poor rural inhabitants to pay more effort themselves in order to increase income and get rid of poverty. The Company aimed at utilizing the relief fund in scientific and rational ways and committed to ensure the effectiveness of the targeted relief work. Hence, the relief programs were set with reference to the characteristics of rural industries. Since poverty was widespread in both the two counties of Jingxi and Napo, local infrastructure was weak, and social development in all aspects including science and technology, education and healthcare was relatively backward. The Company thus focused the relief programs on helping education system development, poverty relief on rural industries, infrastructure building and technology consultation. In order to effectively facilitate the poverty relief programs and achieve both maximum economic and social efficiency, each programs was well-defined with concrete implementation plans to ensure achieving smooth progress on each program. The Company's subsidiaries also actively took part in the local public welfare activities, and approximately RMB 2 million was donated for such purpose. It also participated in charities such as education system support and poverty relief of places where the Company operated its business, and received the title of "Advanced Group for National Poverty Alleviation" (中央企業扶貧開發工作先進單位).

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

Changes in Share Capital and Particulars of Shareholders

(I) CHANGES IN SHARE CAPITAL

1. Changes in shares

(1) Changes in the shares are as follows:

Unit: share

	Before change		After increase / decrease (+/-)	After change	
	Quantity	Percentage	Issue of new shares	Quantity	Percentage
		(%)			*(%)*
I. Shares subject to trading moratorium	300,000,000	2.53	+1,963,000,000	2,263,000,000	16.39
1. State-owned legal person shares	300,000,000	2.53	+1,644,614,700	1,944,614,700	14.09
2. Other domestic shares	—	—	+318,385,300	318,385,300	2.30
Of which: domestic non-state-owned legal person shares	—	—	+318,385,300	318,385,300	2.30
II. Shares not subject to trading moratorium	11,540,000,000	97.47	—	11,540,000,000	83.61
1. Ordinary shares denominated in RMB	9,516,000,000	80.38	—	9,516,000,000	68.94
2. Overseas listed foreign shares	2,024,000,000	17.09	—	2,024,000,000	14.67
III. Total number of shares	11,840,000,000	100.00	1,963,000,000	13,803,000,000	100.00

(2) Particulars of changes in shares

In March 2012, the Company completed the non-public issue of A shares, with the share capital increasing from 11.84 billion shares to 13.803 billion shares.

2. Changes in shares subject to trading moratorium

Unit: Share

Name of shareholder	Number of shares subject to trading moratorium at the beginning of the year	Number of share released from trading moratorium 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 the year	Reason for trading moratorium	Release date of trading moratorium
Account No. 2 of the National Council for So-cial Security Fund (全國社會保障基金理事會轉持二戶)	300,000,000	—	—	300,000,000	Transfer	18 August 2014
	—	—	78,475,300	78,475,300	Non-public issue of A shares	15 March 2013
CSRG	—	—	1,362,103,700	1,362,103,700	Non-public issue of A shares	15 March 2015
E Fund Management Co., Ltd. (易方達基金管理有限公司)	—	—	107,623,300	107,623,300	Non-public issue of A shares	15 March 2013
Penghua Fund Management Co., Ltd. (鵬華基金管理有限公司)	—	—	71,748,800	71,748,800	Non-public issue of A shares	15 March 2013
Anhui Invest-ment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司)	—	—	69,506,700	69,506,700	Non-public issue of A shares	15 March 2013
China Railway Materials Company Limited (中國鐵路物資股份有限公司)	—	—	67,264,500	67,264,500	Non-public issue of A shares	15 March 2013
Harvest Fund Management Co., Ltd. (嘉實基金管理有限公司)	—	—	67,264,500	67,264,500	Non-public issue of A shares	15 March 2013
China National Machinery Industry Corporation (中國機械工業集團有限公司)	—	—	67,264,500	67,264,500	Non-public issue of A shares	15 March 2013
AE-GON-INDUSTRIAL Fund Manage-ment Co., Ltd. (興業全球基金管理有限公司)	—	—	38,116,500	38,116,500	Non-public issue of A shares	15 March 2013
China Merchants Fund Management Co., Ltd. (招商基金管理有限公司)	—	—	33,632,200	33,632,200	Non-public issue of A shares	15 March 2013
Total	300,000,000	—	1,963,000,000	2,263,000,000		

(II) ISSUE AND LISTING OF SECURITIES

1. Issue of securities during last three years at end of the reporting period

Unit: share Currency: RMB

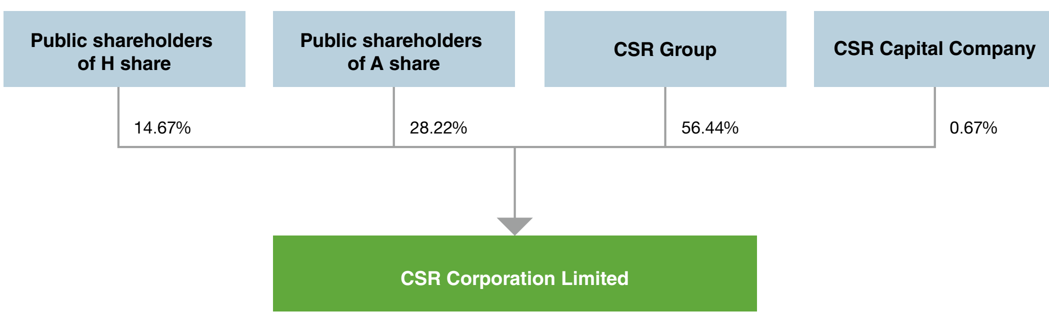
Type of shares and derivative equities	Date of issue	Issue price	Number of shares issued	Date of listing	number of shares permitted to be traded	Date of release of trading moratorium
Share:						
A share	15 March 2012	4.46	1,963,000,000	15 March 2012	1,963,000,000	

The 8th meeting of the 2nd session of Board was held on 16 September 2011, at which proposals including, among others, the Proposal in Relation to the Plan of Non-public Issue of A Shares of the Company was considered and approved. The aforesaid non-public issue was considered and approved by Shareholders at the 2011 second extraordinary general meeting of the Company and approved by the SASAC. On 11 January 2012, the above-mentioned non-public issue of the Company was approved by the Public Offering Review Committee of CSRC. On 23 February 2012, the Company received from CSRC the Reply Letter in Relation to the Approval on the Non-public Issue of Shares by CSR Corporation Limited (Zheng Jian Xu Ke [2012] No.210), which granted the approval on the non-public issue of not more than 1,963 million A shares by the Company to not more than ten target subscribers. On 15 March 2012, the Company completed share registration in relation to the non-public issue with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司上海分公司). The abovementioned listing enhanced the capital strength of the Company and optimized the capital structure of the Company.

2. Changes in total shares, shareholding structure and assets and liabilities structure of the Company

On 15 March 2012, upon completion of the non-public issue, the total share capital of the Company increased from 11.84 billion shares to 13.803 billion shares. On 31 December 2011, the gearing ratio of the Company was 69.73%. In March 2012, the Company completed the non-public issue of 1,963,000,000 A shares, while the net amount of proceeds was approximately RMB8,699.41 million. The non-public issue of A shares resulted in a decrease in the gearing ratio of the Company. On 31 December 2012, the gearing ratio of the Company decreased to 62.45%, representing a decrease of 7.28 percentage points as compared with the same period last year.

Details of the shareholding structure are as follows:



3. Existing internal employee shares

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

(III) PARTICULARS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

1. The number of shareholders and their shareholdings

(1) Total number of shareholders

As at the end of the year 2012, the Company had 271,673 shareholders in total, including 269,056 holders of A Shares and 2,617 registered holders of H Shares.

On 22 March 2013, the Company had 279,991 shareholders in total, including 277,395 holders of A Shares and 2,596 registered holders of H Shares.

(2) Shareholdings of the top ten shareholders

Unit: Share

Name of Shareholder	Nature of shareholder	Percentage of shareholding (%)	Number of shares held	Change during the reporting period	Number of shares subject to trading moratorium	Number of shares pledged or frozen
CSRG	State-owned legal person	56.44	7,790,687,085	1,364,972,800	1,362,103,700	Nil
HKSCC NOMINEES LIMITED	Overseas legal person	14.62	2,017,447,839	169,000	—	Unknown
Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)	State-owned legal person	2.74	378,475,300	78,475,300	378,475,300	Unknown
China Construction Bank - Great Wall Brand Selective Stock Invest-ment Fund (中國建設銀行-長城品牌優選股票型證券投資基金)	Other	1.00	137,716,173	32,685,328	—	Unknown
National Social Security Fund 502 (全國社保基金五零二組合)	Other	0.73	100,990,000	100,990,000	100,990,000	Unknown
CSR Capital Company	State-owned legal person	0.67	93,085,715	—	—	Nil
Anhui Investment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司)	State-owned legal person	0.50	69,506,700	69,506,700	69,506,700	Unknown
China National Machinery Industry Corporation (中國機械工業集團有限公司)	State-owned legal person	0.49	67,264,500	67,264,500	67,264,500	Unknown
China Railway Materials Company Limited (中國鐵路物資股份有限公司)	State-owned legal person	0.49	67,264,500	67,264,500	67,264,500	Unknown
Industrial and Commercial Bank of China - South Longyuan Industrial Subject Stock Investment Fund (中國工商銀行 - 南方隆元產業主題股票型證券投資基金)	Other	0.48	66,667,453	-23,332,547	—	Unknown

Notes:

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

2. CSR Capital Company is a wholly-owned subsidiary of CSRG. Save as the above, the Company is not aware of any connection among such other shareholders nor aware of any parties acting in concert as defined in the Administrative Measures on Acquisitions by Listed Companies.

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

Name of Shareholder	Number of shares not subject to trading moratorium held	Type and number of shares	
CSRG	6,428,583,385	Ordinary shares denominated in RMB	6,428,583,385
HKSCC NOMINEES LIMITED	2,017,447,839	Overseas listed foreign shares	2,017,447,839
China Construction Bank - Great Wall Brand Selective Stock Investment Fund (中國建設銀行 - 長城品牌優選股票型證券投資基金)	137,716,173	Ordinary shares denominated in RMB	137,716,173
CSR Capital Company	93,085,715	Ordinary shares denominated in RMB	93,085,715
Industrial and Commercial Bank of China - South Longyuan Industrial Subject Stock Investment Fund (中國工商銀行 - 南方隆元產業主題股票型證券投資基金)	66,667,453	Ordinary shares denominated in RMB	66,667,453
China Construction Bank - Yinhua-Dow Jones 88 Selected Securities Inv. Fund (中國建設銀行-銀華-道瓊斯88精選證券投資基金)	40,725,866	Ordinary shares denominated in RMB	40,725,866
Credit Suisse (Hong Kong) Limited (瑞士信貸(香港)有限公司)	36,379,878	Ordinary shares denominated in RMB	36,379,878
國際金融-匯豐-JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	36,229,173	Ordinary shares denominated in RMB	36,229,173
New China Life Insurance Company Limited - Dividend - Group Dividend - 018L - FH001Shanghai (新華人壽保險股份有限公司-分紅-團體分紅－018L－FH001滬)	34,999,734	Ordinary shares denominated in RMB	34,999,734
Industrial and Commercial Bank of China - SSE 50 Trading Index Stock Investment Open-ended Fund (中國工商銀行 - 上證50交易型開放式指數證券投資基金)	29,242,092	Ordinary shares denominated in RMB	29,242,092

Connections or parties acting in concert among the aforesaid shareholders	CSR Capital Company is a wholly-owned subsidiary of CSRG. Save for the above, the Company is not aware of any connections among the other shareholders above, nor aware of any parties acting in concert as defined in the Administrative Measures on Acquisitions by Listed Companies.

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

No.	Name of holders of shares subject to trading moratorium	Number of shares subject to trading moratorium held	Release of trading moratorium: Terms of the trading moratorium	Release of trading moratorium: Expiry date of trading moratorium	Terms of the trading moratorium
1.	CSRG	1,362,103,700	15 March 2015	1,362,103,700	Not transferable within 36 months from 15 March 2012
2.	Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)	300,000,000	18 August 2014	300,000,000	Implementation Measures on the Transfer of Certain State-owned Shares in Domestic Stock Market for Replenishing National Social Security Fund
		78,475,300	2013年3月15日	78,475,300	Not transferable within 12 months from 15 March 2012
3.	National Social Security Fund 502 (全國社保基金五零二組合)	100,990,000	15 March 2013	100,990,000	Not transferable within 12 months from 15 March 2012
4.	Anhui Invest-ment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司)	69,506,700	15 March 2013	69,506,700	Not transferable within 12 months from 15 March 2012
5.	China National Machinery Industry Corporation	67,264,500	15 March 2013	67,264,500	Not transferable within 12 months from 15 March 2012
6.	China Railway Materials Company Limited	67,264,500	15 March 2013	67,264,500	Not transferable within 12 months from 15 March 2012
7.	National Social Security Fund 503 (全國社保基金五零三組合)	53,811,600	15 March 2013	53,811,600	Not transferable within 12 months from 15 March 2012
8.	National Social Security Fund 504 (全國社保基金五零四組合)	30,000,000	15 March 2013	30,000,000	Not transferable within 12 months from 15 March 2012
9.	National Social Security Fund 106 (全國社保基金一零六組合)	24,264,500	15 March 2013	24,264,500	Not transferable within 12 months from 15 March 2012
10.	National Social Security Fund 110 (全國社保基金一一零組合)	22,432,200	15 March 2013	22,432,200	Not transferable within 12 months from 15 March 2012

Connections or parties acting in concert among the aforesaid shareholders	National Social Security Fund 504 and National Social Security Fund 106 are both managed by Harvest Fund Management Limited (嘉實基金管理有限公司). Save for the above, the Company is not aware of any connections among the other shareholders above, nor aware of any parties acting in concert as defined in the Administrative Measures on Acquisitions by Listed Companies.

2. Strategic investors or ordinary legal persons who became top ten shareholders due to placement of shares

Names of strategic investors and ordinary legal persons	Starting date of agreed share-holding	Expiration date of agreed shareholding
National Social Security Fund 502 (全國社保基金五零二組合)	15 March 2012	14 March 2013
Anhui Investment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司)	15 March 2012	14 March 2013
China National Machinery Industry Corporation	15 March 2012	14 March 2013
China Railway Materials Company Limited	15 March 2012	14 March 2013

3. Shareholding interests of Directors, Supervisors and Chief Executive

(1) As at 31 December 2012, the following Directors (including directors resigned in 2012) and Supervisors have interests in the A Shares and H Shares of the Company and relevant details are set out as follows:

Name	Position	Purchase date	Class of shares purchased	Number of shares purchased
Zheng Changhong	Chairman, Executive Director Vice Chairman, Executive Director, President	12 August 2011	A Shares	60,000
Zhao Xiaogang	Former Chairman, Executive Director,	12 August 2011	A Shares	80,000
Liu Hualong	Executive Director, President Executive Director, Vice President	12 August 2011	A Shares	50,000
Tang Kelin	Former Executive Director, Vice President	12 August 2011	A Shares	50,000
Zhao Jibin	Independent non-executive Director	16 August 2011	A Shares	30,000
Yang Yuzhong	Independent non-executive Director	12 August 2011	A Shares	30,000
Chen Yongkuan	Independent non-executive Director	12 August 2011	A Shares	34,100
Dai Deming	Independent non-executive Director	17 August 2011	A Shares	30,000
Tsoi, David	Independent non-executive Director	8 August 2011	H Shares	50,000
Wang Yan	Chairman of the Supervisory Committee	15August 2011	A Shares	30,000
Qiu Wei	Employee representative Supervisor	15 August 2011	A Shares	30,000

(2) On 27 April 2011, the Board resolved to grant A share options to certain Directors and senior management under the share option scheme adopted by the Company on 26 April 2011. The effect and the exercise of the relevant share options are subject to the fulfilment of all effective conditions under the share option scheme. Details of the A share options granted to Directors are set out in the section headed Directors, Supervisors, Senior Management and Staff - Share Incentive Scheme Granted to Directors and Senior Management During the reporting period.

Save as disclosed above, as at 31 December 2012, none of the Directors, Supervisors or chief executive of the Company had interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be entered in the register maintained by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code by the Directors or supervisors.

4. Substantial shareholders' interests and short positions in the Company

As at 31 December 2012, 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 Shares or A Shares	Nature of Interest	Number of H shares or A shares held	Percentage of H shares or A shares held in the total issued H shares or total issued A shares (%)	Percentage of total share capital of the Company (%)
CSRG	Beneficial owner	A Shares	Long position	7,790,687,085	66.14	56.44
	Interest of corporation controlled by the substantial shareholder	A Shares	Long position	93,085,715	0.79	0.67
Karr Robert A.	Interest of corporation controlled by the substantial shareholder	H Shares	Long position	302,403,794	14.94	2.19
Joho Partners L.P.	Beneficial owner	H Shares	Long position	283,205,117	13.99	2.05
Morgan Stanley	Interest of corporation controlled by the substantial shareholder	H Shares	Long position	181,092,809	8.95	1.31
	Interest of corporation controlled by the substantial shareholder	H Shares	Short Position	178,844,276	8.84	1.30
Deutsche Bank Aktiengesellschaft	Beneficial owner/investment manager/Person having a security interest in shares/ Custodian - corporation/ approved lending agent	H Shares	Long position	173,166,004	8.55	1.25
	Beneficial owner/ Person having a security interest in shares	H Shares	Short position	160,361,479	7.92	1.16
	custodian - corporation/ approved lending agent	H Shares	Lending pool	458,000	0.02	0.00
National Council for Social Security Fund	Beneficial owner	H Shares	Long position	141,352,000	6.98	1.02
Citigroup Inc.	Person having a security interest in shares/Interest of corporation controlled by the substantial shareholder/ custodian - corporation/ approved lending agent	H Shares	Long position	117,828,094	5.82	0.85
	Interest of corporation controlled by the substantial shareholder	H Shares	Short position	84,845,832	4.19	0.61
	custodian - corporation/ approved lending agent	H Shares	Lending pool	39,995,422	1.97	0.29
Mirae Asset Global Investments (Hong Kong) Limited	Investment manager	H Shares	Long position	102,581,000	5.07	0.74
Plowden Charles	Interest of corporation controlled by the substantial shareholder	H Shares	Long position	101,793,000	5.03	0.74

Notes:

(1) CSRG holds 93,085,715 A shares of the Company through its wholly-owned subsidiary, CSR Capital Company.

