



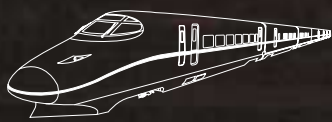
**CHINA SOUTH LOCOMOTIVE &  
ROLLING STOCK CORPORATION LIMITED**

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

Stock Code: 1766

**2008 Interim Report**





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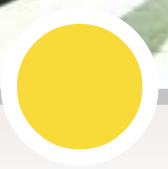
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Places of listing	The Stock Exchange of Hong Kong Limited Shanghai Stock Exchange
Stock name	CSR
Stock code	1766 (Hong Kong) 601766 (Shanghai)
Principal bankers	China Minsheng Banking Corp., Ltd. China CITIC Bank Corporation Limited Industrial and Commercial Bank of China Limited Bank of Communications Co., Ltd.
Independent auditor	Ernst & Young Certified Public Accountants 18th Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
Legal advisers	<i>As to Hong Kong laws:</i> Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central Hong Kong  <i>As to PRC laws:</i> Jia Yuan Law Firm F407 Ocean Plaza 158 Fuxing Men Nei Avenue Beijing, the PRC





# FINANCIAL HIGHLIGHTS



The board of directors (the “Board”) of China South Locomotive & Rolling Stock Corporation Limited (the “Company”) announces the unaudited interim results (under International Financial Reporting Standards (“IFRS”)) of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 (the “Reporting Period”).

Revenue	RMB14,667,064,000
Profit attributable to equity holders of the Company	RMB808,966,000
Basic earnings per share (before the issue of A shares and H shares)	RMB11.6 cents

## INTERIM DIVIDEND

The Board does not recommend paying an interim dividend for the six months ended 30 June 2008.







Dear Shareholders,

On behalf of the Board, I hereby present the 2008 interim report (under IFRS) of China South Locomotive & Rolling Stock Corporation Limited for your review.

Since its incorporation on 28 December 2007, the Board and management of the Company have thoroughly implemented the development strategy outline which was considered and passed at the third meeting of the first Board. The Company also strives to put into practice, at appropriate time, the corporate philosophy of "manufacturing first-rate products, owning first-rate technology, nurturing first-rate staff members, offering the most valuable green products to customers, and turning the Company into the most socially responsible pioneer in the field". The Company endeavours to become a first-rate, world renowned and internationally competitive rolling stock enterprise. This has seen continuous and notable effects.

During the Reporting Period, the Company weathered the impacts from various unfavourable factors such as China's macro-economic regulations and adjustments, rising prices of raw materials, snow storm and earthquake, and achieved admirable operating results. For the six months ended 30 June 2008, the Company achieved operating revenue of RMB14.667 billion, representing an increase by RMB2.181 billion or 17.5% when compared to that of the corresponding period last year, as well as a net profit of RMB933 million, representing an increase of RMB477 million or 104.6% over that of the corresponding period last year. Profit attributable to equity holders of the Company amounted to RMB809 million, accounting for 59.5% of the annual profit forecast. Earnings per share were RMB11.6 cents (before the issue of A shares and H shares). The significant increase in net profit was mainly attributable to the economy of scale arising from increasing revenue, continuous flow of economic benefits from continuing and in-depth structural adjustments, a substantial increase in the localization rate of high-end products such as high-powered electric locomotives and high-speed MUs, together with the full implementation of lean production, strict cost control and implementation of scientific management measures such as the extended implementation of the centralized procurement of raw materials.





During the Reporting Period, the Company had been committed to operating the Board in a scientific, standard and efficient manner, continually enhancing its corporate governance and enterprise management. On the 1st EGM in March 2008, Mr. Tsoi, David was elected as an independent non-executive Director of the Company, thus enhancing the structure of the Board. To strengthen its asset construction and to gain an upper hand in seizing market opportunities, the Company, through self-financing such as making bank loans, kicked off part of the projects which would otherwise be financed by funds raised from the Company's IPO proceeds. The Company accelerated the upgrading of the technologies for its existing products, expanded other businesses that utilize proprietary rolling stock technologies, and pressed ahead with the construction of design, manufacturing and products, the three major technological platforms, thus enhancing its R&D capability. At the same time, the Company attached importance to its social responsibilities. It is committed to energy saving, environmental protection, production safety, protecting employee welfare, as well as respecting customer's rights and interests. Such efforts have already borne some fruit.

Looking ahead, CSR will face precious opportunities resulting from the further promotion of harmonious railway construction in China, huge market potentials for the rapid transit system vehicles and new market demands continuously created by the upgrading of the global railway equipment. The Board is confident that the Company's economic indicators for the year are bound to be achieved as scheduled and its established targets for development strategies will certainly be gradually reached in the second half of 2008 and beyond.