(2) Except for the holding of the 7,790,687,085 shares by CSRG and the proportion details, other information disclosed hereby is based on the information available on the website of the Hong Kong Stock Exchange at www.hkex.com.hk.

Save as disclosed above, as far as the Directors are aware, as at 31 December 2012, no other person had interests and/or short positions in the shares or underlying shares (as the case may be) of the Company which were required to be recorded in the register pursuant to section 336 of Part XV of the SFO, or was otherwise a substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company.

(IV) PARTICULARS OF CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

1. Controlling shareholder

(1) Legal Person

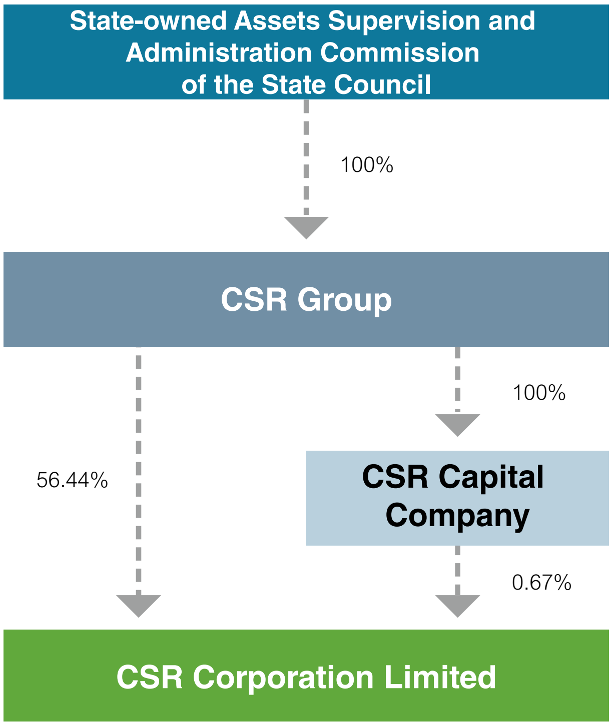
Unit: 0'000 Currency: RMB

Name	CSRG
Legal representative	Zheng Changhong
Establishment date	2 July 2002
Organisation code:	710929922
Registered capital	926,182.2
Principal operations:	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.
Operating results:	In 2012, CSRG recorded revenue of RMB92,640 million with the net profit RMB4,660 million.
Particulars of other domestic and overseas listed companies held and invested by CSRG during the reporting period	CSRG holds 42.64% equity interests of South Huitong Co., Ltd. (Stock code: 000920).

2. Ultimate controller

(1) The Ultimate controller of the Company is State-owned Assets Supervision and Administration Commission of the State Council.

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



(V) OTHER CORPORATE SHAREHOLDERS WITH OVER 10% SHAREHOLDINGS

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 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 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

Significant Events

(I) MATERIAL LITIGATION, ARBITRATION AND MATTERS WIDELY CONTESTED BY THE MEDIA

The Company was not involved in any material litigation, arbitration or matters widely contested by the media during the year.

(II) MATTERS RELATED TO BANKRUPTCY AND REORGANISATION

There were no events relating to bankruptcy or reorganisation during the year.

(III) MATTERS RELATED TO ASSETS TRANSACTIONS AND ENTERPRISES MERGER

1. Asset acquisitions

Please refer to Note 39 to the financial statements prepared under IFRS in this annual report for details of the Company's asset acquisitions.

2. Asset disposals

The Company was not involved in any material asset disposal during the year.

3. Asset swap

The Company was not involved in any asset swap during the year.

4. Enterprises merger

Please refer to Note 39 to the financial statements prepared under IFRS in this annual report for details of the Company's enterprises merger.

(IV) THE COMPANY'S SHARE OPTION INCENTIVE SCHEME AND ITS EFFECTS

1. Summary of the Share Option Incentive Scheme

In order to enhance the Company's capability to attract, motivate and retain its senior management and key employees, including certain Directors, and to closely align the interests of such personnel with the interests of the Company and the Shareholders, it is important that the Company provides such personnel with further incentives by offering them an opportunity to obtain an ownership interest in the Company. Such incentives would create more value for the Company and its Shareholders by maximizing the enthusiasm of such personnel and bring their initiatives into full play. Pursuant to its Share Option Scheme, the Company may grant A Share options to the Directors and senior management of the Company, as well as the core technical (management) personnel deemed by the Company as necessary to be incentivized when the grant conditions are fulfilled.

The Share Option Scheme was approved and adopted by the general meeting of the Company held on 26 April 2011. Only one grant of Options was made pursuant to the Share Option Scheme, after which no further grants will be made under the same Share Option Scheme. The total number of A Shares to be issued upon exercise of all Share Options granted under the Share Option Scheme must not in aggregate exceed 10% of the total issued A Shares as at the approval date of the Share Option Scheme. The Company has granted 36,605,000 share options on 27 April 2011, representing (i) approximately 0.374% of the total issued A shares of the Company and approximately 0.310% of the total issued shares of the Company, respectively, as at the approval date of the Share Option Scheme (ii) approximately 0.311% of the total issued A shares of the Company and 0.265% of the total issued shares of the Company, respectively, as at the date of this annual report which were within the upper limit of grantable share options under the Share Option Scheme. Unless specifically approved by the Shareholders at a general meeting of the Company, the aggregate number of A Shares to be acquired by any one Grantee through the Share Option Scheme and other effective share option schemes of the Company (if any) at any time shall not exceed 1% of the total A Shares in issue, and the maximum entitlement to be granted to any one Grantee (including the exercised, cancelled and outstanding Options) within any 12-month period shall not exceed 1% of the total A Shares in issue. The validity period of the share options under the Share Option Scheme shall be a term of 7 years commencing from the grant date and subject to a lock-up period of 24 months commencing from the grant date. Upon expiry of the lock-up period, the granted share options shall be exercisable in three separate batches. The first batch can be exercised since 27 April 2013 on condition that the Company and participants shall fulfill all the presupposed performance targets, the detailed requirements of which are contained in the circular of the Company dated on 8 March 2011. The Company will make further disclosure in respect of the exercise of share options in due course. The exercise price of the share options granted was set by the board of directors to be the higher of: i) the closing price of the A Shares on the trading day immediately preceding the date of the Announcement of Draft Summary of Share Option Scheme (i.e. 28 September 2010), which was RMB5.43; and ii) the average closing price of the A Shares for the 30 trading days immediately preceding the date of the Announcement of Draft Summary of Share Option Scheme, which was RMB5.25, which, accordingly, shall be RMB5.43.

2. Implementation of the Share Option Incentive Scheme and Its Effects are as follows:

Unit: Share

Incentive method	Share options
Source of subject shares	Issue of A shares to the participants
Closing price of the A Shares on the trading day Immediately preceding the grant date of the share options	RMB7.22/share
Scope of participants during the reporting period	Directors, senior management, and core technical (management) personnel deemed by the Company as necessary to be incentivized, but excluding the independent Directors, supervisors of the Company, substantial shareholders holding more than 5% issued shares of the Company and actual controllers of the Company, together with their respective spouses and lineal relatives.
Total granted but outstanding equity at the beginning of the reporting period on cumulative basis	36,605,000
Total granted equity during the reporting period	0
Total exercised equity during the reporting period	0
Total lapsed equity during the reporting period	0
Total granted but outstanding equity at the end of the reporting period on cumulative basis	36,605,000
Total granted and exercised equity at the end of the reporting period on cumulative basis	0
Adjustments to grant price and exercise price during the reporting period and latest grant price and exercise price after such adjustments	The grant price and exercise price of the Share Options is the closing price of the Shares of the Company on the trading day immediately preceding the date of the Share Option Scheme Draft Summary Announcement, i.e. RMB5.43/share. As at the end of the reporting period, no adjustment was made to the grant price and exercise price.

Grant and Exercise of Interest of Directors and Senior Management During the Reporting Period

Name	Position	Number of outstanding interest at the beginning of the reporting period	Number of granted interest during the reporting period	Number of exercised interest during the reporting period	Number of outstanding interest at the end of the reporting period
Zheng Changhong	Chairman, Executive Director	200,000	0	0	200,000
Zhao Xiaogang	Former Chairman, Executive Director	200,000	0	0	200,000
Liu Hualong	President, Executive Director	170,000	0	0	170,000
Tang Kelin	Former Executive Director, Vice President	170,000	0	0	170,000
Zhangjun	Vice President	170,000	0	0	170,000
Fu Jianguo	Vice President	170,000	0	0	170,000
Zhan Yanjing	Vice President, Chief Financial Officer	170,000	0	0	170,000
Wangjun	Vice President	141,400	0	0	141,400
Lou Qiliang	Vice President	141,400	0	0	141,400
Xu Zongxiang	Vice President	141,400	0	0	141,400
Zhang Xinning	Chief Engineer	150,000	0	0	150,000
Shao Renqiang	Secretary to the Board, Chief Economist	150,000	0	0	150,000
Subtotal		1,974,200	0	0	1,974,200
Subtotal of other participants		34,630,800	0	0	34,630,800
Total		36,605,000	0	0	36,605,000

Validity period and exercise period of the share options	The validity period of the share options is a term of 7 years commencing from the date on which the share options are granted. Upon expiry of the 2-year lock-up period commencing from the date on which the share options are granted, subject to the fulfillment of all effective conditions, the share options shall become exercisable in three separate batches, each with an exercise period of three years after 24 months, 36 months and 48 months respectively commencing from the date on which the share options are granted.
Equity changes arising from exercise by participants	As at the end of the reporting period, the Share Options of the Company were still in the lock-up period and yet to be exercised, so there was no equity change due to exercise by any participant.
Measurement of fair value of equity instrument	The Company adopts the Black-Scholes option pricing model as the equity instrument to measure the fair value of the share options.
Valuation model, parameters and selection criteria	Valuation model: Black-Scholes option pricing model Parameters selection criteria: Exercise price of share options: RMB5.43/share. Stock market price on grant date: RMB7.09/share. 27 April 2011 is the grant date. Estimated term of share options: 5-7 years. Estimated share price volatility: 52.68%-56.51% Estimated bonus yield rate: 0.60% Risk-free rate of interest: 3.481%-3.694%
Apportion period and result for fair value of equity instrument	Based on the selection of aforesaid parameters: the fair value of share options calculated with the Black-Scholes model option pricing formula was RMB151,009,745, among which, the option tariff of the Company recognized in 2012 was RMB54,039,800. The calculation result of the share option value is based on certain assumptions of the used parameters and restricted by the model adopted. Therefore, the valuation of the share options might be subjective and inconclusive.

(V) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Trusts, contracts and lease arrangements

(1) Trust

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

(2) Contract

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

(3) Lease arrangement

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

2. Guarantees

Unit: RMB'000

Guarantees provided by the Company to external parties (excluding guarantees provided by the Company in favour of its subsidiaries)	
Total guarantee amount provided during the reporting period (excluding guarantees provided by the Company in favour of its subsidiaries)	—
Total guarantee balance at the end of the reporting period (excluding guarantees provided by the Company in favour of its subsidiaries)	—
Guarantees provided by the Company in favour of its subsidiaries	
Total guarantee amount provided to the Company's subsidiaries during the reporting period	8,591,188
Total guarantee balance provided to the Company's subsidiaries at the end of the reporting period	8,862,291
Aggregate guarantee amount provided by the Company (including guarantees provided by the Company in favour of its subsidiaries)	
Total guarantee amount	8,862,291
Percentage of total guarantee amount to net assets of the Company *(%)*	27
including:	
	—
Provision of guarantee to shareholders, de facto controller and their respective connected persons	
Amount of guarantees directly or indirectly provided in favour of parties with gearing ratio over 70%	6,771,425
The total amount of guarantees provided which exceeds 50% of the net asset	—
Total amount of the three above-stated guarantees	6,771,425

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

The Company saw substantial increase in its guarantee business during the period, due to material growth in bank acceptance drafts opened by its subsidiaries during the reporting period through the head office's centralized credit line. During the reporting period, total guarantee amount provided by the Company in favour of its subsidiaries was RMB8,591 million. As at 31 December 2012, total guarantee balance was RMB8,862 million, representing 27.06% of the net assets. Out of such guarantee balance, RMB7,146 million and RMB1,716 million were provided to the Company's wholly-owned subsidiaries and non wholly-owned subsidiaries respectively. As far as guarantee type is concerned, RMB7,689 million was provided by way of bank acceptance drafts, RMB120 million was provided by way of letters of guarantee and letters of credit, and RMB1,053 million was provided by way of loan and trade finance guarantees.

As at the end of the reporting period, the Company did not provide any guarantees in favour of its shareholders, ultimate controller and their related parties; all guarantees provided by the Company were in favour of its subsidiaries. As at the end of the reporting period, the guarantee balance provided by the Company in favour of its subsidiaries with gearing ratio over 70% was RMB6,771 million. Approval procedures have been complied with at the Board meetings and the general meetings as required by the Articles of Associations in respect of the guarantees provided by the Company in favour of its wholly-owned and non wholly-owned subsidiaries with gearing ratio over 70%.

3. Other Material Contracts

During the reporting period, the Company signed several material sales contracts. Please refer to temporary announcements of the Company dated 21 March, 17 April, 27 April, 2 August, 17 August, 11 September, 13 December, and 19 December 2012 published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(VI) PERFORMANCE OF UNDERTAKINGS

1. Undertakings by the listed Company, shareholders with more than 5% of shareholding in the Company, controlling shareholder and ultimate controller during or up to the reporting period

(1) **The non-competition undertakings are as follows:** i) CSRG undertakes that CSRG will not and will, through legal procedures, procure its wholly-owned and non wholly-owned subsidiaries not to engage in any businesses which might directly compete with the Company's current operating businesses; ii) Subject to the aforesaid undertaking i), should CSRG (including its wholly-owned and non wholly-owned subsidiaries or other associates) operate any products or provide any services that might be in competition with the principal products or services of the Company in the future, CSRG has agreed to grant the Company pre-emptive rights to acquire the assets or the entire equity interests in such subsidiaries related to such products or services from CSRG; iii) Subject to the aforesaid undertaking i), CSRG may develop advanced and lucrative projects in the future which fall within the Company's business scope, but it should grant pre-emptive right to the Company to purchase any achievements on such projects for operation under the same terms of transfer; iv) CSRG should indemnify the Company for its actual losses due to the losses arising from the failure in fulfilling the undertakings i) to iii) as described above. During the reporting period, CSRG, the controlling shareholder of the Company, complied with its undertakings as stated above.

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

During the reporting period, CSRG, the controlling shareholder of the Company, complied with its undertakings as stated above.

On 29 January 2012, the Company issued an announcement in relation to the undertaking made by CSRG to South Huiton, stating that it received from CSRG the letter regarding the undertaking made by CSRG in respect of restructuring of South Huiton. Relevant details are as follows: 1. CSRG confirms that it designates the Company as its sole platform for its research and development, manufacturing, sale, repair and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key components as well as other businesses that utilise proprietary rolling stock technologies; and 2. CSRG plans to, in five years or so, dispose of its equity interest in South Huiton by way of merger and acquisition of assets and/or reorganization and/or other means, and CSRG may transfer the acquired assets which relate to the freight wagons business to the Company after acquiring the relevant assets of South Huiton.

On 26 December 2012, South Huitong issued an announcement that CSGR was planning to restructure its material assets. Due to the uncertainties of relevant matters, South Huitong shares began to suspend in 9:30am on 26 December 2012. On 18 March, South Huitong announced resumption of trading because the counterparty of the material restructure, interests of people concern involved in the incoming assets cannot reach an agreement within the specified time in compliance with relevant laws and regulations. Please refer to the announcement dated on 18 March No. 2013-015 published on the website of Shenzhen Stock Exchange for the details of suspending restructure and resumption of trading,.

(3). **Commitment on building ownership issues:** The Company has not yet obtained proper property ownership certificates for 114 properties with a total gross floor area of approximately 73,585.58 square meters, mainly because they have not been granted property ownership certificates by the local government authorities due to the implementation of the "Leaving the City and Entering the Suburb" policy in Shijiazhuang and the changes in urban planning in Chengdu area. In respect of those properties in Shijiazhuang, Shijiazhuang Administration of Urban and Rural Planning (石家莊市城鄉規劃局) has issued the Explanation on the Area Planning of CSR Shijiazhuang Rolling Stock Works and pointed out that it would, due to urban planning, not accept any applications for the planning permit in respect of any properties without property ownership certificates. In respect of those properties in Chengdu, Chengdu Administration of Urban Planning (成都市規劃管理局) has issued the Explanation on the Road Planning in the Area of CSR Chengdu Locomotive & Rolling Stock Works and pointed out that two municipal roads planned would run through the land of the area of the works based on the need of urban development. Application of property ownership certificates for such properties was temporarily on hold according to the request of the local governments. Apart from the above two subsidiaries which were unable to obtain the property ownership certificates due to objective reasons, property ownership certificates have been obtained with respect to all remaining properties. For details about relocation of Shijiangzhuang Company, please refer to relevant announcements of the Company dated 6 August 2011 and 17 March 2012 published on China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily and the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange. During the reporting period, CSRG, the controlling shareholder of the Company complied with its undertakings as stated above.

(4). Other commitments

i) CSRG undertook to voluntarily subject 6,422,914,285 tradable shares subject to trading moratorium it holds in the Company, which have been relieved from such trading moratorium on 18 August 2011, to another three-year lock-up period (i.e. from 18 August 2011 to 17 August 2014) commencing from 18 August 2011. During the lock-up period, such shares held by CSRG shall not be sold or transferred through the Shanghai Stock Exchange.

ii) During the non-public issue of shares by the Company in 2012, CSRG undertook that the 1,362,103,700 shares of the Company subscribed by CSRG would not be transferred within 36 months from the completion date of such issue.

iii) On 29 August 2012, CSRG, the controlling shareholder of the Company, increased its shareholding in the Company by 471,000 shares and proposes to continue to increase its shareholding in the Company, either in its own name or through parties acting in concert with it, via the trading system of the Shanghai Stock Exchange within the next 12 months by up to an aggregated number not exceeding 2% of the total issued share capital of the Company (including those shares purchased in the increase of shareholding). CSRG undertakes that it will not decrease its shareholding in the Company during the period of the implementation of the plan in further increase of shareholding and within the statutory period.

During the reporting period, CSRG, the controlling shareholder of the Company, complied with all the foregoing commitments.

(VII) PUNISHMENTS AND RECTIFICATIONS OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH MORE THAN 5% OF SHAREHOLDING IN THE COMPANY, ULTIMATE CONTROLLER AND OFFEROR

During the year, none of the Company, its Directors, supervisors, senior management members, the shareholder or ultimate controller was subject to any investigation, administrative punishment or criticism by CSRC or any condemnation by any stock exchanges.

(VIII) NOTES ON OTHER MATERIAL EVENTS

1. Increase of shareholding by the controlling shareholder

On 29 August 2012, CSRG, the controlling shareholder of the Company, increased its shareholding in the Company by 471,000 shares and proposes to continue to increase its shareholding in the Company, either in its own name or through parties acting in concert with it, via the trading system of the Shanghai Stock Exchange within the next 12 months by up to an aggregated number not exceeding 2% of the total issued share capital of the Company (including those shares purchased in the increase of shareholding). CSRG undertakes that it will not decrease its shareholding in the Company during the period of the implementation of the plan in further increase of shareholding and within the statutory period.

During the reporting period, CSRG increased its shareholding in the Company by an aggregate amount of 2,869,100 shares. As at 30 September 2012, CSRG held 7,790,687,085 shares of the Company, representing approximately 56.44% of the total issued share capital of the Company.

2. Financing of subsidiaries

The proposed share placement of Times New Material was passed by Public Offing Review Committee of CSRC on 12 October 2012; please refer to the announcement published on 7 May 2012 as No. 2012-018 on the website of Shanghai Stock Exchange for the details of such share placement.

3. Debit Financing Instruments

(1) **Mid-term notes:** On 9 December 2009, the Company issued mid-term notes with a term of three years in the PRC inter bank bond market, with an issue amount of RMB2 billion. China International Capital Corporation Limited and Bank of Communications Co., Ltd. were the joint lead underwriters. The interest rate was 4.18% and the maturity date was on 9 December 2012, which has been repaid upon maturity. On 3 February 2010, CSR issued mid-term notes with a term of three years in the PRC inter bank bond market, with a issue amount of RMB2 billion. China International Capital Corporation Limited and Bank of Communications Co., Ltd. were the joint lead underwriters. The interest rate was 4.08% and the maturity date was on 3 February 2013, which was not mature yet.

(2) **Short-term debentures:** On 11 July 2011, the Company issued short-term debentures with a term of one year in the PRC inter bank bond market, with an issue amount of RMB3 billion. China CITIC Bank Corporation Limited and Bank of Beijing Co. Ltd. were the joint lead underwriters. The interest rate was 5.06% and the maturity date was on 11 July 2012, which has been repaid upon maturity. On 15 November 2011, the Company issued short-term debentures with a term of one year in the PRC inter bank bond market, with an issue amount of RMB2 billion. China CITIC Bank Corporation Limited and Bank of Beijing Co. Ltd. were the joint lead underwriters. The interest rate was 5.38% and the maturity date was on 15 November 2012, which has been repaid upon maturity.

(3) **Ultra short-term debentures:** In a bid to meet the need for the production and operating of the Company and reduce the financing cost of the Company, on 6 December 2012, the Company issued ultra short-term debentures with a term of 270 days in the PRC inter bank bond market, with an issue amount of RMB2 billion. China Development Bank Co. Ltd. and China Minsheng Banking Corp., Ltd. were the joint lead underwriters. The interest rate was 4.38% and the maturity date was on 3 September 2013, which was not mature yet.

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of CSR Corporation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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
28 March 2013

Year ended 31 December 2012

CONSOLIDATED INCOME STATEMENT

	Notes	**2012 RMB'000**	2011 RMB'000
REVENUE	5	**89,019,449**	79,516,958
Cost of sales		**(73,264,022)**	(64,646,619)
Gross profit		**15,755,427**	14,870,339
Other income and gains	5	**1,069,723**	818,601
Selling and distribution expenses		**(3,152,751)**	(2,734,686)
Administrative expenses		**(7,687,561)**	(7,017,068)
Other expenses, net	6	**(168,766)**	(169,354)
PROFIT FROM OPERATIONS		**5,816,072**	5,767,832
Finance costs	7	**(764,356)**	(993,739)
Share of profits and losses of:			
Jointly-controlled entities	19	**541,013**	650,985
Associates	20	**(59)**	17,049
PROFIT BEFORE TAX	6	**5,592,670**	5,442,127
Income tax expense	10	**(740,455)**	(698,887)
PROFIT FOR THE YEAR		**4,852,215**	4,743,240
Attributable to:			
Owners of the parent	13	**4,009,458**	3,864,153
Non-controlling interests		**842,757**	879,087
		4,852,215	4,743,240
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic	13	**29.9 cents**	32.6 cents
— Diluted	13	**29.9 cents**	32.6 cents

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

Year ended 31 December 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2012 *RMB'000*	2011 *RMB'000*
PROFIT FOR THE YEAR	**4,852,215**	4,743,240
OTHER COMPREHENSIVE INCOME		
Available-for-sale investments:		
Changes in fair value	**(99,940)**	(76,782)
Income tax effect	**5,945**	—
Exchange differences on translation of foreign operations	**13,096**	(16,706)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(80,899)**	(93,488)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,771,316**	4,649,752
Total comprehensive income attributable to:		
Owners of the parent	**3,922,786**	3,777,984
Non-controlling interests	**848,530**	871,768
	4,771,316	4,649,752

31 December 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**22,970,563**	21,374,331
Prepaid land lease payments	15	**4,456,656**	4,404,065
Goodwill	16	**97,147**	53,972
Other intangible assets	17	**554,326**	451,002
Investments in jointly-controlled entities	19	**1,753,479**	1,509,695
Investments in associates	20	**819,076**	559,005
Available-for-sale investments	21	**526,630**	271,282
Deferred tax assets	10	**469,695**	362,558
Other non-current assets	22	**1,308,337**	193,137
Total non-current assets		**32,955,909**	29,179,047
CURRENT ASSETS			
Inventories	23	**18,770,236**	17,841,991
Trade receivables	24	**26,618,776**	13,689,416
Bills receivable	25	**3,735,597**	4,201,451
Prepayments, deposits and other receivables	26	**8,058,186**	4,061,678
Financial assets at fair value through profit or loss	27	**7,346**	11,861
Derivative financial instruments	28	**2,243**	35,774
Tax recoverable		**24,314**	34,845
Pledged deposits	29	**547,429**	637,847
Cash and cash equivalents	29	**14,497,265**	23,092,481
Total current assets		**72,261,392**	63,607,344
CURRENT LIABILITIES			
Trade payables	30	**26,714,857**	21,238,995
Bills payable	31	**12,948,103**	6,616,548
Other payables and accruals	32	**11,929,561**	11,979,765
Interest-bearing bank and other borrowings	33	**8,595,597**	18,099,123
Defined benefit obligations	34	**138,200**	150,070
Tax payable		**461,236**	490,354
Provision for warranties	35	**479,453**	400,920
Government grants	36	**271,407**	209,157
Total current liabilities		**61,538,414**	59,184,932
NET CURRENT ASSETS		**10,722,978**	4,422,412
TOTAL ASSETS LESS CURRENT LIABILITIES		**43,678,887**	33,601,459

31 December 2012

	Notes	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**727,376**	2,325,097
Defined benefit obligations	34	**1,437,450**	1,569,030
Provision for warranties	35	**972,229**	733,446
Government grants	36	**927,214**	760,511
Deferred tax liabilities	10	**45,427**	26,788
Other non-current liabilities		**59,330**	98,670
Total non-current liabilities		**4,169,026**	5,513,542
Net assets		**39,509,861**	28,087,917
EQUITY			
Equity attributable to owners of the parent			
Share capital	38	**13,803,000**	11,840,000
Reserves	38	**17,710,157**	8,237,090
Proposed final dividend	12	**1,242,270**	2,484,540
		32,755,427	22,561,630
Non-controlling interests		**6,754,434**	5,526,287
Total equity		**39,509,861**	28,087,917

Zheng Changhong
Director

Liu Hualong
Director

Year ended 31 December 2012

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent										
	Share capital RMB'000	Capital reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Share option reserve RMB'000	Common statutory reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	11,840,000	2,685,876	(74,970)	36,066	496,595	(32,098)	5,125,621	2,484,540	22,561,630	5,526,287	28,087,917
Profit for the year	–	–	–	–	–	–	4,009,458	–	4,009,458	842,757	4,852,215
Other comprehensive income for the year:											
Change in fair value of available-for-sale investments, net of tax	–	–	(93,995)	–	–	–	–	–	(93,995)	–	(93,995)
Exchange differences on translation of foreign operations	–	–	–	–	–	7,323	–	–	7,323	5,773	13,096
Total comprehensive income for the year	–	–	(93,995)	–	–	7,323	4,009,458	–	3,922,786	848,530	4,771,316
Capital contribution from shareholders *(Note 1)*	1,963,000	6,736,405	–	–	–	–	–	–	8,699,405	–	8,699,405
Capital contribution from non-controlling shareholders *(Note 2)*	–	–	–	–	–	–	–	–	–	648,619	648,619
Excess of the acquirers' additional interests in the carrying value of identifiable net assets over the cost of acquisition of additional interests in subsidiaries	–	2,106	–	–	–	–	–	–	2,106	(2,106)	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(266,896)	(266,896)
Equity-settled share option arrangement	–	–	–	54,040	–	–	–	–	54,040	–	54,040
Final 2011 dividend declared	–	–	–	–	–	–	–	(2,484,540)	(2,484,540)	–	(2,484,540)
Proposed final 2012 dividend	–	–	–	–	–	–	(1,242,270)	1,242,270	–	–	–
Transfer from retained earnings	–	–	–	–	269,406	–	(269,406)	–	–	–	–
At 31 December 2012	13,803,000	9,424,387*	(168,965)*	90,106*	766,001*	(24,775)*	7,623,403*	1,242,270	32,755,427	6,754,434	39,509,861

* These reserve accounts comprise the consolidated reserves of RMB17,710,157,000 (31 December 2011: RMB8,237,090,000) in the consolidated statement of financial position.

Note 1: The Company completed the non-public issue of 1,963,000,000 A shares with par value RMB1.00 each, and the issue price was RMB4.46 per share, which was approved by the China Securities Regulatory Commission ("CSRC") through Zheng Jian Xu Ke [2012] No. 210) on 20 February 2012. The net amount of proceeds from the non-public issue of A shares was RMB8,699,405,000, including share capital which increased by RMB1,963,000,000, and capital reserve which increased by RMB6,736,405,000.

Note 2: In the year 2012, the Company established a subsidiary, CSR Finance Co., Ltd. together with CSR Group, which caused non-controlling interests to increase by RMB90,000,000;

In the year 2012, the Group incorporated four subsidiaries, Shanghai CSR Hange Shipping Engineering Technology Co., Ltd. ("CSR Hange"), Henan CSR Heavy Equipment Manufacturing Co., Ltd. ("Henan Heavy Equipment") and Inner Mongolia CSR Electric Co., Ltd. ("Inner Mongolia Electric"), which caused non-controlling interests to increase by RMB93,920,000;

In the year 2012, the Group injected capital into Guangdong CSR Railway Transportation Vehicle Co., Ltd. and other subsidiaries, together with their non-controlling shareholders, which caused non-controlling interests to increase by RMB398,790,000.

Year ended 31 December 2012

Year ended 31 December 2011

	Attributable to owners of the parent										
	Share capital RMB'000	Capital reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Share option reserve RMB'000	Common statutory reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011											
As previously reported	11,840,000	2,683,734	1,812	—	288,658	(22,711)	3,979,092	473,600	19,244,185	4,596,565	23,840,750
Business combination under common control	—	48,634	—	—	—	—	(25,147)	—	23,487	4,347	27,834
As restated	11,840,000	2,732,368	1,812	—	288,658	(22,711)	3,953,945	473,600	19,267,672	4,600,912	23,868,584
Profit for the year	—	—	—	—	—	—	3,864,153	—	3,864,153	879,087	4,743,240
Other comprehensive income for the year:											
Change in fair value of available-for-sale investments, net of tax	—	—	(76,782)	—	—	—	—	—	(76,782)	—	(76,782)
Exchange differences on translation of foreign operations	—	—	—	—	—	(9,387)	—	—	(9,387)	(7,319)	(16,706)
Total comprehensive income for the year	—	—	(76,782)	—	—	(9,387)	3,864,153	—	3,777,984	871,768	4,649,752
Capital contribution from non-controlling shareholders *(Note)*	—	—	—	—	—	—	—	—	—	298,186	298,186
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	34,465	34,465
Acquisition of non-controlling shareholders	—	—	—	—	—	—	—	—	—	(19,980)	(19,980)
Excess of the acquirers' additional interests in the carrying value of identifiable net assets over the cost of acquisition of additional interests in subsidiaries	—	4,059	—	—	—	—	—	—	4,059	(4,059)	—
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(255,005)	(255,005)
Business combination under common control	—	(50,551)	—	—	—	—	—	—	(50,551)	—	(50,551)
Equity-settled share option arrangement	—	—	—	36,066	—	—	—	—	36,066	—	36,066
Final 2010 dividend declared	—	—	—	—	—	—	—	(473,600)	(473,600)	—	(473,600)
Proposed final 2011 dividend	—	—	—	—	—	—	(2,484,540)	2,484,540	—	—	—
Transfer from retained earnings	—	—	—	—	207,937	—	(207,937)	—	—	—	—
At 31 December 2011	11,840,000	2,685,876	(74,970)	36,066	496,595	(32,098)	5,125,621	2,484,540	22,561,630	5,526,287	28,087,917

Note: In the year 2011, the Group established a subsidiary, Hangzhou CSR Rail Transportation Company Limited, together with Zhejiang Provincial Economic Construction Investment Co., Ltd., which caused non-controlling interests to increase by RMB29,400,000;

In the year 2011, the Group established a subsidiary, Ningbo CSR Rail Transportation Equipment Company Limited, together with Ningbo Rail Transportation Equipment Group Limited and Ningbo Yinzhou Development Construction Investment Co., Ltd., which caused non-controlling interests to increase by RMB54,000,000;

In the year 2011, the Group incorporated a subsidiary, CSR Yuchai Sichuan Engine Co., Ltd. ("CSR Yuchai"), with Guangxi Yuchai Machinery Group Co., Ltd, Sichuan Nanjun Automobile Co., Ltd. and natural persons, which caused non-controlling interests to increase by RMB34,460,000; on 31 August, 2011, the non-controlling shareholder injected capital into CSR Yuchai, which caused non-controlling interests to increase by RMB97,100,000;

In the year 2011, the non-controlling shareholder injected capital into Changzhou CSR GE Electric Diesel Engine Co., Ltd., which caused non-controlling interests to increase by RMB20,460,000.