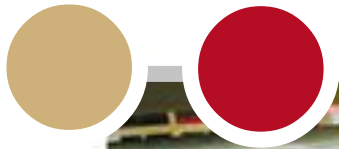
**Zhao Xiaogang**

*Chairman*

Beijing, the PRC

19 September 2008







# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



## OVERVIEW

We are one of the largest rolling stock manufacturers and solutions providers in the world, mainly engaging in the research and development, manufacturing, sale, refurbishment and leasing of locomotives, passenger carriages, freight wagons, MUs and rapid transit vehicles, as well as other businesses that utilize proprietary rolling stock technologies. In the first half of 2008, our management team focused on production and operation, actively expanded domestic and overseas markets while strengthening our corporate governance and cost control. For the six months ended 30 June 2008, our total revenue was RMB14,667 million, which represents an increase by 17.5% when compared with that of the corresponding period in 2007. Our profit attributable to equity holders of the Company increased to RMB809 million in the first half of 2008, as compared to RMB325 million recorded for the six months ended 30 June 2007.

Building on our market-leading position in the rolling stock market in China, our rolling stock products have been exported to over 30 countries and regions over the years. As of 30 June 2008, we had outstanding sales and purchase agreements (including procurement agreements) with a total contract value of approximately RMB90,098.34 million in both domestic and overseas markets. For the six months ended 30 June 2007 and 2008, our revenue from overseas sales amounted to approximately RMB849 million and RMB537 million, respectively, representing 6.8% and 3.7% of our total revenue for the relevant period, respectively.

## FUTURE OUTLOOK

*Please refer to the Chairman's Statement*



## RESULTS OF OPERATION

The following is a comparison of financial results between the six months ended 30 June 2008 and the same period in 2007:

### Revenue

Our total revenue increased by 17.5%, from RMB12,486 million for the six months ended 30 June 2007 to RMB14,667 million for the six months ended 30 June 2008, primarily due to the increase in revenue generated from the production, sales and maintenance, upgrade and refurbishment of locomotives, rapid transit vehicles and key related components, as well as other businesses that utilize proprietary rolling stock technologies. The increase of our revenue was partly offset by the decrease in revenue generated from production and sale of passenger carriages and MUs.

Revenue generated from our locomotive product line increased by 48.2%, from RMB2,864 million for the six months ended 30 June 2007 to RMB4,245 million for the six months ended 30 June 2008. This increase was primarily due to the increase in sales volume of our electric locomotive resulting from the delivery of our locomotive products in the first quarter of 2008 as well as an increase in average unit prices resulting from the upgrade of our products.

Revenue generated from our passenger carriage product line decreased by 13.6%, from RMB1,622 million for the six months ended 30 June 2007 to RMB1,401 million in the six months ended 30 June 2008. This decrease was primarily attributed to decreased sales volume of new passenger carriages as a result of adjustment in the procurement structure by the Ministry of Railways.

Revenue generated from our freight wagon product line increased by 1.9%, from RMB4,665 million for the six months ended 30 June 2007 to RMB4,754 million for the six months ended 30 June 2008. This increase was primarily attributable to the increase in sales volume and price of new freight wagon.

Revenue generated from our MUs product line decreased by 10.5%, from RMB1,483 million for the six months ended 30 June 2007 to RMB1,328 million for the six months ended 30 June 2008. In the first half of the year, the Company delivered five 300 km/h MUs serving the Olympic Games and three 200 km/h oversize arrangement MUs which was the first batch in the PRC. According to the MUs delivery plan, the delivery figure for the first half of the year was lower than the annual average level.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*



Revenue generated from our rapid transit vehicles product line increased by 29.7%, from RMB688 million in the six months ended 30 June 2007 to RMB892 million in the six months ended 30 June 2008. This increase was primarily due to the significant increase in contractual delivery of our rapid transit vehicles.

Our other businesses include those that utilize proprietary rolling stock technologies and businesses other than our rolling stock business. Revenue generated from our other businesses increased from RMB1,164 million for the six months ended 30 June 2007 to RMB2,047 million for the six months ended 30 June 2008, representing a significant increase of 75.9%. The increase in our other businesses was primarily due to the increase in our sales of vessel diesel engines, crankshafts, hybrid-powered buses and components used in automobiles.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

### Outstanding contracts

As at 30 June 2008, the outstanding contracts (including procurement agreements) of the Company amounted to RMB90,098.34 million. Of them, the backlogs of outstanding contracts in the overseas business amounted to RMB3,552.49 million. The breakdown is set out by product lines as follows:

Product Lines	Amount (RMB million)
1. Locomotives	44,825.86
2. Passenger carriages	1,323.11
3. Freight wagons	10,635.08
4. MUs	16,095.61
5. Rapid transit vehicles	14,967.20
6. Proprietary rolling stock related technologies	2,251.48
	<u>90,098.34</u>

### Cost of sales

Our cost of sales increased by 11.8%, from RMB10,660 million in the six months ended 30 June 2007 to RMB11,920 million in the six months ended 30 June 2008. However, due to our enlarged economies of scale, increased output of high value-added products and the effectiveness of our cost control, the growth rate of our cost of sales was lower than the growth rate of our revenue in the six months ended 30 June 2008.