Year ended 31 December 2012

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,592,670**	5,442,127
Adjustments for:			
Depreciation of items of property, plant and equipment	6	**1,565,578**	1,326,140
Impairment of items of property, plant and equipment	6	**—**	20,736
Amortisation of prepaid land lease payments	6	**102,243**	95,872
Amortisation of other intangible assets	6	**115,151**	115,601
(Gain)/Loss on disposal of items of property, plant and equipment, net	6	**(4,655)**	462
Loss on disposal of other intangible assets, net	6	**994**	586
Loss on disposal of prepaid land lease payments	6	**—**	6,820
Provision against obsolete inventories	6	**143,508**	2,806
Impairment of trade receivables	6	**265,661**	93,611
Impairment of other receivables	6	**(21,229)**	35,114
Interest income	5	**(232,283)**	(157,699)
Dividend income	5	**(104)**	(43)
Finance costs	7	**764,356**	993,739
Share of profits and losses of associates and jointly-controlled entities		**(540,954)**	(668,034)
Loss on equity investments at fair value through profit or loss	6	**—**	8,295
Equity-settled share option expense	6	**54,040**	36,066
Gain on derivative financial instruments	5	**(2,243)**	(35,774)
Gain on disposal of unlisted equity investments, at cost	5	**—**	(1,558)
Gain on financial instruments included in other receivables	5	**(21,267)**	(22,653)
Loss on disposal of a subsidiary	5	**—**	861
		7,781,466	7,293,075
(Increase)/decrease in inventories		**(644,127)**	78,615
Increase in trade receivables, bills receivable and prepayments, deposits and other receivables		**(15,797,911)**	(4,355,819)
Decrease in pledged deposits		**90,418**	121,192
Increase in trade payables, bills payable and other payables and accruals		**11,205,391**	3,592,375
Decrease in defined benefit obligations		**(143,450)**	(226,540)
Increase in provision for warranties		**317,316**	425,921
Decrease in other non-current assets		**208,056**	422,615
Cash generated from operations		**3,017,159**	7,351,434
Interest received		**232,283**	157,699
Income tax paid		**(854,750)**	(567,799)
Net cash inflow from operating activities		**2,394,692**	6,941,334

Year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment, excluding interest capitalised	**(3,104,342)**	(5,628,762)
Acquisition of prepaid land lease payments	**(542,786)**	(469,799)
Purchases of other intangible assets	**(224,920)**	(98,166)
Investments in associates	**(252,630)**	(11,021)
Investments in jointly-controlled entities	**(24,067)**	—
Business combination under common control	**—**	(50,551)
Purchases of available-for-sale investments	**(355,229)**	(330,873)
Purchases of financial assets at fair value through profit or loss	**—**	(3,300)
Purchases of financial instruments classified as other receivables	**—**	(16,530,301)
Prepayment of investments	**—**	(46,478)
Proceeds from acquisitions of subsidiaries	**49,951**	23,130
Acquisition of a subsidiary	**(147,709)**	(17,780)
Dividends received from a jointly-controlled entity	**69,805**	285,780
Dividends received from available-for-sale investments	**104**	43
Dividends received from associates	**—**	3,098
Purchase of assets under finance leases	**(1,147,753)**	—
Interest on financial instruments included in other receivables	**21,267**	22,653
Proceeds from disposal of prepaid land lease payments	**3,951**	15,602
Proceeds from disposal of items of property, plant and equipment	**190,737**	145,247
Proceeds from disposal of other intangible assets	**—**	436
Proceeds from disposal of financial assets at fair value through profit or loss	**3,300**	—
Proceeds from disposal of derivative financial instruments	**26,874**	—
Proceeds from disposal of available-for-sale investments	**—**	1,748
Proceeds from disposal of financial instruments classified as other receivables	**116,219**	16,200,080
Disposal of a subsidiary	**—**	(1)
Decrease/(increase) in non-pledged deposits with original maturity of three months or more when acquired	**1,071,605**	(1,053,908)
Net cash flows used in investing activities	**(4,245,623)**	(7,543,123)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds	**(8,000,000)**	(500,000)
Repayment of bank and other borrowings	**(19,604,865)**	(28,395,865)
Capital contributions from non-controlling shareholders	**564,550**	289,150
Purchase of non-controlling interests	**(9,856)**	(10,944)
Dividends paid to non-controlling shareholders	**(297,051)**	(245,042)
Interest paid	**(969,830)**	(930,731)
Distribution to shareholders	**(2,484,540)**	(473,600)
Proceeds from bank and other borrowings	**14,439,463**	33,200,692
Proceeds from issuance of bonds	**2,000,000**	6,000,000
Bond issue expense	**(9,750)**	(36,000)
Proceeds from issue of shares	**8,754,980**	—
Share issue expenses	**(55,575)**	—
Net cash flows (used in) / from financing activities	**(5,672,474)**	8,897,660
Effect of foreign exchange rate changes, net	**(206)**	(38,862)
Net (decrease) / increase in cash and cash equivalents	**(7,523,611)**	8,257,009
Cash and cash equivalents at beginning of year	**21,975,876**	13,718,867
Cash and cash equivalents at end of year	**14,452,265**	21,975,876

31 December 2012

STATEMENT OF FINANCIAL POSITION

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**16,918**	16,170
Other intangible assets	17	**31,581**	22,185
Investments in subsidiaries	18	**28,979,132**	23,481,918
Investments in an associate	20	**400,000**	200,000
Available-for-sale investments	21	**678**	678
Other non-current assets	22	**—**	22,430
Total non-current assets		**29,428,309**	23,743,381
CURRENT ASSETS			
Prepayments, deposits and other receivables	26	**11,091,660**	7,458,608
Tax recoverable		**522**	—
Pledged deposits	29	**4,367**	4,348
Cash and cash equivalents	29	**2,368,732**	11,711,632
Total current assets		**13,465,281**	19,174,588
CURRENT LIABILITIES			
Other payables and accruals	32	**6,378,513**	6,159,513
Interest-bearing bank and other borrowings	33	**4,495,000**	12,010,000
Defined benefit obligations	34	**2,240**	1,860
Total current liabilities		**10,875,753**	18,171,373
NET CURRENT ASSETS		**2,589,528**	1,003,215
TOTAL ASSETS LESS CURRENT LIABILITIES		**32,017,837**	24,746,596
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**300,000**	2,000,000
Defined benefit obligations	34	**13,080**	11,960
Total non-current liabilities		**313,080**	2,011,960
Net assets		**31,704,757**	22,734,636
EQUITY			
Share capital	38	**13,803,000**	11,840,000
Reserves	38	**16,659,487**	8,410,096
Proposed final dividend	12	**1,242,270**	2,484,540
Total equity		**31,704,757**	22,734,636

Zheng Changhong
Director

Liu Hualong
Director

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

CSR Corporation Limited (the "Company") was registered in the People's Republic of China ("PRC") on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. The Company's A shares were listed on the Shanghai Stock Exchange on 18 August 2008 and the Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 21 August 2008. In 2012, the Company completed the non-public issue of 1,963,000,000 A shares with par value RMB1.00 each, and the issue price was RMB4.46 per share, which was approved by the CSRC through Zheng Jian Xu Ke [2012] No. 210) on 20 February 2012. The details of the A shares and H shares' issuance are set out in note 38.

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (Continued)

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 First-time Adoption of IFRSs - *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: *Disclosures - Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 Income Taxes - *Deferred Tax: Recovery of Underlying Assets*

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

(a) IFRS 1 Amendments - Amendments to IFRS 1 *First-time Adoption of IFRSs-Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

When an entity's date of transition to IFRSs is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRSs. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The amendments are effective for annual periods beginning on or after 1 July 2011 with early adoption permitted. The amendments had no effect on the financial position or performance on the Group.

(b) IFRS 7 Amendments - Amendments to IFRS 7 *Financial Instruments: Disclosures - Transfers of Financial Assets*

The IASB issued amendments to IFRS 7 that enhance disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of the amendments has had no effect on the financial position or performance on the Group.

31 December 2012

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(c) IAS 12 Amendments - Amendments to IAS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets*

These amendments to IAS 12 include a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. The amendments are effective for annual periods beginning on or after 1 January 2012. The Group has no investment properties at fair value or assets under IAS 16 valued under the revaluation model, and therefore the adoption of the amendments has had no impact on the financial statements of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs: Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: *Disclosures - Offsetting Financial Assets and Financial Liabilities* [2]
IFRS 9	*Financial Instruments* [4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 - *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) - *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 Presentation of Financial Statements - *Presentation of Items of Other Comprehensive Income*[1]
IAS 19 (2011)	*Employee Benefits*[2]
IAS 27 (2011)	*Separate Financial Statements*[2]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: *Presentation - Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009 - 2011 Cycle:	
IFRS 1	*First-time Adoption of IFRSs*[2]
IAS 1	*Presentation of Financial Statements*[2]
IAS 16	*Property, Plant and Equipment*[2]
IAS 32	*Financial Instruments: Presentation*[2]
IAS 34	*Interim Financial Reporting*[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Amendments to IFRS 1 *First-time Adoption of IFRSs: Government Loans* require a first-time adopter to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to IFRSs. Entities may choose to apply the requirements of IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. As the Group has not undertaken any such transaction, the adoption of the amendments is unlikely to have any significant financial impact on the Group.

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013. As the Group has not undertaken any such transaction, the adoption of the amendments is unlikely to have any significant financial impact on the Group.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt IFRS 9 from 1 January 2015. The adoption of the new standard is unlikely to have any significant financial impact on the Group.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 will require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements that were in IAS 27 and SIC-12 *Consolidation - Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12. This standard is unlikely to have any significant financial impact on the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. As the Group has not undertaken any such transaction, the adoption of the standard is unlikely to have any significant financial impact on the Group.

IFRS 12 *includes* all of the disclosures for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or IFRIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) , IAS 28 (2011) and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 (2011) from 1 January 2013.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

IFRIC 20 is aimed to clarify the requirements for accounting for stripping costs in the production phase of a surface mine. The Interpretation was developed to address issues comprising recognition of production stripping costs as an asset; the initial measurement of the stripping activity asset; and subsequent measurement of the stripping activity asset. As the Group has not undertaken such transactions, the interpretation is unlikely to have any significant financial impact on the Group.

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. 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. These amendments are as follows:

(a) IFRS 1 clarifies that an entity that has stopped applying IFRSs has a choice of either re-applying IFRS 1, even if the entity applied IFRS 1 in a previous reporting period, or applying IFRSs retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in order to resume reporting under IFRSs as if it had never stopped applying IFRSs; and allows a first-time adopter to carry the amount of capitalised borrowing costs previously recorded under its previous GAAP to its opening IFRS statement of financial position at the date of transition to IFRSs.

(b) IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements. In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(c) IAS 16 clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

(d) IAS 32 clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

(e) IAS 34 aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

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

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

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

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

Associates

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

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

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

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

An assessment is made at the end of each reporting period as to whether there is an 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 is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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 representing buildings, plants, machinery and equipment under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Purchased patents and technical know-how

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

Computer software

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

Research and development costs

All research costs are charged to 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below. Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

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

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

Loans and receivables

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

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 them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income and gains, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial Investments 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.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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

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

Financial assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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 joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is recognised as deferred income and released to the income statement over the expected useful life of the related asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary assets or a nominal amount and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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

Revenue recognition

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

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contracts for services

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

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

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

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

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 27 April 2011 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 37 to the financial statements. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where nonvesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension obligations

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

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

In addition, the Group also pays supplemental pension subsidies to retiree employees. As detailed in note 34 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 income statement so as to spread the service cost over the average lives of such former employees, in accordance with the actuarial reports which contained full valuations of the plans for each of the relevant accounting periods.

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

Termination and early retirement benefits

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

Borrowing costs

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

Dividends

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement. 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 gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

De facto control over subsidiaries

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Employee retirement benefits

The Group has recognised the employee retirement benefit obligations as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, the growth rate of the benefits and other factors. The deviation from the actual result and the actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amount of employee retirement benefit obligations. The carrying amount of employee retirement benefits at 31 December 2012 was RMB1,575,650,000 (2011: RMB1,719,100,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other timing differences to the extent that it is probable that taxable profit will be available against which the losses and other timing differences 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 2012 was RMB469,695,000 (2011: RMB362,558,000). Further details are contained in note 10 to the financial statements.

Impairment of receivables

The Group recognises provision based on the judgement of recovery of accounts receivable. Bad debt provision is required to be recognised when there are indications that the receivable cannot be recovered. Recognition of bad debt provision requires the use of judgement and estimates. If the revised estimates deviate from the current estimates, then any difference arising from changes of accounting estimates will affect the carrying value of debtors in the relevant accounting periods. The net carrying amounts of trade receivables and prepayments, deposits and other receivables at 31 December 2012 were RMB26,618,776,000 (2011: RMB13,689,416,000) and RMB8,058,186,000 (2011: RMB4,061,678,000), respectively.

Write-down of inventories to net realisable value

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 2012 was RMB18,770,236,000 (2011: RMB17,841,991,000).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was RMB97,147,000 (2011: RMB53,972,000). More details are given in note 16.

4. OPERATING SEGMENT INFORMATION

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

Products and services

Revenue from external customers

	2012 **RMB'000**	2011 RMB'000
Rail transportation products and their extent products and services	**89,019,449**	79,516,958

Geographical information

Revenue from external customers

	2012 **RMB'000**	2011 RMB'000
Mainland China	**80,540,502**	73,410,945
Other countries and regions	**8,478,947**	6,106,013
	89,019,449	79,516,958

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

Non-current assets

	31 December 2012 **RMB'000**	31 December 2011 RMB'000
Mainland China	**30,397,351**	27,927,875
Other countries and regions	**612,126**	606,922
	31,009,477	28,534,797

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

Information about a major customer

Revenue, net of sales tax, generated from a single customer which amounted to more than 10% of the Group's revenue for the year ended 31 December 2012 was RMB37,480,731,000 (2011: RMB43,859,179,000). The state-owned entities are not identified as a group of customers under common control by the directors of the Company.

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	2012 RMB'000	2011 RMB'000
Revenue			
Sale of goods and services		**89,016,049**	79,516,958
Interest income		**3,400**	—
		89,019,449	79,516,958
Other income			
Interest income		**232,283**	157,699
Dividend income		**104**	43
Profit from sales of scrap materials		**57,624**	62,899
Value-added tax refunds		**94,504**	73,138
Government grants	36	**569,267**	405,500
Total		**953,782**	699,279
Gains			
Fair value gains:			
Derivative financial instruments		**2,243**	35,774
Gain on disposal of unlisted equity investments included in available-for-sale investments, stated at cost		**—**	1,558
Loss on disposal of a subsidiary		**—**	(861)
Gain on financial investments included in other receivables		**21,267**	22,653
Gain on rental of items of property, plant and equipment		**9,535**	12,055
Gain on land lease		**5,064**	875
Others		**77,832**	47,268
Total		**115,941**	119,322
		1,069,723	818,601

6. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		**73,264,022**	64,646,619
Depreciation of items of property, plant and equipment	14	**1,565,578**	1,326,140
Amortisation of prepaid land lease payments	15	**102,243**	95,872
Amortisation of other intangible assets	17	**115,151**	115,601
Provision against obsolete inventories *		**143,508**	2,806
Auditors' remuneration		**11,070**	12,500
Provision for warranties	35	**960,771**	956,229
Minimum lease payments under operating leases:			
Plant and machinery		**39,649**	35,965
Land and buildings		**70,437**	66,659
Research and development costs		**3,070,589**	2,961,081
Less: Amount capitalised		**(28,343)**	(34,054)
		3,042,246	2,927,027
Staff costs (including directors', supervisors' and chief executive's remuneration wages and salaries, and employees' benefits other than below)		**7,839,034**	6,965,850
Contribution to government-operated pension schemes		**940,103**	763,302
Contribution to annuity pension schemes		**166,752**	130,780
Equity-settled share option expense		**54,040**	36,066
Defined benefit obligations - interest costs	34	**12,310**	(58,290)
		9,012,239	7,837,708
Included in other expenses, net:			
Impairment of trade receivables	24	**265,661**	93,611
Impairment of other receivables	26	**(21,229)**	35,114
Exchange losses, net		**(114,910)**	3,730
(Gain)/Loss on disposal of items of property, plant and equipment, net		**(4,655)**	462
Loss on disposal of other intangible assets, net		**994**	586
Losses on equity investments at fair value through profit or loss		**—**	8,295
Loss on disposal of prepaid land lease payments		**—**	6,820
Impairment of items of property, plant and equipment	14	**—**	20,736
Estimated loss on pending litigation		**42,905**	—
		168,766	169,354

* Included in "Cost of sales" on the face of the consolidated statements of comprehensive income for the years ended 31 December 2012 and 31 December 2011.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2012 **RMB'000**	2011 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**826,904**	1,052,963
Interest on bills discounted	**2,042**	8,335
Less: Interest capitalised in construction in progress	**(74,711)**	(67,559)
Unrealised loss on financial instruments at fair value through profit or loss	**10,121**	—
Total	**764,356**	993,739

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2012 **RMB'000**	2011 RMB'000
Fees	**857**	898
Other emoluments:		
Salaries	**1,475**	1,224
Performance-related bonuses	**2,884**	2,424
Social security contribution other than pension*	**259**	216
Pension scheme contributions**	**219**	180
	4,837	4,044

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

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

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

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

	Fees *RMB'000*	Salaries *RMB'000*	Performance-related bonuses *RMB'000*	Social security contribution other than pension *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Year ended 31 December 2012						
Executive directors:						
Mr. Zheng Changhong *(note 1)*	—	210	643	39	33	925
Mr. Liu Hualong *(note 1)*	—	189	579	39	33	840
Mr. Chen Dayang	—	226	236	39	33	534
Mr. Zhao Xiaogang *(note 2)*	—	175	536	32	27	770
Mr. Tang Kelin *(note 2)*	—	158	482	32	27	699
	—	958	2,476	181	153	3,768
Independent non-executive directors:						
Mr. Zhao Jibin	165	—	—	—	—	165
Mr. Yang Yuzhong	185	—	—	—	—	185
Mr. Chen Yongkuan	165	—	—	—	—	165
Mr. Dai Deming	181	—	—	—	—	181
Mr. Tsoi, David	161	—	—	—	—	161
	857	—	—	—	—	857
Supervisors:						
Mr. Wang Yan	—	—	—	—	—	—
Mr. Qiu Wei	—	256	188	39	33	516
Mr. Sun Ke	—	261	220	39	33	553
	—	517	408	78	66	1,069
	857	1,475	2,884	259	219	5,694

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

The names of the directors, supervisors and the chief executive and their remuneration and benefit contributions for the year are as follows: (continued)

	Fees *RMB'000*	Salaries *RMB'000*	Performance-related bonuses *RMB'000*	Social security contribution other than pension *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Year ended 31 December 2011						
Executive directors:						
Mr. Zhao Xiaogang	—	192	564	36	30	822
Mr. Zheng Changhong *(note 1)*	—	192	564	36	30	822
Mr. Tang Kelin	—	173	508	36	30	747
Mr. Liu Hualong	—	173	508	36	30	747
	—	730	2,144	144	120	3,138
Independent non-executive directors:						
Mr. Zhao Jibin	171	—	—	—	—	171
Mr. Yang Yuzhong	186	—	—	—	—	186
Mr. Chen Yongkuan	175	—	—	—	—	175
Mr. Dai Deming	193	—	—	—	—	193
Mr. Tsoi, David	173	—	—	—	—	173
	898	—	—	—	—	898
Supervisors:						
Mr. Wang Yan	—	—	—	—	—	—
Mr. Qiu Wei	—	247	139	36	30	452
Mr. Sun Ke	—	247	141	36	30	454
	—	494	280	72	60	906
	898	1,224	2,424	216	180	4,942

Note:

(1) Mr. Liu Hualong is the chief executive of the Company after 24 October, 2012, and Mr. Zheng Changhong was the chief executive of the Company before 24 October, 2012.

(2) The remuneration of the key management personnels, whose position changed during the year, was calculated based on the remuneration of their actual tenure.

No emoluments were paid by the Group to any of the directors or the supervisors and the chief executive 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 the supervisors and the chief executive 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 and chief executive.