### Gross profit

As a result of the foregoing, our gross profit increased by 50.4%, from RMB1,826 million in the six months ended 30 June 2007 to RMB2,747 million in the six months ended 30 June 2008. Our gross profit margin increased from 14.6% in the six months ended 30 June 2007 to 18.7% in the six months ended 30 June 2008. The increase was primarily due to the change of product mix by which we were able to sell more products with higher profit margin. We also benefited from the decrease in raw material costs that resulted from higher localization rates and the increase in sales or service prices of similar types of products, as well as our effective cost control.

### **Other income and gains**

Our other income and gains increased significantly by 73.4%, or RMB152 million, from RMB207 million in the six months ended 30 June 2007 to RMB359 million in the six months ended 30 June 2008, primarily due to the net fair value gain on derivative instruments not qualifying as hedges of RMB72 million, the gain on disposal of available-for-sale investments of RMB33 million, as well as an increase of RMB21 million in profit from sales of scrap materials.

In order to mitigate exchange rate risk of certain foreign currency bank loans, we entered into

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

### **Finance costs**

Our finance costs increased by 53.7%, from RMB162 million in the six months ended 30 June 2007 to RMB249 million in the six months ended 30 June 2008, primarily due to an increase in bank loans and other borrowings to support our business expansion, as well as an increase in interest rates.

### **Share of profits and losses of associates and jointly-controlled entities**

Share of profits and losses of associates and jointly-controlled entities increased by 16.2%, from RMB74 million in the six months ended 30 June 2007 to RMB86 million in the six months ended 30 June 2008. This was primarily due to the increase in the share of profits from our jointly-controlled entity Bombardier Sifang (Qingdao) Transportation Ltd., as a result of its increased sales.

### **Tax**

Our income tax expenses significantly increased by RMB227 million, from RMB58 million in the six months ended 30 June 2007 to RMB285 million in the six months ended 30 June 2008. Our effective tax rates increased from 11.3% in the six months ended 30 June 2007 to 23.4% in the six months ended 30 June 2008, notwithstanding the decrease in the normal income tax rate from 33% to 25% from 1 January 2008, primarily due to the termination of the tax-exempted status of a subsidiary of the Company since 1 October 2007, as well as temporary prepayment of income tax at the normal rate of 25% by our subsidiaries, as high and new-technology enterprises, during the first half of 2008.

### **Profit for the period**

As a result of the foregoing, our profit for the period significantly increased by 104.6%, or RMB477 million, from RMB456 million for the six months ended 30 June 2007 to RMB933 million for the six months ended 30 June 2008.

### **Profit attributable to equity holders of the Company**

Profit attributable to equity holders increased significantly by 148.9%, or RMB484 million, from RMB325 million for the six months ended 30 June 2007 to RMB809 million for the six months ended 30 June 2008.

### **Minority interests**

Minority interests decreased by 5.3%, from RMB131 million in the six months ended 30 June 2007 to RMB124 million in the six months ended 30 June 2008, primarily due to the decrease in profit attributable to minority shareholders as a result of declining operating results of certain indirect controlling subsidiaries.

## LIQUIDITY AND FINANCIAL RESOURCES

### **Working capital**

We have historically met our working capital needs through cash generated from our operations

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

### TRADE AND BILLS PAYABLES

We strive to make payments to suppliers and subcontractors on time to improve our creditworthiness. The turnover days of our trade and bills payable were 141 days and 130 days for the six months ended 30 June 2007 and 2008, respectively. The turnover days of our trade and bills payable during the periods were generally consistent with our payment policy for procurements and purchases.

The following table sets forth an aging analysis of trade payables as of the balance dates indicated below:

	<b>As of 30 June 2008 (Unaudited) RMB'000</b>	<b>As of 31 December 2007 (Audited) RMB'000</b>
Within 6 months	<b>6,438,596</b>	5,459,776
6 months to 1 year	<b>507,555</b>	500,448
Over 1 year	<b>180,714</b>	269,649
	<b><u>7,126,865</u></b>	<b><u>6,229,873</u></b>

The maturity profiles of the bills payable of the Group are as follows:

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Within 6 months	<b>2,252,880</b>	1,605,261
6 months to 1 year	<b>—</b>	6,920
	<b><u>2,252,880</u></b>	<b><u>1,612,181</u></b>

### Cash flow

We primarily use cash to invest in additional manufacturing facilities and equipment, research and develop new technologies to be used in the manufacture of rolling stock, service our indebtedness, fund working capital and pay normal recurring expenses. As of 30 June 2008, we had cash and cash equivalents of RMB3,241 million.

## NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES

For the six months ended 30 June 2008, we had net cash outflow from operating activities of RMB1,821 million. Our cash flow from operating activities for the six months ended 30 June 2007 and 2008 was negative primarily due to an increase in our inventories, trade receivable, prepayments, deposits and other receivables, which resulted from our industry's settlement characteristics and our production cycles.

## NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES

For the six months ended 30 June 2008, our net cash outflow from investing activities was RMB1,072 million, representing a decrease of RMB305 million as compared with RMB1,377 million for the same period in 2007.

## NET CASH (OUTFLOW) FROM FINANCING ACTIVITIES

Our net cash outflow from financing activities was RMB765 million for the six months ended 30 June 2008 while we had net cash inflow from financing activities of RMB494 million for the same period in 2007.

### **Capital expenditures**

We incurred capital expenditures for the construction, expansion and technology upgrade of our manufacturing and refurbishment facilities, as well as the machinery used to manufacture and refurbish rolling stock products. Our capital expenditures were RMB671 million and RMB1,216 million in the six months ended 30 June 2007 and 2008, respectively.

Our current plan with respect to capital expenditures is subject to change based on the implementation of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings.

## INDEBTEDNESS

### **Borrowings**

Our borrowings are mostly denominated in Renminbi, while our cash and cash equivalents are mainly held in Renminbi. As of 30 June 2008, we had RMB7,857 million of interest-bearing bank and other borrowings.

As of 30 June 2008, our bank and other secured borrowings amounted to approximately RMB107 million (representing a decrease of RMB600 million as compared with that as at 31 December 2007), which were secured by certain of our property, plant and equipment, time deposits and bank balances, lease prepayments and other assets with carrying value of RMB685 million.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

### **Gearing ratio**

As of 30 June 2008, our gearing ratio was 79%, (31 December 2007: 78%), which was derived by dividing the net debt by the total capital plus net debt as at 30 June 2008.

Our borrowing requirement is not subject to seasonality.

### **Foreign Exchange risk**

The uncertainty of exchange rate will not bring about material foreign exchange risk to the Group.

### **Contingent liabilities and outstanding guarantees**

Our outstanding guarantees as of 30 June 2008 were RMB60.6 million in short-term loans and letters of credit, borrowed by one of our jointly-controlled entities, Shijiazhuang Guoxiang Transportation Equipment Co., Ltd., for the purpose of financing its working capital requirements.

Since the amount of the loans accounted for less than 1% of our net debt, RMB20,163 million as of 30 June 2008, we do not anticipate material risks from such guarantees. As of 30 June 2008, such loans and letters of credit decreased to RMB60.6 million.

### **Material acquisition and disposal**

For the six months ended 30 June 2008, the Company did not make any material acquisition and disposal.

## USE OF PROCEEDS

As at 30 June 2008, the initial public offering of the Company had not been completed.

## OFF-BALANCE SHEET ARRANGEMENTS

As of 30 June 2008, we did not have any other material off-balance sheet arrangements with unconsolidated entities except for the outstanding guarantees with jointly-controlled entities disclosed above.

## EMPLOYEES

As of 30 June 2008, the Group had 75,732 employees. For the six months ended 30 June 2008, staff cost of the Group (including remuneration paid to the Directors and the Supervisors) was RMB1,910.5 million.

# PARTICULARS OF SHARE CAPITAL STRUCTURE, CHANGES AND SHAREHOLDERS

## SHARE CAPITAL STRUCTURE AND CHANGES IN SHAREHOLDING

- (1) The Company was promoted and established by China South Locomotive & Rolling Stock Industry (Group) Corporation (“CSRG”) and its wholly owned subsidiary Beijing Railway Industry Trade Company (“BRIT”) on 28 December 2007.

As of 30 June 2008, the share capital structure of the Company was as follows:

Shareholder	Nature	Number of shares	Approximate percentage of issued share capital %
CSRG	domestic shares	6,900,000,000	98.57%
BRIT*	domestic shares	100,000,000	1.43%
Total		7,000,000,000	100.00%

## PARTICULARS OF SHARE CAPITAL STRUCTURE, CHANGES AND SHAREHOLDERS *(Continued)*

- (2) On 18 August 2008 and 21 August 2008, the Company's A shares and H shares were listed on the Shanghai Stock Exchange and the main board of the Hong Kong Stock Exchange respectively.

After the over-allotment option was exercised in full in September 2008, the structure of the Company's share capital is as follows:

Name	Nature	Number of shares	Approximate percentage of issued share capital (%)
CSRG	A shares	6,718,628,571	56.75%
BRIT*	A shares	97,371,429	0.82%
Public holders of A shares	A shares	3,000,000,000	25.34%
Public holders of H shares	H shares	2,024,000,000	17.09%
Total		<u>11,840,000,000</u>	<u>100.00%</u>

\* BRIT is a wholly owned subsidiary of CSRG.