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Salaries	**763**	857
Performance-related bonuses	**4,949**	5,418
Social security contribution other than pension	**520**	269
Pension scheme contributions	**1,015**	660
	7,247	7,204

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

	Number of employees	
	2012	2011
RMB1,000,001 to RMB1,500,000	**2**	3
RMB1,500,001 to RMB2,000,000	**3**	2
	5	5

10. INCOME TAX

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Current income tax	**835,921**	764,621
Deferred tax	**(95,466)**	(65,734)
Total tax charge for the year	**740,455**	698,887

10. INCOME TAX (CONTINUED)

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 25% is applied to the Group for the years ended 31 December 2012 and 2011, except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the years. Certain subsidiaries of the Group are entitled to the preferential tax rate of 15% (2011: 15%) because they are recognised as the high and new technology enterprises by the local governments in the PRC.

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the years ended 31 December 2012 and 2011.

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

	Group			
	2012		2011	
	RMB'000	%	*RMB'000*	%
Profit before tax	**5,592,670**		5,442,127	
Tax at the applicable tax rate	**1,398,168**	**25.0**	1,360,532	25.0
Entities subject to lower statutory income tax rates	**(539,123)**	**(9.6)**	(495,005)	(9.1)
Adjustments in respect of current tax of the previous year	**5,904**	**0.1**	(4,364)	(0.1)
Profits and losses of associates and jointly-controlled entities	**(79,986)**	**(1.4)**	(158,470)	(2.9)
Expenses not deductible for tax *(note 1)*	**110,785**	**2.0**	150,140	2.8
Prior year tax losses utilised	**(51,449)**	**(0.9)**	(10,041)	(0.2)
Tax losses not recognised	**26,688**	**0.4**	44,954	0.8
Others *(note 2)*	**(130,532)**	**(2.4)**	(188,859)	(3.5)
	740,455	**13.2**	698,887	12.8
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	**110,651**		96,871	

Notes:

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

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

10. INCOME TAX (CONTINUED)

The deferred tax of the Group is analysed as follows:

	Group			
	Consolidated statement of financial position As at 31 December		Consolidated statement of comprehensive income Year ended 31 December	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Deferred tax assets:				
Warranty claims provision	**188,870**	149,866	**(39,004)**	(49,571)
Assets impairment	**45,723**	29,792	**(15,931)**	(6,305)
Tax losses	**4,628**	1,724	**(2,904)**	(1,293)
Fair value adjustments arising from available-for-sale financial assets	**5,945**	—	**(5,945)**	—
Wages payable	**10,897**	3,172	**(7,725)**	745
Accrued expenses	**89,544**	64,026	**(25,518)**	(17,277)
Government grants	**91,276**	60,850	**(30,426)**	(6,219)
Unrealised profits in inventories	**32,812**	53,128	**20,316**	4,695
Gross deferred tax assets	**469,695**	362,558		
Deferred tax liabilities:				
Fair value adjustment arising from financial assets at fair value through profit or loss	**(336)**	(5,366)	**(5,030)**	5,366
Fair value adjustments arising from acquisitions of subsidiaries	**(32,633)**	(10,678)	**21,955**	4,200
Depreciation difference	**(12,458)**	(10,744)	**1,714**	4,323
Gross deferred tax liabilities	**(45,427)**	(26,788)		
			(88,498)	(61,336)
Represented by:				
Deferred tax credited to profit or loss			**(95,466)**	(65,734)
Deferred tax credited to other comprehensive income during the year			**(5,945)**	—
Acquisitions of subsidiaries			**12,377**	2,460
Exchange realignment			**536**	1,938
			(88,498)	(61,336)

The Group also has tax losses arising in Mainland China of RMB996,330,000 (2011: RMB998,064,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of RMB2,701,216,000 (2011: RMB2,075,432,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The dividends for the years ended 31 December 2012 and 2011 are set out below:

	2012 ***RMB'000***	2011 *RMB'000*
Proposed final — RMB9.0 cents (2011: RMB18.0 cents) per ordinary share	**1,242,270**	2,484,540

The proposed final dividend for the year ended 31 December 2012 is based on the total number of ordinary shares of 13,803,000,000 (year ended 31 December 2011: 13,803,000,000 shares).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 13,400,746,000 (2011: 11,840,000,000) in issue during the year, as adjusted to reflect the share options issued in April 2011.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2012 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The calculation of basic earnings per share is based on:

	2012 ***RMB'000***	2011 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**4,009,458**	3,864,153
Shares		
Weighted average number of domestic shares in issue during the year used in the calculation of basic earnings per share	**13,400,746,000**	11,840,000,000
Effect of dilution - weighted average number of ordinary shares:		
Share options	**—**	1,081,000
	13,400,746,000	11,841,081,000

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012							
At 1 January 2012:							
Cost		10,644,192	12,274,873	768,519	1,332,413	3,554,727	28,574,724
Accumulated depreciation and impairment		(2,014,481)	(4,143,524)	(425,082)	(616,730)	(576)	(7,200,393)
Net carrying amount		8,629,711	8,131,349	343,437	715,683	3,554,151	21,374,331
At 1 January 2012, net of accumulated depreciation and impairment		8,629,711	8,131,349	343,437	715,683	3,554,151	21,374,331
Additions		326,564	336,278	18,524	126,491	2,438,301	3,246,158
Transfer from construction in progress		1,161,926	1,547,988	27,108	121,248	(2,858,270)	—
Acquisitions of subsidiaries	39	113,750	77,390	4,078	2,550	2,975	200,743
Transfer to prepaid land lease payments	15	—	—	—	—	(80,917)	(80,917)
Transfer to other intangible assets	17	—	—	—	—	(15,493)	(15,493)
Disposals		(45,847)	(81,254)	(29,883)	(1,532)	(36,672)	(195,188)
Depreciation provided	6	(322,676)	(995,511)	(57,376)	(190,015)	—	(1,565,578)
Impairment	6	—	—	—	—	—	—
Exchange realignment		997	5,064	—	—	446	6,507
At 31 December 2012, net of accumulated depreciation and impairment		9,864,425	9,021,304	305,888	774,425	3,004,521	22,970,563
At 31 December 2012:							
Cost		12,152,919	14,096,312	762,590	1,533,089	3,005,097	31,550,007
Accumulated depreciation and impairment		(2,288,494)	(5,075,008)	(456,702)	(758,664)	(576)	(8,579,444)
Net carrying amount		9,864,425	9,021,304	305,888	774,425	3,004,521	22,970,563

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 2011							
At 1 January 2011:							
Cost		8,799,671	9,995,035	747,088	1,237,411	2,368,987	23,148,192
Accumulated depreciation and impairment		(1,696,488)	(3,411,262)	(390,427)	(548,920)	(576)	(6,047,673)
Net carrying amount		7,103,183	6,583,773	356,661	688,491	2,368,411	17,100,519
At 1 January 2011, net of accumulated depreciation and impairment		7,103,183	6,583,773	356,661	688,491	2,368,411	17,100,519
Additions		192,542	307,587	20,395	115,052	5,063,449	5,699,025
Transfer from construction in progress		1,635,269	2,132,222	29,238	70,137	(3,866,866)	—
Acquisitions of subsidiaries		50,802	33,512	1,195	977	45,962	132,448
Transfer to prepaid land lease payments	15	—	—	—	—	(6,534)	(6,534)
Transfer to other intangible assets	17	—	—	—	—	(49,587)	(49,587)
Disposals		(19,444)	(88,649)	(8,371)	(29,245)	—	(145,709)
Depreciation provided	6	(331,185)	(809,566)	(55,673)	(129,716)	—	(1,326,140)
Impairment	6	—	(20,736)	—	—	—	(20,736)
Exchange realignment		(1,456)	(6,794)	(8)	(13)	(684)	(8,955)
At 31 December 2011, net of accumulated depreciation and impairment		8,629,711	8,131,349	343,437	715,683	3,554,151	21,374,331
At 31 December 2011:							
Cost		10,644,192	12,274,873	768,519	1,332,413	3,554,727	28,574,724
Accumulated depreciation and impairment		(2,014,481)	(4,143,524)	(425,082)	(616,730)	(576)	(7,200,393)
Net carrying amount		8,629,711	8,131,349	343,437	715,683	3,554,151	21,374,331

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Computer equipment and others *RMB'000*
31 December 2012	
At 1 January 2012:	
Cost	**36,409**
Accumulated depreciation and impairment	**(20,239)**
Net carrying amount	**16,170**
At 1 January 2012, net of accumulated depreciation and impairment	**16,170**
Additions	**5,156**
Disposals	**(675)**
Depreciation provided	**(3,733)**
At 31 December 2012, net of accumulated depreciation and impairment	**16,918**
At 31 December 2012:	
Cost	**40,839**
Accumulated depreciation and impairment	**(23,921)**
Net carrying amount	**16,918**

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Computer equipment and others *RMB'000*
31 December 2011	
At 1 January 2011:	
Cost	31,837
Accumulated depreciation and impairment	(16,959)
Net carrying amount	14,878
At 1 January 2011, net of accumulated depreciation and impairment	14,878
Additions	5,463
Disposals	(63)
Depreciation provided	(4,108)
At 31 December 2011, net of accumulated depreciation and impairment	16,170
At 31 December 2011:	
Cost	36,409
Accumulated depreciation and impairment	(20,239)
Net carrying amount	16,170

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, capitalisation rates ranging from 4.09% to 7.32% (2011: capitalisation rates ranging from 5.47% to 7.32%) have been applied to the expenditure on individual assets.

As at 31 December 2012, all of the Group's buildings are located in the PRC, except for the buildings of RMB28,771,000 (2011: RMB24,526,000) which are located in the United Kingdom.

The details of the above items of property, plant and equipment pledged to secure general banking facilities granted to the Group are set out in note 33 below.

15. PREPAID LAND LEASE PAYMENTS

		Group	
	Notes	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January, net of accumulated amortisation		**4,404,065**	3,978,622
Additions		**280,319**	507,324
Transfer from construction in progress	14	**80,917**	6,534
Acquisitions of subsidiaries	39	**62,614**	30,820
Disposals		**(270,638)**	(22,422)
Amortisation	6	**(102,243)**	(95,872)
Exchange realignment		**1,622**	(941)
Carrying amount at 31 December		**4,456,656**	4,404,065

The leasehold lands are held under medium term leases and are situated in the PRC, except for the medium leasehold lands of RMB17,899,000 which are located in the United Kingdom.

The details of the above prepaid land lease payments pledged to secure general banking facilities granted to the Group are set out in note 33 below.

16. GOODWILL

		Group	
	Note	2012 RMB'000	2011 RMB'000
Cost, net of accumulated impairment:			
At beginning of year		**53,972**	48,879
Acquisitions of subsidiaries	39	**40,880**	7,580
Exchange realignment		**2,295**	(2,487)
At end of year		**97,147**	53,972
Cost		**97,147**	53,972
Net carrying		**97,147**	53,972

Goodwill acquired through business combinations has been mainly allocated to an individual cash-generating unit ("CGU"), mainly represented by the power semiconductor and integrated circuit product line, for impairment testing. The recoverable amount of this CGU has been determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projection is 15% (2011: 15%), which is based on the weighted average cost of capital, and cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2011: 2%).

Assumptions were used in the value in use calculation of the CGU of power semiconductors and integrated circuit products for the year ended 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

Budgeted gross margins - The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate - The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development of the power semiconductor and integrated circuit product line, discount rates and raw materials price inflation are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

Group

	Notes	Patents and technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2012				
At 1 January 2012, net of accumulated amortisation and impairment		**227,453**	**223,549**	**451,002**
Additions		**63,701**	**117,148**	**180,849**
Transfer from construction in progress	14	**—**	**15,493**	**15,493**
Acquisitions of subsidiaries	39	**12,254**	**9,737**	**21,991**
Disposals		**—**	**(759)**	**(759)**
Amortisation	6	**(45,226)**	**(69,925)**	**(115,151)**
Exchange realignment		**901**	**—**	**901**
At 31 December 2012, net of accumulated amortisation and impairment		**259,083**	**295,243**	**554,326**
At 31 December 2012:				
Cost		**734,610**	**523,609**	**1,258,219**
Accumulated amortisation and impairment		**(475,527)**	**(228,366)**	**(703,893)**
Net carrying amount		**259,083**	**295,243**	**554,326**
31 December 2011				
At 1 January 2011, net of accumulated amortisation and impairment		209,977	199,214	409,191
Additions		50,425	47,741	98,166
Transfer from construction in progress	14	8,208	41,379	49,587
Acquisitions of subsidiaries		11,189	52	11,241
Disposals		(778)	(244)	(1,022)
Amortisation	6	(51,008)	(64,593)	(115,601)
Exchange realignment		(560)	—	(560)
At 31 December 2011, net of accumulated amortisation and impairment		227,453	223,549	451,002
At 31 December 2011:				
Cost		656,572	386,648	1,043,220
Accumulated amortisation and impairment		(429,119)	(163,099)	(592,218)
Net carrying amount		227,453	223,549	451,002

17. OTHER INTANGIBLE ASSETS (CONTINUED)

Company

	Computer software RMB'000
31 December 2012	
At 1 January 2012, net of accumulated amortisation and impairment	**22,185**
Additions	**17,039**
Amortisation	**(7,643)**
At 31 December 2012, net of accumulated amortisation and impairment	**31,581**
At 31 December 2012:	
Cost	**47,340**
Accumulated amortisation and impairment	**(15,759)**
Net carrying amount	**31,581**
31 December 2011	
At 1 January 2011, net of accumulated amortisation and impairment	20,581
Additions	6,668
Amortisation	(5,064)
At 31 December 2011, net of accumulated amortisation and impairment	22,185
At 31 December 2011:	
Cost	30,302
Accumulated amortisation and impairment	(8,117)
Net carrying amount	22,185

31 December 2012

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	*RMB'000*
Unlisted investments, at cost	**28,800,132**	23,202,918
Loans to subsidiaries	**179,000**	279,000
	28,979,132	23,481,918

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

Particulars of the principal subsidiaries of the Company at 31 December 2012 are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
CSR Zhuzhou Electric Locomotive Co., Ltd. 南車株洲電力機車有限公司	PRC 31 August 2005	RMB3,994,295,846	100.0	—	Manufacturing, selling and repairing of locomotives
CSR Ziyang Locomotive Co., Ltd. 南車資陽機車有限公司	PRC 12 May 2006	RMB834,225,725	99.6	—	Manufacturing, selling and repairing of locomotives
CSR Qingdao Sifang Co., Ltd. 南車青島四方機車車輛股份有限公司	PRC 22 July 2002	RMB4,003,794,100	97.8	—	Manufacturing , selling and repairing of locomotives
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. 南車株洲電力機車研究所有限公司	PRC 9 September 1992	RMB2,982,900,000	100.0	—	Investment holding, manufacturing and selling of wind turbines
CSR Sifang Co., Ltd. 南車四方車輛有限公司	PRC 4 September 1980	RMB293,095,500	100.0	—	Repairing locomotives and rolling stock
CSR Investment & Leasing Co., Ltd. 南車投資租賃有限公司	PRC 26 April 1999	RMB1,300,000,000	100.0	—	Trading and finance leasing

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Company at 31 December 2012 are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
CSR Yangtze Rolling Stock Co., Ltd. 南車長江車輛有限公司	PRC 14 September 2006	RMB2,372,868,800	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. 南車戚墅堰機車車輛工藝研究所有限公司	PRC 15 May 1992	RMB1,560,000,000	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	RMB204,621,800	100.0	—	Repairing locomotives and rolling stock
CSR Chengdu Locomotive & Rolling Stock Co., Ltd. 南車成都機車車輛有限公司	PRC 28 June 2007	RMB342,771,941	100.0	—	Repairing locomotives and rolling stock
CSR Nanjing Puzhen Rolling Stock Co., Ltd. 南車南京浦鎮車輛有限公司	PRC 27 June 2007	RMB1,723,540,000	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Erqi Co., Ltd. 南車二七車輛有限公司	PRC 28 June 2007	RMB381,873,228	100.0	—	Manufacturing, selling and repairing of rolling stock
CSR Meishan Co., Ltd. 南車眉山車輛有限公司	PRC 28 June 2007	RMB337,848,600	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	RMB410,476,400	100.0	—	Repairing locomotives and rolling stock
CSR Qishuyan Locomotive Co., Ltd. 南車戚墅堰機車有限公司	PRC 26 June 2007	RMB961,392,757	100.0	—	Manufacturing, selling and repairing of locomotives
CSR (Hong Kong) Co., Ltd. 中國南車(香港)有限公司	PRC 7 April 2008	HKD400,000,000	100.0	—	Trading and investment management
CSR Zhuzhou Electric Co., Ltd. 南車株洲電機有限公司	PRC 14 April 2004	RMB683,050,000	100.0	—	Manufacturing and selling of electric motors

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Company at 31 December 2012 are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
CSR Finance Co., Ltd. 南車財務有限公司	PRC 4 December 2012	RMB1,000,000,000	91	—	Banking, insurance, other financial services for other subsidiaries, interbank borrowing
CSR Corporation (Australia) PTY Ltd 中國南車(澳洲)有限公司	Australia	AUD1,000,000	100	—	Trading and after-sale maintaining
Zhuzhou CSR Times Electric Co., Ltd. 株洲南車時代電氣股份有限公司	PRC 26 September 2005	RMB1,084,255,637	—	56.2	Manufacturing of train-bore systems and components
Zhuzhou Times New Material Technology Co., Ltd. (i) 株洲時代新材料科技股份有限公司	PRC 24 May 1994	RMB517,341,440	—	24.3	Manufacturing and selling of polymer compounds, etc.
Dynex Power Inc.	Canada	CAD37,096,192	—	75.0	Manufacturing and selling of power semiconductors and integrated circuit products

(i) The directors are of the opinion that the Group obtained de facto control over Zhuzhou Times New Material Technology Co., Ltd. ("ZTNM") as the Group obtained a majority of seats in the board of directors of ZTNM and held 38.69% of the voting rights in shareholder meetings of ZTNM.