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the initial public offering of the Company had not been completed. Therefore, CSRG was the sole substantial shareholder of the Company and beneficially owned 7 billion domestic shares of the Company in issue, with a nominal value of RMB1.00 each. CSRG is a state-owned enterprise, which is wholly-owned by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC").

### SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

As at 30 June 2008, the initial public offering of the Company had not been completed, with CSRG and BRIT as the Company's shareholders.

## OTHER INFORMATION

### DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As considered and approved at the Company's inaugural meeting on 27 December 2007, Mr. Zhao Xiaogang, Mr. Zheng Changhong, Mr. Tang Kelin and Mr. Liu Hualong were elected as Executive Directors of the Company while Mr. Zhao Jibin, Mr. Yang Yuzhong, Mr. Chen Yongkuan, and Mr. Dai Deming were elected as Independent Non-executive Directors of the Company.

During the six months period ended 30 June 2008, as considered and approved at the second meeting of the first Board and approved at the first EGM in March 2008, Mr. TSOI David was elected as an Independent Non-executive Director of the Company.

**Mr. TSOI David**, born in 1947, aged 61, has been an Independent Non-executive Director of the Company since March 2008. He also served as the Director and General Manager of Alliot, Tsoi CPA Limited and an Independent non-executive Director of Melco LottVentures Limited. He has been an independent non-executive director of another listed company, Enviro Energy International Holdings Limited, since 8 July 2008. Mr. Tsoi has been the Chairman of the Asia-Pacific region of Alliot Group, Chairman of the Association of Chartered Certified Accountants (Hong Kong Division), President of the Society of Chinese Accountants and Auditors, Council Member of the Taxation Institute of Hong Kong and member of the Hong Kong Institute of Certified Public Accountants Practice Review Committee, Ethics Committee, and Registration and Practising Committee. He was a director of Alliot Tsoi Ha CPA Limited. He is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and Associate Member of the Institute of Chartered Accountants in England and Wales, the Society of Chinese Accountants and Auditors, the Association of Certified General Accountants of Canada, Macau Society of Certified Practising Accountants and Fellow Member of the Taxation Institute of Hong Kong. Mr. Tsoi is a member of the Selection Committee for the first Government of the Hong Kong Special Administrative Region, independent director of the Travel Industry Council of Hong Kong (He ceased to be an independent director since 8 August 2008) and Committee Member of Guangdong Overseas Friendship Association. He graduated from the University of East Asia in Macau (now called the University of Macau) majoring in Business Administration and holds a master's degree in Business Administration. Mr. Tsoi is a Certified Public Accountant.

Save as disclosed above, there is no other change in the Directors, Supervisors and Senior Management of the Company during the Reporting Period.

### DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 30 June 2008, the initial public offering of the Company had not been completed. The provisions of Divisions 7 and 8 of Part XV of the SFO, Section 352 of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers were not applicable to the Company, Directors and Chief Executives and Supervisors of the Company.

### REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six-month period ended 30 June 2008, neither the Company nor its subsidiaries had repurchased, disposed of or redeemed any securities of the Company.

## CORPORATE GOVERNANCE

The Company's Articles of Association, terms of reference of the Audit and Risk Management Committee, terms of reference of the Supervisory Committee and the Code of Conduct on Directors and Relevant Employees' Securities Transactions constitute the reference basis of the Company's codes on corporate governance practices. The Board has reviewed the corporate governance documents of the Company, and is of opinion that such documents have incorporated most of the principles and code provisions in the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

As at 30 June 2008, though the shares of the Company had not been listed on the Hong Kong Stock Exchange, the Board is of the view that the Company has fully complied with the code provisions of the CG Code during the six-month period ended 30 June 2008.

The Company attaches much importance to investor relation management. Investor Relation Division, a dedicated department to manage investor relations, has been established in the office of the Board. The Management Method for Investor Relations has been formulated and the investor's service plan has been improved. Telephone hotline and email account were also set up for investors relation with dedicated staff responsible for inquiries and visits of investors.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS AND SUPERVISORS

The Company has adopted a code of conduct regarding securities transactions by the Directors and relevant employees (the "Required Standard") on terms no less exacting than the required standard of dealings set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" in Appendix 10 of the Listing Rules. Relevant employees who are likely to be in possession of unpublished price sensitive data of the Company are also subject to compliance with the Required Standard.

As at 30 June 2008, though the shares of the Company had not been listed on the Hong Kong Stock Exchange, the Directors are not aware of any incident of non-compliance by Directors and employees during the six-month period ended 30 June 2008.

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee under the Board of the Company consists of three directors: Mr. Dai Deming (independent non-executive Director), Mr. Yang Yuzhong (independent non-executive Director) and Mr. Tsoi, David (independent non-executive Director). Mr. Dai Deming currently serves as the chairman of the Audit and Risk Management Committee.

The Audit and Risk Management Committee has reviewed the Company's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2008. The Audit and Risk Management Committee has also discussed matters such as the accounting policies and practices adopted by the Company and internal control with the senior management of the Company.

## SIGNIFICANT EVENTS

### SUCCESSFUL DUAL LISTING IN SHANGHAI AND HONG KONG DURING THE 2008 BEIJING OLYMPIC GAMES

On 18 August 2008, the Company issued 3 billion A shares and raised aggregate proceeds of approximately RMB6.54 billion. The A shares were successfully listed on the Shanghai Stock Exchange.

On 21 August 2008, the Company issued 1.6 billion H shares and raised aggregate proceeds of approximately RMB3.65 billion (HK\$ 4.16 billion). The H shares were successfully listed on the main board of the Hong Kong Stock Exchange.

On 12 September 2008, upon the exercise of the over-allotment option in full, the Company further issued 240 million H shares. The Company had issued a total of 1.84 billion H shares upon the exercise of the over-allotment option in full.

### MATERIAL LITIGATION AND ARBITRATION

During the six-month period ended 30 June 2008, the Company was not involved in any material litigation or arbitration.

### MATERIAL CONTRACT

For the six month period ended 30 June 2008, the Company had no discloseable material contract.

### IMPACTS OF THE SICHUAN EARTHQUAKE

A limited number of production facilities of CSR Chengdu Locomotive & Rolling Stock Co., Ltd., CSR Meishan Rolling Stock Co., Ltd. and CSR Ziyang Locomotive Co., Ltd. were slightly affected by the earthquake and associated aftershocks in the Sichuan Province in May 2008. A limited number of these affected facilities primarily experienced slightly cracked walls and certain separate manufacturing equipment were rendered less accurate. The Sichuan earthquake did not affect our production capacity and operations.

# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2008

	Notes	For the six-month period ended 30 June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
<b>REVENUE</b>	4	<b>14,667,064</b>	12,485,654
Cost of sales		<b>(11,920,016)</b>	(10,660,028)
Gross profit		<b>2,747,048</b>	1,825,626
Other income and gains	4	<b>359,111</b>	207,385
Selling and distribution costs		<b>(316,388)</b>	(240,016)
Administrative expenses		<b>(1,325,140)</b>	(1,118,809)
Other expenses, net	5	<b>(83,457)</b>	(71,094)
<b>PROFIT FROM OPERATIONS</b>		<b>1,381,174</b>	603,092
Finance costs	6	<b>(249,246)</b>	(162,190)
Share of profits and losses of associates and jointly-controlled entities		<b>86,478</b>	73,679
<b>PROFIT BEFORE TAX</b>	5	<b>1,218,406</b>	514,581
Tax	7	<b>(285,199)</b>	(58,264)
<b>PROFIT FOR THE PERIOD</b>		<b>933,207</b>	456,317

# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT *(Continued)*

For the six-month period ended 30 June 2008

	<i>Notes</i>	<b>For the six-month period ended 30 June</b>	
		<b>2008</b>	<b>2007</b>
		<b>(Unaudited) RMB'000</b>	<b>(Unaudited) RMB'000</b>
Attributable to:			
Equity holders of the Company		<b>808,966</b>	325,138
Minority interests		<b>124,241</b>	131,179
		<b>933,207</b>	456,317
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
— Basic	9	<b>11.6 cents</b>	4.7 cents
— Diluted		<b>N/A</b>	N/A



# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

		As at 30 June 2008 (Unaudited) RMB'000	As at 31 December 2007 (Audited) RMB'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	7,850,639	7,067,638
Lease prepayments	11	2,854,826	2,804,055
Goodwill		3,150	3,150
Other intangible assets		301,714	296,547
Interests in jointly-controlled entities		437,263	409,565
Interests in associates		170,779	163,490
Available-for-sale investments	12	45,198	82,346
Deferred tax assets		83,524	19,765
Other non-current assets		69,185	52,940
Total non-current assets		<u>11,816,278</u>	<u>10,899,496</u>
<b>CURRENT ASSETS</b>			
Inventories		6,991,079	5,839,556
Trade receivables	13	6,423,799	4,020,423
Bills receivable	14	390,716	487,309
Prepayments, deposits and other receivables	15	4,764,095	3,172,613
Financial assets at fair value through profit or loss	16	101,561	—
Derivative financial instruments	17	72,151	—
Pledged deposits	18	523,033	479,038
Cash and cash equivalents	18	3,488,402	7,792,483
Total current assets		<u>22,754,836</u>	<u>21,791,422</u>