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2012. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2012	2011
	RMB'000	*RMB'000*
Share of net assets	**1,753,479**	1,509,695

Particulars of the principal jointly-controlled entities of the Group as at 31 December 2012 are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Bombardier Sifang (Qingdao) Transportation Ltd. 青島四方龐巴迪鐵路運輸設備有限公司	PRC 27 November 1998	US$84,120,000	—	50.0	Manufacturing and selling of locomotives and rolling stock
Zhuzhou Shiling Traffic Equipment Co., Ltd. 株洲時菱交通設備有限公司	PRC 8 April 2005	US$14,000,000	—	50.0	Manufacturing and selling of locomotive accessories
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd. 青島四方川崎車輛技術有限公司	PRC 4 April 2005	US$1,400,000	11.0	39.0	Manufacturing and selling of railway and urban mass transit vehicles
Siemens Traction Equipment Ltd. Zhuzhou 株洲西門子牽引設備有限公司	PRC 28 November 1998	RMB128,989,000	—	50.0	Manufacturing and selling of locomotive accessories
Zhuzhou High-tech Investment & Guaranty, Co., Ltd. 株洲南車時代高新投資擔保有限責任公司	PRC 28 December 2007	RMB100,000,000	—	50.0	Providing investment and consulting services

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

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

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19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Share of the jointly-controlled entities' net assets:		
Current assets	**7,746,562**	6,538,126
Non-current assets	**736,465**	618,734
Current liabilities	**(6,126,672)**	(5,127,502)
Non-current liabilities	**(602,876)**	(519,663)
Net assets	**1,753,479**	1,509,695
Share of the jointly-controlled entities' revenue and profit:		
Revenue	**3,246,552**	2,736,564
Expenses	**(2,600,059)**	(1,997,617)
Profit before tax	**646,493**	738,947
Tax	**(105,480)**	(87,962)
Profit after tax	**541,013**	650,985

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted equity investments, at cost	**—**	—	**400,000**	200,000
Share of net assets	**819,076**	559,005	**—**	—
	819,076	559,005	**400,000**	200,000

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the principal associates of the Group as at 31 December 2012 are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Times Wharton Technology Co., Ltd. 北京時代沃頓科技有限公司	PRC 16 January 2007	RMB26,000,000	—	38.0	Manufacturing of chemical materials
Shijiazhuang Guoxiang Precision Machinery Co., Ltd. 石家莊國祥精密機械有限公司	PRC 1 August 2001	RMB12,000,000	—	40.0	Manufacturing of precise machinery
Huaneng Tieling Wind Power Co., Ltd. 華能鐵嶺風力發電有限公司	PRC 29 December 2009	RMB155,500,000	—	25.0	Wind power generation
Huaneng Panjin Wind Power Co., Ltd. 華能盤錦風力發電有限公司	PRC 17 September 2009	RMB172,336,120	—	25.0	Wind power generation
Huaneng Tieling Daxing Wind Power Co., Ltd. 華能鐵嶺大興風力發電有限公司	PRC 28 June 2010	RMB163,960,000	—	25.0	Wind power generation
Guangzhou Electric Locomotive Co., Ltd. 廣州電力機車有限公司	PRC 1 March 2011	RMB1,000,000,000	40.0	—	Manufacturing, selling and repairing of locomotives
Guangzhou Electric Locomotive Co., Ltd. 常州黃海汽車有限公司	PRC 15 January 2007	RMB350,557,500	—	34.0	Manufacturing, selling and repairing of automobiles

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

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

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of the Group's associates extracted from their audited financial statements or management accounts:

	Group	
	2012 RMB'000	2011 RMB'000
Share of the associates' net assets:		
Current assets	**651,703**	413,440
Non-current assets	**735,725**	690,632
Current liabilities	**(377,187)**	(351,908)
Non-current liabilities	**(170,744)**	(171,887)
Non-controlling interests	**(20,421)**	(21,272)
Net assets	**819,076**	559,005
Share of the associates' revenue and profit:		
Revenue	**351,140**	435,982
Expenses	**(346,846)**	(410,154)
Profit before tax	**4,294**	25,828
Tax	**(5,171)**	(8,909)
	(877)	16,919
Non-controlling interests	**818**	130
Profit after tax	**(59)**	17,049

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Unlisted equity investments, at cost less impairment	**33,077**	27,078	**678**	678
Listed equity investments, in the PRC, at fair value	**493,553**	244,204	**—**	—
	526,630	271,282	**678**	678

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB99,940,000 (2011: RMB76,782,000), of which nil (2011: nil) was reclassified from other comprehensive income to profit or loss for the year.

21. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Unlisted equity investments

Unlisted equity investments of the Group and the Company are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market, the range of reasonable fair values estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.
The Group does not intend to dispose of them in the near future.

Listed equity investments

The fair value of the listed equity investments is determined by reference to published price quotations in an active market.

22. OTHER NON-CURRENT ASSETS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Investment prepayment	**—**	46,478	**—**	22,430
Land lease prepayment	**258,601**	94,268	**—**	—
Other intangible assets prepayments	**44,071**	—	**—**	—
Long term prepaid expenses	**30,520**	26,130	**—**	—
Property, plant and equipment prepayments	**25,038**	15,851	**—**	—
Long term receivables *(note)*	**950,107**	10,410	**—**	—
	1,308,337	193,137	**—**	22,430

Note:

The long term receivables arised from finance leases. As at 31 December 2012, the unearned finance income in the long term receivables amounted to RMB462,234,000 (31 December 2011: RMB4,659,000).

The maturity profile of the long term receivables of the Group at the end of the reporting period is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within one year	**158,069**	31,153
In the second to fifth years, inclusive	**950,107**	10,410
Long term receivables	**1,108,176**	41,563
Portion classified as:		
Current assets	**158,069**	31,153
Non-current assets	**950,107**	10,410

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23. INVENTORIES

	Group	
	2012 **RMB'000**	2011 *RMB'000*
Cost, net of provision		
Raw materials	**6,215,032**	6,409,783
Work in progress	**8,149,525**	7,003,274
Finished goods	**4,405,679**	4,428,934
	18,770,236	17,841,991

24. TRADE RECEIVABLES

The credit period of individual customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate. However, in the opinion of the directors, the Group has effectively granted an average credit period of around three to six months to customers after taking into account the practice of the industry in which the Group conducted its business. The Group seeks to maintain strict control over its outstanding receivables and to closely monitor them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The maximum exposure of the Group's credit risk in respect of trade receivables is equal to the carrying amount of the trade receivables.

	Group	
	2012 **RMB'000**	2011 *RMB'000*
Trade receivables	**27,434,860**	14,231,452
Impairment	**(816,084)**	(542,036)
	26,618,776	13,689,416

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

	Group	
	2012 **RMB'000**	2011 *RMB'000*
Within 6 months	**20,164,417**	10,416,780
6 months to 1 year	**4,583,116**	2,281,885
Over 1 year	**1,871,243**	990,751
	26,618,776	13,689,416

24. TRADE RECEIVABLES (CONTINUED)

An aged analysis of the trade receivables that are neither individually or collectively considered to be impaired, is as follows:

	Group	
	2012 **RMB'000**	2011 RMB'000
Neither past due nor impaired	**19,410,444**	11,020,949
Past due but not impaired		
— Less than 3 months past due	**3,189,885**	539,255
— 3 to 6 months past due	**677,700**	74,894
— Over 6 months past due	**1,469,511**	7,902
	24,747,540	11,643,000

Receivables that were neither past due nor impaired relate to some customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to some independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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

		Group	
	Note	**2012** **RMB'000**	2011 RMB'000
At 1 January		**542,036**	456,212
Impairment loss recognised	6	**265,661**	93,611
Acquisitions of subsidiaries		**14,575**	—
Amount written off as uncollectible		**(6,200)**	(7,730)
Exchange realignment		**12**	(57)
At 31 December		**816,084**	542,036

24. TRADE RECEIVABLES (CONTINUED)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB80,138,000 (2011: RMB91,700,000) with a carrying amount before provision of RMB81,047,000 (2011: RMB94,217,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

	Group	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables denominated in:		
United States dollars	**1,475,698**	254,797
Euros	**180,970**	132,228
Swiss franc	**97,946**	—
Singapore dollars	**38,183**	48,395
Japanese yen	**9,108**	4
Hong Kong dollars	**2,059**	—
Australian dollars	**333**	6,280
Great Britain pounds	**102**	8,152
Bangladeshi taka	**—**	758
	1,804,399	450,614

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
CSR Group and its subsidiaries, excluding the Group (the "CSRG Group")	**98,966**	72,400
Jointly-controlled entities	**480,930**	48,311
Associates	**300,252**	258,794
	880,148	379,505

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

The details of the above trade receivables pledged to secure general banking facilities granted to the Group are set out in note 33 below.

25. BILLS RECEIVABLE

The maturity profile of the bills receivable of the Group at the end of the reporting period is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within 6 months	**3,735,597**	4,201,451

The above balances are neither past due nor impaired.

The nature profile of the bills receivable of the Group at the end of the reporting period is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Bank acceptance bills	**2,780,496**	1,824,055
Commercial acceptance bills	**955,101**	2,377,396
	3,735,597	4,201,451

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
CSRG Group	**2,500**	12,000

The details of the above bills receivable pledged to secure general banking facilities granted to the Group are set out in note 33 below.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**5,055,270**	2,419,029	**—**	—
Deposits and other receivables	**3,002,916**	1,642,649	**11,091,660**	7,458,608
	8,058,186	4,061,678	**11,091,660**	7,458,608

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

		Group	
		2012	2011
	Note	***RMB'000***	*RMB'000*
At 1 January		**151,878**	117,056
Impairment loss recognised/(reversed)	6	**(21,229)**	35,114
Acquisitions of subsidiaries		**9,553**	—
Written off		**(1,796)**	(292)
At 31 December		**138,406**	151,878

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
CSRG Group	**—**	30	**—**	—
A jointly-controlled entity	**14,485**	101,764	**—**	—
An associate	**—**	—	**254**	—
Subsidiaries	**—**	—	**11,089,788**	7,454,731
	14,485	101,794	**11,090,042**	7,454,731

Except for the balances due from subsidiaries which bear interest at relevant market rates, the balances due from related parties are unsecured, interest-free and have no fixed terms of repayment.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012 RMB'000	2011 RMB'000
Listed equity investments, at market value		
Hong Kong	**7,346**	8,561
The PRC	**—**	3,300
	7,346	11,861

The above equity investments at 31 December 2012 were classified as held for trading. Fair value losses of RMB1,221,000 were recognised in profit or loss for the year ended 31 December 2012 (2011: RMB8,295,000).

28. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2012 RMB'000	2011 RMB'000
Forward currency contracts	**2,243**	35,774

The carrying amounts of the derivative financial instruments are the same as their fair values.

CSR Meishan Co., Ltd., a subsidiary of the Group, has entered into five forward currency contracts to manage its exchange rate exposure. The forward currency contract is not designated for hedge purposes and is measured at fair value through profit or loss. The prior year forward currency contracts, held by CSR Zhuzhou Electric Locomotive Co., Ltd. and CSR Qingdao Sifang Co., Ltd., were settled in 2012.

29. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Cash and bank balances	**15,044,694**	23,730,328	**2,373,099**	11,715,980
Less : Pledged time deposits	**(547,429)**	(637,847)	**(4,367)**	(4,348)
Cash and cash equivalents in the consolidated statement of financial position	**14,497,265**	23,092,481	**2,368,732**	11,711,632
Less : Non-pledged time deposits with original maturity of three months or more when acquired	**(45,000)**	(1,116,605)		
Cash and cash equivalents in the consolidated statement of cash flows	**14,452,265**	21,975,876		
Cash and bank balances and time deposits denominated in				
— RMB	**13,718,302**	22,992,094	**2,372,386**	11,613,215
— United States dollars	**553,176**	399,444	**531**	63,372
— Hong Kong dollars	**416,907**	141,968	**—**	39,215
— South African rand	**199,858**	—	**—**	—
— Euros	**47,674**	105,120	**182**	178
— Canadian dollars	**298**	91	**—**	—
— Singapore dollars	**57,272**	60,160	**—**	—
— Other currencies	**51,207**	31,451	**—**	—
	15,044,694	23,730,328	**2,373,099**	11,715,980

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Pledged bank balances and time deposits represented balances pledged to banks for the issuance of the Group's bills payable and letters of credit, and for the grant of bank loans to the Group. Further details of the bank loans are set out in note 33 below.

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30. TRADE PAYABLES

An aged analysis of trade payables at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2012 **RMB'000**	2011 RMB'000
Within 6 months	**23,305,932**	19,557,231
6 months to 1 year	**1,857,556**	984,614
Over 1 year	**1,551,369**	697,150
	26,714,857	21,238,995

The trade payables are non-interest-bearing and are normally settled on six-month terms.

	Group	
	2012 **RMB'000**	2011 RMB'000
Trade payables denominated in:		
Japanese yen	**280,318**	450,562
Great Britain pounds	**6,497**	6,048
Malaysian ringgit	**6,178**	11
United States dollars	**4,421**	5,030
Euros	**3,320**	28,537
Swiss franc	**2,817**	—
Australian dollars	**2,125**	2,307
Canadian dollars	**1,727**	1,572
Hong Kong dollars	**7**	—
Bangladeshi taka	**—**	6,390
	307,410	500,457

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

	Group	
	2012 **RMB'000**	2011 RMB'000
CSRG Group	**13,586**	6,766
Jointly-controlled entities	**105,092**	68,627
	118,678	75,393

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

31. BILLS PAYABLE

The maturity profile of the bills payable of the Group at the end of the reporting period is as follows:

	2012 **RMB'000**	2011 RMB'000
Within 6 months	**12,948,103**	6,616,548

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

	2012 **RMB'000**	2011 RMB'000
CSRG Group	**7,100**	19,320

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

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Other payables	**3,136,189**	3,016,537	**6,277,004**	5,963,180
Advances from customers	**7,271,776**	7,408,657	**—**	—
Accruals	**1,521,596**	1,554,571	**101,509**	196,333
	11,929,561	11,979,765	**6,378,513**	6,159,513

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

	2012 **RMB'000**	2011 RMB'000
CSRG Group	**135,419**	541,229
Jointly-controlled entity	**554,545**	391,476
	689,964	932,705

The above balances are unsecured, interest-free and have no fixed terms of repayment.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2012			2011		
	Effective interest rate per annum (%)	**Maturity**	***RMB'000***	Effective interest rate per annum (%)	Maturity	*RMB'000*
Current						
Bank loans						
— Secured	**4.26-8.53**	**2013**	**578,201**	3.49-9.00	2012	1,494,917
— Unsecured	**0.35-6.89**	**2013**	**3,901,047**	1.84-8.10	2012	8,392,562
Short term bonds						
— Secured	**—**	**—**	**—**	4.73	2012	500,000
— Unsecured	**4.38**	**2013**	**2,000,000**	4.77-5.38	2012	5,500,000
Other loans						
— Unsecured	**6.00**	**2013**	**8,000**	6.00	2012	1,690
Current portion of long term bank loans						
— Secured	**1.89-6.98**	**2013**	**59,081**	1.89-6.98	2012	39,176
— Unsecured	**interest-free-6.88**	**2013**	**45,268**	4.86-5.27	2012	160,778
Current portion of long term bonds						
— Unsecured	**4.08**	**2013**	**2,000,000**	4.18	2012	2,000,000
Current portion of other loans						
— Unsecured	**interest-free**	**2013**	**4,000**	0.30	2012	10,000
			8,595,597			18,099,123
Non-current						
Bank loans						
— Secured	**0.20-6.98**	**2014-2016**	**285,446**	0.2-6.98	2013-2035	270,013
— Unsecured	**interest-free-7.00**	**2014-2017**	**436,930**	interest-free-6.88	2013-2015	50,084
Long term bond						
— Unsecured	**—**	**—**	**—**	4.08	2013	2,000,000
Other loans						
— Secured	**6.49**	**2014**	**5,000**	6.94	2014	5,000
— Unsecured	**—**	**—**	**—**	—	—	—
			727,376			2,325,097
			9,322,973			20,424,220

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

Company

	2012			2011		
	Effective interest rate per annum (%)	**Maturity**	***RMB'000***	Effective interest rate per annum (%)	Maturity	*RMB'000*
Current						
Bank loans						
— Unsecured	**4.51-7.22**	**2013**	**495,000**	4.51-7.22	2012	4,910,000
Short term bonds						
— Unsecured	**4.38**	**2013**	**2,000,000**	5.06-5.38	2012	5,000,000
Current portion of long term bank loans						
— Unsecured	**—**	**—**	**—**	5.13	2012	100,000
Current portion of long term bonds						
— Unsecured	**4.08**	**2013**	**2,000,000**	4.18	2012	2,000,000
			4,495,000			12,010,000
Non-current						
Bank loans						
— Unsecured	**4.20**	**2014**	**300,000**	—	—	—
Long term bonds						
— Unsecured	**—**	**—**	**—**	4.08	2013	2,000,000
			300,000			2,000,000
			4,795,000			14,010,000

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**4,583,597**	10,087,433	**495,000**	5,010,000
In the second year	**521,202**	96,064	**300,000**	—
In the third to fifth years, inclusive	**192,928**	215,766	**—**	—
Beyond five years	**8,246**	8,267	**—**	—
	5,305,973	10,407,530	**795,000**	5,010,000
Short term bonds repayable:				
Within one year or on demand	**2,000,000**	6,000,000	**2,000,000**	5,000,000
Long term bonds repayable:				
Within one year or on demand	**2,000,000**	2,000,000	**2,000,000**	2,000,000
In the second year	**—**	2,000,000	**—**	2,000,000
	2,000,000	4,000,000	**2,000,000**	4,000,000
Other borrowings repayable:				
Within one year or on demand	**12,000**	11,690	**—**	—
In the second year	**5,000**	—	**—**	—
In the third to fifth years, inclusive	**—**	5,000	**—**	—
	17,000	16,690	**—**	—

The above secured bank loans and other banking facilities were secured by certain assets and their carrying values are as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Property, plant and equipment	**99,142**	103,430	**—**	—
Prepaid land lease payments	**31,063**	106,794	**—**	—
Time deposits and bank balances	**—**	5,837	**—**	—
Bills receivable	**600**	173,600	**—**	—
Trade receivables	**14,901**	564,880	**—**	—
	145,706	954,541	**—**	—

Interest-bearing bank and other borrowings denominated in:

	Group	
	2012 RMB'000	2011 RMB'000
Euros	**—**	17,886
United States dollars	**89,975**	284,886
Great British pounds	**69,707**	60,251
Hong Kong dollars	**991,655**	315,245
	1,151,337	678,268

34. DEFINED BENEFIT OBLIGATIONS

In addition to the monthly contributions to various defined contribution pension schemes regulated by the PRC government, the Group provided supplementary pension subsidies and early retirement benefits to certain qualified employees. The amounts of employee benefit obligations recognised in the statement of financial position represent the present value of the unfunded obligations.