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

30 June 2008

	<i>Notes</i>	As at 30 June 2008 (Unaudited) RMB'000	As at 31 December 2007 (Audited) RMB'000
<b>CURRENT LIABILITIES</b>			
Trade payables	19	7,126,865	6,229,873
Bills payable	20	2,252,880	1,612,181
Other payables and accruals	21	6,937,683	7,061,711
Interest-bearing bank and other borrowings	22	6,139,481	6,278,989
Provision for supplemental pension subsidies and early retirement benefit		252,280	252,280
Tax payable		222,653	54,478
Provision for warranties		152,096	127,005
Government grants		56,776	66,155
Total current liabilities		<u>23,140,714</u>	<u>21,682,672</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(385,878)</u>	<u>108,750</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>11,430,400</u>	<u>11,008,246</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	22	1,717,885	2,086,368
Provision for supplemental pension subsidies and early retirement benefit		2,172,540	2,251,750
Government grants		282,026	268,480
Deferred tax liabilities		20,144	10,525
Other non-current liabilities		5,323	10,196
Total non-current liabilities		<u>4,197,918</u>	<u>4,627,319</u>
<b>Net assets</b>		<u>7,232,482</u>	<u>6,380,927</u>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company		5,116,494	4,311,021
Minority interests		2,115,988	2,069,906
<b>Total equity</b>		<u>7,232,482</u>	<u>6,380,927</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

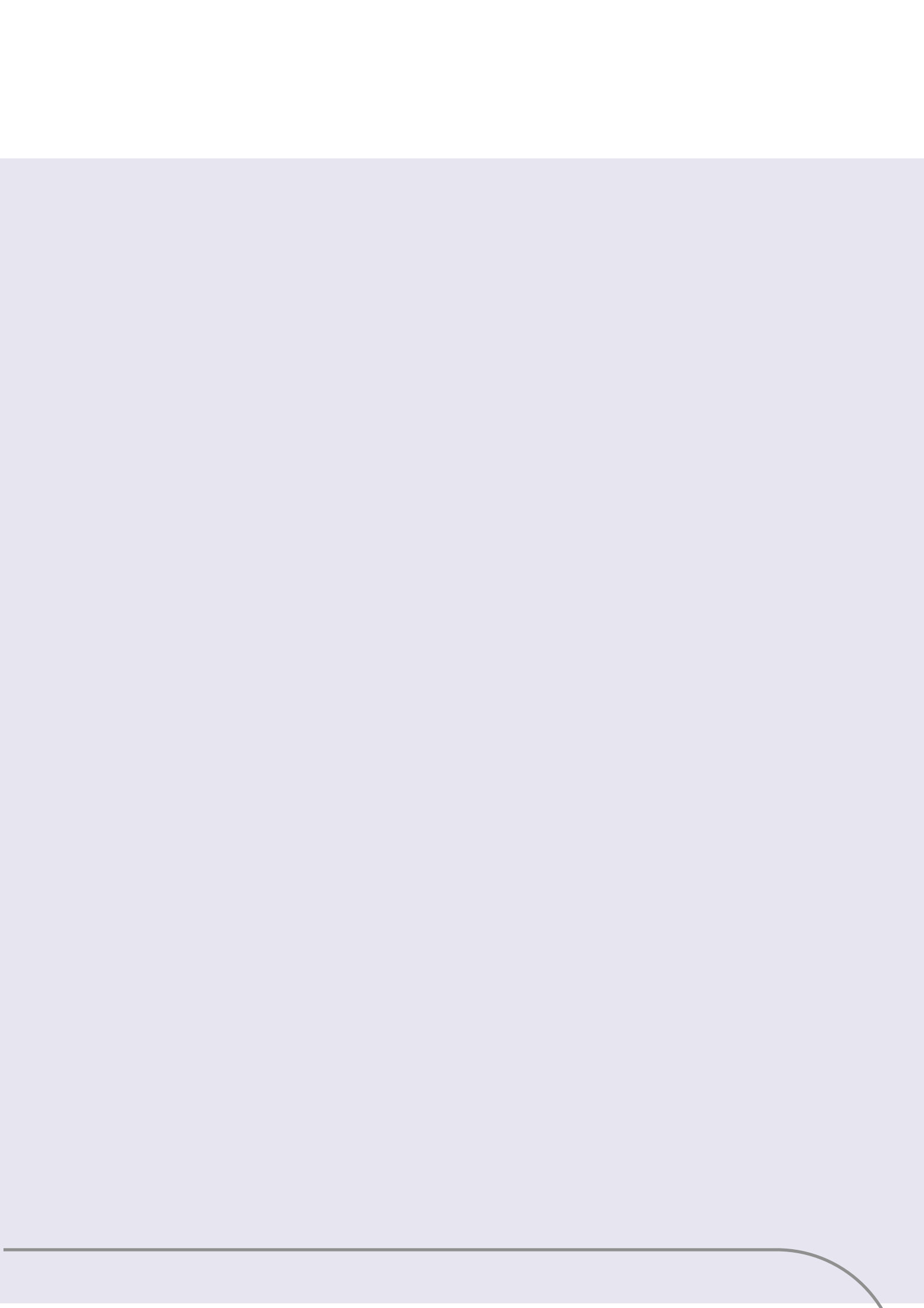
For the six-month period ended 30 June 2008