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

The movements in the supplementary pension subsidies and early retirement benefit obligations recognised in the statement of financial position are as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
At beginning of the year	**1,719,100**	1,945,640	**13,820**	16,160
Interest cost recognised in administrative expenses	**12,310**	(58,290)	**3,850**	560
Amount paid	**(155,760)**	(168,250)	**(2,350)**	(2,900)
At end of year	**1,575,650**	1,719,100	**15,320**	13,820

The provision for supplementary pension subsidies and early retirement benefits recognised in the statement of financial position is determined as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Present value of unfunded obligations	**1,543,410**	1,632,040	**21,410**	18,940
Unrecognised net actuarial gain	**32,240**	87,060	**(6,090)**	(5,120)
Defined benefit liabilities recognised	**1,575,650**	1,719,100	**15,320**	13,820
Portion classified as current liabilities	**(138,200)**	(150,070)	**(2,240)**	(1,860)
Non-current portion	**1,437,450**	1,569,030	**13,080**	11,960

The net expenses recognised in the profit or loss of the Group are analysed as follows:

		Group	
	Note	**2012 RMB'000**	2011 RMB'000
Interest cost	6	**12,310**	(58,290)

34. DEFINED BENEFIT OBLIGATIONS (CONTINUED)

The above employee benefit obligations were determined based on actuarial valuation performed by Towers Perrin, an independent actuary, whose registered office is located at 1266 Nanjing West Road, 39/F, Plaza 66, Shanghai, the PRC, using the projected unit credit actuarial cost method and the material actuarial assumptions used in valuing these obligations are as follows:

	2012 %	2011 %
Discount rate adopted	**3.50%**	3.50%
Healthcare cost trend	**8.00%**	8.00%
Cost of living adjustment for early retirees	**8.00%**	8.00%

The interest cost is charged in administrative expenses.

A one percentage point change in the assumed rate of increase in healthcare cost would have the following effects:

	Group	
	2012 ***RMB'000***	2011 *RMB'000*
Increase in interest cost	**860**	940
Decrease in interest cost	**(750)**	(810)
Increase in the defined benefit obligations	**24,500**	26,880
Decrease in the defined benefit obligations	**(21,330)**	(23,140)

35. PROVISION FOR WARRANTIES

		Group	
	Note	**2012** ***RMB'000***	2011 *RMB'000*
At beginning of year		**1,134,366**	708,445
Charged for the year	6	**960,771**	956,229
Utilised during the year		**(643,455)**	(530,308)
At end of year		**1,451,682**	1,134,366
Portion classified as :			
Current liabilities		**479,453**	400,920
Non-current liabilities		**972,229**	733,446

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.

36. GOVERNMENT GRANTS

		Group		Company	
	Notes	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
At beginning of year		**969,668**	804,224	**—**	—
Received during the year		**780,125**	570,150	**—**	—
Acquisitions of subsidiaries	39	**18,095**	793	**—**	—
Recognised as other income and gains during the year	5	**(569,267)**	(405,499)	**—**	—
At end of year		**1,198,621**	969,668	**—**	
Current portion		**(271,407)**	(209,157)	**—**	—
Non-current portion		**927,214**	760,511	**—**	—

Government grants received are mainly for the purpose of research and development, investment in property, plant and equipment and prepaid land lease payments from the local government for encouraging the Group to develop.

37. SHARE OPTION SCHEME

The expense recognised for the share option scheme for the years ended 31 December 2012 and 2011 is as follows:

	2012 RMB'000	2011 RMB'000
Equity-settled share option expense	**54,040**	36,066

In March 2011, the Company submitted a share option scheme to the CSRC for approval, and there was no dissent. On 26 April 2011, the share option scheme was approved at the 2011 first extraordinary general meeting. Then the Company adopted an A share share option scheme ("Share Option Scheme") for the purpose of providing incentives to eligible participants, and eligible participants of the Share Option Scheme included the directors, senior management (independent non-executive directors excluded), and key technical personnel and management personnel who have direct contribution to the performance and continuing development of the Company.

On 27 April 2011, the board of the directors of the Company granted 36,605,000 share options to the participants under the Share Option Scheme to subscribe for 36,605,000 A shares of par value RMB1.00 each of the Company pursuant to the resolution of the general meeting. The number of the share options granted does not exceed 1% of the total number of A shares in issue, and the share options granted have a validity period of seven years, commencing from the grant date determined by the board of the directors of the Company. Subject to fulfilment of all effective conditions under the Share Option Scheme and after the expiry of the two-year lock-up period from the grant date, the share options shall become exercisable in three batches according to the following effective arrangements:

Maximum percentage exercisable	Period for vesting of the relevant percentage of the option
Lot 1:1/3 of the total share options granted	From the first trading day after the expiration of the 24-month period following the grant date to the last trading day preceding the expiration of the 60-month period following the grant date
Lot 2:1/3 of the total share options granted	From the first trading day after the expiration of the 36-month period following the grant date to the last trading day preceding the expiration of the 72-month period following the grant date
Lot 3:1/3 of the total share options granted	From the first trading day after the expiration of the 48-month period following the grant date to the last trading day preceding the expiration of the 84-month period following the grant date

31 December 2012

37. SHARE OPTION SCHEME (CONTINUED)

The share options granted but not yet effective shall lapse forthwith and shall be cancelled by the Company.

The exercise price is the price at which the Company entitled the participants of the Share Option Scheme to subscribe for each share of the underlying stock. The exercise price was determined at the higher of the closing price of the A Shares on the trading day immediately preceding the date of the Share Option Scheme announcement and the average closing price of the A Shares for the 30 trading days immediately preceding the date of the Share Option Scheme announcement, which was RMB5.43 per share.

The fair value of the share options in 2011 was RMB151,010,000, of which the Group recognised a share option expense of RMB54,040,000 during the year ended 31 December 2012 (2011: RMB36,066,000) .

The fair value of share options granted is estimated at the date of the grant using the Black-Scholes model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Dividend yield *(%)*	0.60
Expected volatility *(%)*	52.68-56.51
Market price *(RMB/share)**	7.09
Risk-free interest rate *(%)*	3.481-3.694
Expected life *(years)*	5-7
Exercise price *(RMB/share)*	5.43

* Market price is the closing price at the grant date.

The expected life of the share options is based on historical data of the past three years and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of the fair value.

As at 31 December 2012, there were no exercised or expired share options. On 31 December 2012, the expiry dates of the un-exercised share options vary from five years to seven years after the grant date.

38. EQUITY

Share capital

	Company			
	2012		2011	
	Number of shares	RMB'000 Nominal value	Number of shares	RMB'000 Nominal value
Registered and fully paid				
— State-owned shares of RMB1.00 each	**7,883,772,800**	**7,883,773**	6,516,000,000	6,516,000
— A shares of RMB1.00 each	**3,895,227,200**	**3,895,227**	3,300,000,000	3,300,000
— H shares of RMB1.00 each	**2,024,000,000**	**2,024,000**	2,024,000,000	2,024,000
	13,803,000,000	**13,803,000**	11,840,000,000	11,840,000

On 11 January 2012, the application of the non-public offering of A shares of the Company was approved by the Public Offering Review Committee of the CSRC. On 23 February 2012, the Company received "The Reply Letter in Relation to the Approval on the Non-public Issue of Shares by CSR Corporation Limited" (Zheng Jian Xu Ke [2012] No. 210) from the CSRC, which granted the approval on the non-public issue of not more than 1,963 million A shares by the Company to not more than 10 target subscribers, including CSR Group. On 15 March 2012, the Company completed the share registration in relation to the non-public issue of A shares with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. The gross amount of proceeds from the non-public issue of A shares was RMB8,754,980,000.

38. EQUITY (CONTINUED)

Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Equity movements

	Company						
	Share capital *RMB'000*	Capital reserve *RMB'000*	Share option reserve *RMB'000*	Common statutory reserve fund *RMB'000*	Retained earnings *RMB'000*	Proposed final dividends *RMB'000*	Total *RMB'000*
At 1 January 2011	11,840,000	7,222,642	—	288,658	1,271,838	473,600	21,096,738
Profit for the year	—	—	—	—	2,075,432	—	2,075,432
Transfer from profit	—	—	—	207,543	(207,543)	—	—
Dividends distributed to the shareholders	—	—	—	—	—	(473,600)	(473,600)
Equity-settled share option arrangement	—	—	36,066	—	—	—	36,066
Proposed final 2011 dividend	—	—	—	—	(2,484,540)	2,484,540	—
At 31 December 2011	11,840,000	7,222,642	36,066	496,201	655,187	2,484,540	22,734,636
Profit for the year	—	—	—	—	2,701,216	—	2,701,216
Transfer from profit	—	—	—	269,800	(269,800)	—	—
Dividends distributed to the shareholders	—	—	—	—	—	(2,484,540)	(2,484,540)
Capital contribution from shareholders	1,963,000	6,736,405	—	—	—	—	8,699,405
Equity-settled share option arrangement	—	—	54,040	—	—	—	54,040
Proposed final 2012 dividend	—	—	—	—	(1,242,270)	1,242,270	—
At 31 December 2012	13,803,000	13,959,047	90,106	766,001	1,844,333	1,242,270	31,704,757

39. BUSINESS COMBINATION

On 29 February 2012, Zhuzhou National Engineering Research Center of Converters Co., Ltd., a subsidiary of the Company, acquired a 78% equity interest and injected capital in ShangHai CSR Hange Shipping Engineering Technology Co., Ltd. ("CSR Hange"), which is mainly engaged in the manufacture and sale of marine electrical propulsion systems, from third parties at a cash consideration of RMB38,840,000.

On 31 July 2012, CSR Zhuzhou Electric Locomotive Co., Ltd., a subsidiary of the Company, acquired a 59% equity interest in Henan CSR Heavy Equipment Manufacturing Co., Ltd. ("Henan Heavy Equipment"), which is mainly engaged in coal mining, from third parties at a cash consideration of RMB91,286,000.

On 31 August 2012, CSR Zhuzhou Electric Locomotive Co., Ltd., a subsidiary of the Company, acquired an 80% equity interest in Inner Mongolia CSR Electric Co., Ltd. ("Inner Mongolia Electric"), which is mainly engaged in the manufacture and sale of wind turbines, from a third party at a cash consideration of RMB149,576,000.

On 4 January 2012, CSR Beijing Times Locomotive And Rolling Stock Machinery Co., Ltd., a subsidiary of the Company, acquired a 100% equity interest and injected capital in Xiangfan CSR Special Purpose Automobile Co., Ltd. ("Xiangfan CSR"), which is mainly engaged in the manufacture and sale of special purpose automobiles, from third parties at a cash consideration of RMB18,008,000.

39. BUSINESS COMBINATION (CONTINUED)

The fair values of the identifiable assets and liabilities of the above acquired subsidiaries as at the date of acquisitions were as follows:

	Notes	Fair value recognised on acquisitions CSR Hange RMB'000	Henan Heavy Equipment RMB'000	Inner Mongolia Electric & Xiangfan CSR RMB'000	Total RMB'000
Property, plant and equipment	14	1,268	149,037	50,438	200,743
Prepaid land lease payments	15	—	40,336	22,278	62,614
Other intangible assets	17	12,254	9,737	—	21,991
Deferred tax assets		515	5,720	5,929	12,164
Other non-current assets		—	1,080	—	1,080
Inventories		3,261	225,872	199,460	428,593
Trade receivables		3,602	233,456	108,497	345,555
Bills receivable		1,072	7,387	—	8,459
Prepayments, deposits and other receivables		2,614	96,353	52,108	151,075
Tax recoverable		393	7,846	22	8,261
Cash and cash equivalents		13,922	34,150	3,746	51,818
Interest-bearing bank and other borrowings		—	(62,000)	—	(62,000)
Defined benefit obligations		—	(48,004)	—	(48,004)
Government grants	36	—	—	(18,095)	(18,095)
Deferred tax liabilities		(3,135)	(20,007)	(1,399)	(24,541)
Other non-current liabilities		—	(2,088)	—	(2,088)
Trade payables		(535)	(291,506)	(202,023)	(494,064)
Bills payable		—	(58,528)	—	(58,528)
Other payables and accruals		(12,005)	(206,290)	(14,115)	(232,410)
Tax payable		—	—	(1,868)	(1,868)
Non-controlling interests		(5,110)	(51,421)	(37,394)	(93,925)
Net assets		18,116	71,130	167,584	256,830
Goodwill arising on acquisitions	16	20,724	20,156	—	40,880
		38,840	91,286	167,584	297,710
Satisfied by:					
Cash		38,840	91,286	167,584	297,710

39. BUSINESS COMBINATION (CONTINUED)

An analysis of the cash flow in respect of the acquisitions of the above subsidiaries is as follows:

	CSR Hange *RMB'000*	Henan Heavy Equipment *RMB'000*	Inner Mongolia Electric & Xiangfan CSR *RMB'000*	Total *RMB'000*
Cash consideration	**(38,840)**	**(91,286)**	**(167,584)**	**(297,710)**
Cash consideration not yet paid	**10,370**	**91,286**	**—**	**101,656**
Cash consideration paid in the prior year	**28,470**	**—**	**18,008**	**46,478**
Cash and bank balances acquired	**13,922**	**34,150**	**3,746**	**51,818**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**13,922**	**34,150**	**(145,830)**	**(97,758)**
Transaction costs of the acquisitions included in cash flows from operating activities	**(100)**	**(1,328)**	**(567)**	**(1,995)**
	13,822	**32,822**	**(146,397)**	**(99,753)**

The fair value of the trade receivables as at the date of acquisition amounted to RMB345,555,000. The gross contractual amounts of trade receivables were RMB360,130,000, of which trade receivables of RMB14,575,000 are expected to be uncollectible.

From the date of acquisitions, the revenue and profit after tax, which these companies have contributed to the Group, are as follows:

	CSR Hange *RMB'000*	Henan Heavy Equipment *RMB'000*	Inner Mongolia Electric & Xiangfan CSR *RMB'000*	Total *RMB'000*
Revenue	**51,992**	**194,689**	**322,459**	**569,140**
Profit after tax	**(6,294)**	**2,258**	**794**	**(3,242)**

If the combination had taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB89,686,352,000 and RMB4,858,294,000, respectively.

The goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and activities of these companies with those of the Group. None of the recognised goodwill is expected to be deductible for income tax purposes.

The transaction costs of RMB1,995,000 have been expensed and are included in administrative expenses in the income statement and are part of operating cash flows in the statement of cash flows.

40. COMMITMENTS

OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases certain items of property, plant and equipment under operating lease arrangements negotiated for terms ranging from 1 to 18 years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Within one year	**29,081**	28,536
In the second to fifth years, inclusive	**58,069**	45,961
More than five years	**61,227**	128,166
	148,377	202,663

(b) As lessee

The Group leases certain of its land and buildings and items of property, plant and equipment under operating lease arrangements negotiated for terms ranging from 1 to 18 years.

The Group's future minimum rental payables under non-cancellable operating leases in respect of land and buildings at the end of the reporting period are as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Within one year	**24,830**	17,174
In the second to fifth years, inclusive	**67,569**	52,814
More than five years	**44,883**	26,544
	137,282	96,532

40. COMMITMENTS (CONTINUED)

CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
— Property, plant and equipment	**806,786**	1,493,013
— Prepaid land lease payments	**156,323**	38,808
— Other intangible assets	**111,997**	18,834
— Investment in setting up new entities	**16,616**	910,000
	1,091,722	2,460,655

	2012 RMB'000	2011 RMB'000
Authorised, but not contracted for:		
— Property, plant and equipment	**1,887,597**	2,135,977
— Other intangible assets	**16,256**	8,300
	1,903,853	2,144,277

In addition, the Group's share of the jointly-controlled entities' capital commitments, which are not included in the above, is as follows:

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
— Property, plant and equipment	**45,145**	29,585

41. CONTINGENT LIABILITIES

As at 31 December 2012 and 2011, the Group had no significant contingent liabilities.

The Company had the following contingent liabilities not provided for in the financial statements at the end of the reporting period:

	Company	
	2012 RMB'000	2011 RMB'000
Guarantees given to banks in connection with facilities granted to:		
Subsidiaries	**8,789,901**	5,236,065

As at 31 December 2012, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB8,596,964,000 (2011: RMB5,026,065,000).

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.

	Group	
	2012	2011
	RMB'000	*RMB'000*
(a) Purchases of materials and components from:		
CSRG Group *	**173,813**	94,175
Jointly-controlled entities	**943,061**	678,478
An associate	**6,811**	10,304
	1,123, 685	782,957
(b) Sale of goods to:		
CSRG Group *	**257,535**	130,356
Jointly-controlled entities	**951,434**	421,805
Associates	**340,846**	558,044
	1,549,815	1,110,205
(c) Provision of services to:		
CSRG Group *	**3,077**	7,031
A jointly-controlled entity	**15,781**	20,459
	18,858	27,490
(d) Rental of property, plant and equipment from:		
CSRG Group *	**20,905**	18,783

42. RELATED PARTY TRANSACTIONS (CONTINUED)

	Group	
	2012 **RMB'000**	2011 RMB'000
(e) Compensation of key management personnel of the Group:		
Short term employee benefits	**9,107**	7,344
Post-employment benefits	**432**	294
Total compensation paid/payable to key management personnel *(unit: share)*	**9,539**	7,638
Number of share options to key management personnel	**1,974,200**	1,400,000

For the changes of key management personnel occurred during the year, the above compensation was based on the actual period of their tenure of office. Further details of directors', supervisors and the chief executive's emoluments are included in note 8 to the financial statements.

The related expense on share options to key management personnel recognised in 2012 was RMB2,819,000 (2011: RMB1,379,000).

(f) Commitments with related parties:

The Group had the following commitments with related parties at the end of reporting period, which are contracted, but not included in the financial statements:

	2012 **RMB'000**
Sale of goods to:	
Jointly-controlled entities	**262,725**
Associates	**755,024**
CSRG Group	**194**
	1,017,943
Purchase of materials and components from:	
Jointly-controlled entities	**31,217**
CSRG Group	**232**
	31,449

(g) Transactions with state-owned entities in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "State-owned Entities"). During the year, the Group entered into extensive transactions with these State-owned Entities including, but not limited to, sales and purchases. As explained in note 4 to the financial statements, the Ministry of Railways and entities invested and managed by local railway departments are identified as a single State-owned Entity by the directors of the Company, and the revenue from the State-owned Entity amounted to RMB37,480,731,000 for the year ended 31 December 2012 (2011: RMB43,859,179,000).

Management considers that transactions with State-owned Entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-owned Entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are State-owned Entities.

* Such related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

As at 31 December 2012

Financial assets

	Group			
	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	526,630	—	526,630
Financial assets at fair value through profit or loss	—	—	7,346	7,346
Derivative financial instruments	—	—	2,243	2,243
Trade receivables	26,618,776	—	—	26,618,776
Bills receivable	3,735,597	—	—	3,735,597
Financial assets included in prepayments, deposits and other receivables	2,112,257	—	—	2,112,257
Pledged deposits	547,429	—	—	547,429
Cash and cash equivalents	14,497,265	—	—	14,497,265
Financial assets included in other non-current assets	950,107	—	—	950,107
	48,461,431	526,630	9,589	48,997,650

Financial liabilities

	Group Financial liabilities at amortised cost *RMB'000*
Trade payables	26,714,857
Bills payable	12,948,103
Financial liabilities included in other payables and accruals	3,261,270
Financial liabilities included in other non-current liabilities	10,060
Interest-bearing bank and other borrowings	9,322,973
	52,257,263

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows: (continued)

As at 31 December 2012

Financial assets

	Company		
	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	678	678
Loans to subsidiaries *(note 18)*	179,000	—	179,000
Financial assets included in prepayments, deposits and other receivables	11,091,660	—	11,091,660
Pledged deposits	4,367	—	4,367
Cash and cash equivalents	2,368,732	—	2,368,732
	13,643,759	678	13,644,437

Financial liabilities

	Company Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	6,354,089
Interest-bearing bank and other borrowings	4,795,000
	11,149,089

As at 31 December 2011

Financial assets

	Group			
	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	271,282	—	271,282
Financial assets at fair value through profit or loss	—	—	11,861	11,861
Derivative financial instruments	—	—	35,774	35,774
Trade receivables	13,689,416	—	—	13,689,416
Bills receivable	4,201,451	—	—	4,201,451
Financial assets included in prepayments, deposits and other receivables	1,362,195	—	—	1,362,195
Pledged deposits	637,847	—	—	637,847
Cash and cash equivalents	23,092,481	—	—	23,092,481
Financial assets included in other non-current assets	10,410	—	—	10,410
	42,993,800	271,282	47,635	43,312,717

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows: (continued)

Financial liabilities

	Group Financial liabilities at amortised cost *RMB'000*
Trade payables	21,238,995
Bills payable	6,616,548
Financial liabilities included in other payables and accruals	3,313,138
Financial liabilities included in other non-current liabilities	—
Interest-bearing bank and other borrowings	20,424,220
	51,592,901

As at 31 December 2011

Financial assets

	Company		
	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	678	678
Loans to subsidiaries *(note 18)*	279,000	—	279,000
Financial assets included in prepayments, deposits and other receivables	7,458,575	—	7,458,575
Pledged deposits	4,348	—	4,348
Cash and cash equivalents	11,711,632	—	11,711,632
	19,453,555	678	19,454,233

Financial liabilities

	Company Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals	6,140,650
Interest-bearing bank and other borrowings	14,010,000
	20,150,650

44. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of listed equity investments and financial assets at fair value through profit or loss are based on quoted market prices.

44. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. But short term and long term bonds are included in interest-bearing bank and other borrowings, and the fair value of the short term and long term bonds is estimated using quoted market prices. The carrying amounts and fair values of the Group's interest-bearing bank and other borrowings as at 31 December 2012 were RMB9,322,973,000 (2011: RMB20,424,220,000) and RMB9,332,595,000 (2011: RMB20,371,095,000), respectively. The carrying amounts and fair values of the Company's interest-bearing bank and other borrowings were RMB4,795,000,000 (2011: RMB14,010,000,000) and RMB4,781,289,000 (2011: RMB13,982,346,000), respectively.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Financial assets measured at fair value:

Group

As at 31 December 2012

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Available-for-sale investments:				
Equity investments	**493,553**	**—**	**—**	**493,553**
Derivative financial instruments:				
Forward currency contracts	**2,243**	**—**	**—**	**2,243**
Equity investments at fair value through profit or loss	**7,346**	**—**	**—**	**7,346**
	503,142	**—**	**—**	**503,142**

As at 31 December 2011

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Available-for-sale investments:				
Equity investments	244,204	—	—	244,204
Derivative financial instruments:				
Forward currency contracts	35,774	—	—	35,774
Equity investments at fair value through profit or loss	11,861	—	—	11,861
	291,839	—	—	291,839

During the years ended 31 December 2012 and 2011, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

As at 31 December 2012 and 2011, the Company did not hold any financial instruments measured at fair value.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees on policies for managing each of these risks and they are summarised below:

Credit risk

Credit risk means the risk of loss in respect of a financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group only transacts with those third parties who are recognised as creditworthy. The Group's policy is to perform credit verification for all customers who have transactions with the Group. Further, credit limits, credit terms and sales methods are determined based on the credit ratings of customers.

For sales under credit terms, a sales contract shall stipulate the payment term and credit amounts. The payment date should not exceed the credit term, and the credit amount in aggregate should not exceed the credit limit.

For cash on delivery sales, goods are only delivered after the completion of cash collection procedures.

In addition, the Group continuously monitors its trade receivable balances, and insists that salespersons are responsible for cash collection, and persons who approve sales contracts are accountable for the collection of receivables. For receivables which are not collected in three years, the relevant personnel have the responsibility to make compensation so as to ensure that the Group will not be subject to material bad debt risk.

The Group's other financial assets include cash and cash equivalents, and other receivables. The credit risk of these financial assets arises from default of counterparties who transact with the Group, with a maximum exposure equal to the carrying amounts of these instruments.

The Group's principal customers are the Ministry of Railways and entities invested and managed by local railway departments. Since the Group only trades with third parties recognised to be creditworthy, no pledge of assets is required from the customers. Concentrations of credit risk are managed by customers.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 the liability to dispose of financial assets promptly, the counterparty who cannot repay its contracted debt obligations, or from the liability to generate the expected cash flows.

The Group's objectives are to maintain a balance between continuity and flexibility through measures such as bills settlement, loans and short term commercial paper, to adopt an appropriate combination of long term and short term financing, and to improve the financing structure.

The Group has already obtained banking facilities from various commercial banks for its working capital and capital expenditure.

The Group's management monitors the working capital position to ensure that there is adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of the Group's financial resources.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments:

As at 31 December 2012

	Group				
	Within one year or on demand *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Beyond five years *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	**8,785,416**	**555,062**	**202,906**	**8,527**	**9,551,911**
Trade payables	**26,714,857**	**—**	**—**	**—**	**26,714,857**
Bills payable	**12,948,103**	**—**	**—**	**—**	**12,948,103**
Financial liabilities included in other payables and accruals	**3,261,270**	**—**	**—**	**—**	**3,261,270**
Financial liabilities included in other non-current liabilities	**—**	**8,064**	**1,996**	**—**	**10,060**
	51,709,646	**563,126**	**204,902**	**8,527**	**52,486,201**

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

As at 31 December 2011

	Group				
	Within one year or on demand *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Beyond five years *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	18,493,234	2,121,191	237,154	8,564	20,860,143
Trade payables	21,238,995	—	—	—	21,238,995
Bills payable	6,616,548	—	—	—	6,616,548
Financial liabilities included in other payables and accruals	3,313,138	—	—	—	3,313,138
	49,661,915	2,121,191	237,154	8,564	52,028,824

Interest rate risk

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

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

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** ***RMB'000***
Year ended 31 December 2012	**100**	**(36,916)**
	(100)	**36,916**
Year ended 31 December 2011	100	(54,418)
	(100)	54,418

Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. The Group's foreign risk mainly arise from sales or purchases by operating units in currencies other than the units' functional currency and from net investments in foreign operations.

The Group's businesses are mainly located in the PRC and are mainly transacted and settled in Renminbi. Certain sales, purchases and borrowings are settled in foreign currencies. The fluctuation of the exchange rates of foreign currencies against Renminbi will affect the Group's results of operations.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

The Group endeavours to reduce foreign currency risk to a minimum mainly by closely monitoring market exchange rate changes and actively adopting measures.

For foreign business contracts under negotiation, the Group also requires price quotations to be based on the expected exchange rate changes. In negotiations, the Group also requires price quotations to be based on the expected exchange rate changes. When negotiating foreign business, the relevant terms should clearly state the scope of exchange rate fluctuations and the related risk to be borne by both the seller and buyer. For import activities, the relevant import entities are required to monitor the timing of settlement such that the appreciation of Renminbi can be utilised to reduce the cost of purchase.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro and US dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). In the opinion of the directors, as the currency exposures arising from possible changes in other currencies will not have any significant financial impact on the Group, the relative sensitivity is not disclosed.

	Group	
	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax *RMB'000*
Year ended 31 December 2012		
If Renminbi strengthens against Euro	**9.2**	**20,474**
If Renminbi weakens against Euro	**(9.2)**	**(20,474)**
If Renminbi strengthens against US dollar	**1.1**	**20,409**
If Renminbi weakens against US dollar	**(1.1)**	**(20,409)**

	Group	
	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax *RMB'000*
Year ended 31 December 2011		
If Renminbi strengthens against Euro	18.0	34,141
If Renminbi weakens against Euro	(18.0)	(34,141)
If Renminbi strengthens against US dollar	4.6	15,803
If Renminbi weakens against US dollar	(4.6)	(15,803)

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the parent.

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its business. The principal strategies adopted by the Group include, without limitation, reviewing the 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 2012 and 2011 were as follows:

	Group As at 31 December	
	2012 **RMB'000**	2011 RMB'000
Interest-bearing bank and other borrowings	**9,322,973**	20,424,220
Trade payables	**26,714,857**	21,238,995
Bills payable	**12,948,103**	6,616,548
Other payables and accruals	**11,929,561**	11,979,765
Less: Cash and cash equivalents and pledged deposits	**(15,044,694)**	(23,730,328)
Net debt	**45,870,800**	36,529,200
Total capital	**32,755,427**	22,561,630
Capital and net debt	**78,626,227**	59,090,830
Gearing ratio	**58%**	62%

46. EVENTS AFTER THE REPORTING PERIOD

1. On 12 November 2012, proposal in relation to the issue of short term bonds to the extent of RMB8 billion was approved by the board of directors of the Company. The Company has completed the issuance of the first and second phase of short term bonds on 25 January and 31 January 2013, respectively, with proceeds of RMB1 billion and RMB2 billion being received respectively.

2. On 12 November 2012, the ordinary authority to the board of directors on the issuance of debt financial instruments in RMB was approved by the 2012 first extraordinary general meeting of the Company. On 1 February 2013, the proposal in relation to the issuance of company bonds of no more than RMB5,000,000,000 was approved by the board of directors. On 15 March 2013, the Company's application of the issuance of company bonds of no more than RMB5,000,000,000 in PRC was approved by the Public Offering Review Committee of CSRC.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2013.

Definitions

"Articles of Association"	the articles of association of the Company
"BST"	Bombardier Sifang (Qingdao) Transportation Ltd. (青島四方龐巴迪鐵路運輸設備有限公司)
"Company" or "CSR"	CSR Corporation Limited (中國南車股份有限公司)
"Company Law"	the Company Law of the People's Republic of China
"CSR Australia"	CSR (Australia) Company Limited (中國南車(澳洲)有限公司)
"CSR Chengdu"	CSR Chengdu Locomotive & Rolling Stock Co., Ltd. (南車成都機車車輛有限公司)
"CSR Electric"	CSR Zhuzhou Electric Co., Ltd. (南車株洲電機有限公司)
"CSR Erqi"	CSR Erqi Co., Ltd. (南車二七車輛有限公司)
"CSR Finance"	CSR Finance Co., Ltd. (南車財務有限公司)
"CSR Guangji"	CSR Guangzhou Electric Locomotive Co., Ltd.(廣州電力機車有限公司)
"CSR Hong Kong"	CSR (Hong Kong) Company Limited (中國南車(香港)有限公司)
"CSR Leasing "	CSR Investment Leasing Co., Ltd. (南車投資租賃有限公司)
"CSR Luoyang"	CSR Luoyang Locomotive Co., Ltd. (南車洛陽機車有限公司)
"CSR Meishan"	CSR Meishan Co., Ltd. (南車眉山車輛有限公司)
"CSR Puzhen"	CSR Nanjing Puzhen Rolling Stock Co., Ltd. (南車南京浦鎮車輛有限公司)
"CSR Qishuyan"	CSR Qishuyan Locomotive Co., Ltd. (南車戚墅堰機車有限公司)
"CSR Qishuyan Institute"	CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd. (南車戚墅堰機車車輛工藝研究所有限公司)
"CSR Shijiazhuang"	CSR Shijiazhuang Rolling Stock Co., Ltd. (南車石家莊車輛有限公司)
"CSR Sifang"	CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. (南車青島四方機車車輛股份有限公司)
"CSR Sifang Ltd."	CSR Sifang Rolling Stock Co., Ltd. (南車四方車輛有限公司)

“CSR Yangtze”	CSR Yangtze Rolling Stock Co., Ltd. (南車長江車輛有限公司)
“CSR ZELRI”	CSR Zhuzhou Electric Locomotive Research Institute Co.,Ltd. (南車株洲電力機車研究所有限公司)
“CSR Zhuzhou”	CSR Zhuzhou Electric Locomotive Co., Ltd. (南車株洲電力機車有限公司)
“CSR Ziyang”	CSR Ziyang Locomotive Co., Ltd. (南車資陽機車有限公司)
“CSRC”	the China Securities Regulatory Commission
“CSRG”	CSR Group (中國南車集團公司)
“CSR Capital Company”	CSR Capital Company
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Ministry of Railways”	the Ministry of Railways of the People’s Republic of China
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“SASAC”	State-owned Asset Supervision and Administration Commission of the State Council
“Securities Law”	the Securities Law of the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“South Huiton”	South Huiton Co., Ltd. (南方匯通股份有限公司)
“Times New Material”	Zhuzhou Times New Material Technology Co., Ltd. (株洲時代新材料科技股份有限公司)

Basic Information of the Company

CHINESE NAME	中國南車股份有限公司
ENGLISH NAME	CSR Corporation Limited (the "Company", "CSR", the Company and its subsidiaries collectively referred as the "Group")
DATE OF BUSINESS REGISTRATION	28 December 2007
REGISTERED OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
BUSINESS ADDRESS OF THE HEAD OFFICE	No. 16 Central West Fourth Ring Road, Haidian District, Beijing 100036, the PRC
PRINCIPAL PLACE OF BUSINESS IN HONG KONG	Unit H, 41/F., Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong
LEGAL REPRESENTATIVE	Zheng Changhong
EXECUTIVE DIRECTORS	Zheng Changhong Liu Hualong, Chen Dayang
INDEPENDENT NON-EXECUTIVE DIRECTORS	Zhao Jibin, Yang Yuzhong Chen Yongkuan, Dai Deming, Tsoi, David
AUTHORIZED REPRESENTATIVES	Liu Hualong, Wong Kai Yan
JOINT COMPANY SECRETARIES	Shao Renqiang, Wong Kai Yan
SECRETARY TO THE BOARD	Shao Renqiang
SECURITIES REPRESENTATIVE	Ding Youjun
TELEPHONE FOR INFORMATION INQUIRY	(8610) 5186 2188
FAX	(8610) 6398 4785
WEBSITE	www.csrgc.com.cn
E-MAIL ADDRESS	csr@csrgc.com

H SHARE REGISTRAR	Computerhsare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
PLACES OF LISTING	The Stock Exchange of Hong Kong Limited Shanghai Stock Exchange
STOCK NAME	CSR
STOCK CODE	1766 (Hong Kong) 601766 (Shanghai)
PRINCIPAL BANKERS	China Minsheng Banking Corp., Ltd. China CITIC Bank Corporation Limited Industrial and Commercial Bank of China Limited Bank of Communications Co., Ltd.
PRC INDEPENDENT AUDITORS	Ernst & Young Hua Ming Certified Public Accountants (LLP) Level 16, Ernst & Young Tower (Tower E3), Oriental Plaza, No. 1 East Chang An Avenue, Dongcheng District, Beijing, the PRC
INTERNATIONAL INDEPENDENT AUDITORS	Ernst & Young *Certified Public Accountants* 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
LEGAL ADVISERS	*As to Hong Kong laws:* Baker & McKenzie 23rd Floor, One Pacific Place, 88 Queensway, Central, Hong Kong *As to PRC laws:* Jia Yuan Law Firm F407 Ocean Plaza, 158 Fuxing Men Nei Avenue, Beijing, the PRC

中国南车

Address: No. 16, Central West Fourth Ring Road,
Haidian District, Beijing, the PRC
Post Code: 100036
Email: csr@csrgc.com
Website: www.csrgc.com.cn