(Unaudited)	Attributable to equity holders of the Company						
	Share capital	Capital reserve	Available-for-sale investment revaluation reserve	Retained earnings	Total	Minority interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	7,000,000	(2,724,035)	35,056	—	4,311,021	2,069,906	6,380,927
Changes in fair value of available-for-sale investments	—	—	(36,063)	—	(36,063)	—	(36,063)
Deferred tax liability on changes in fair value of available-for-sale investments	—	—	8,809	—	8,809	—	8,809
Total income and expense recognised directly in equity	—	—	(27,254)	—	(27,254)	—	(27,254)
Profit for the period	—	—	—	808,966	808,966	124,241	933,207
Total income and expense for the period	—	—	(27,254)	808,966	781,712	124,241	905,953
Capital contribution from minority shareholders	—	—	—	—	—	27,682	27,682
Capital contribution from a promoter	—	24,470	—	—	24,470	—	24,470
Acquisition of additional interests in a subsidiary	—	—	—	—	—	(10,000)	(10,000)
Excess of the cost of acquisition of additional interests in a subsidiary over the acquirers' additional interests in carrying value of identifiable net assets	—	(709)	—	—	(709)	709	—
Capital reduction of a subsidiary	—	—	—	—	—	(2,997)	(2,997)
Dividends paid to minority shareholders	—	—	—	—	—	(93,553)	(93,553)
At 30 June 2008	<u>7,000,000</u>	<u>(2,700,274)</u>	<u>7,802</u>	<u>808,966</u>	<u>5,116,494</u>	<u>2,115,988</u>	<u>7,232,482</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six-month period ended 30 June 2008

(Unaudited)	Attributable to equity holders of the Company					
	Share capital	Available-for-sale investment revaluation reserve	Owner's equity	Total	Minority interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	—	—	3,461,143	3,461,143	1,923,192	5,384,335
Changes in fair value of available-for-sale investments	—	9,497	—	9,497	—	9,497
Deferred tax liability on changes in fair value of available-for-sale investments	—	(2,374)	—	(2,374)	—	(2,374)
Total income and expense recognised directly in equity	—	7,123	—	7,123	—	7,123
Profit for the period	—	—	325,138	325,138	131,179	456,317
Total income and expense for the period	—	7,123	325,138	332,261	131,179	463,440
Capital contribution from minority shareholders	—	—	—	—	7,216	7,216
Acquisition of a subsidiary	—	—	—	—	3,441	3,441
Acquisition of additional interests in subsidiaries	—	—	—	—	(121,027)	(121,027)
Excess of the cost of acquisition of additional interests in a subsidiary over the acquirers' additional interests in carrying value of identifiable net assets	—	—	(6,005)	(6,005)	6,005	—
Dividends paid to minority shareholders	—	—	—	—	(28,673)	(28,673)
At 30 June 2007	—	7,123	3,780,276	3,787,399	1,921,333	5,708,732



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2008

## 1. CORPORATE INFORMATION

China South Locomotive & Rolling Stock Corporation Limited (the “Company”) was incorporated in the PRC on 28 December 2007 as a joint stock company with limited liability under the Company Law of the PRC. The address of the Company’s registered office is No. 16 Central West Fourth Ring Road, Haidian District, Beijing, the PRC.

The Group is principally engaged in the research and development, manufacturing, sale and refurbishment of locomotives, passenger carriages, freight wagons, multiple units and metro cars, as well as other businesses that utilise proprietary rolling stock technologies.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### **Basis of preparation**

The interim condensed consolidated financial statements for the six-month period ended 30 June 2008 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

### **Significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the accountants' report included in the Prospectus.

## 3. SEGMENT INFORMATION

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 4. REVENUE, OTHER INCOME AND GAINS

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

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

	<b>For the six-month period ended 30 June</b>	
	<b>2008 (Unaudited) RMB'000</b>	<b>2007 (Unaudited) RMB'000</b>
<b>Revenue</b>		
Sales of goods	<u>14,667,064</u>	<u>12,485,654</u>
<b>Other income and gains</b>		
Interest income	43,791	52,761
Dividend income	—	4,908
Profit from sales of scrap materials	29,877	8,504
Gain on disposal of available-for-sale investments	32,531	—
Value-added tax refunds	95,135	92,129
Government grants	57,186	31,218
Net fair value gain on derivative instruments not qualifying as hedges	72,151	—
Net fair value gain on financial asset at fair value through profit or loss	1,561	—
Others	<u>26,879</u>	<u>17,865</u>
<b>Total</b>	<u>359,111</u>	<u>207,385</u>



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

## 5. PROFIT BEFORE TAX

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

	<b>For the six-month period ended 30 June</b>	
	<b>2008 (Unaudited) RMB'000</b>	<b>2007 (Unaudited) RMB'000</b>
Cost of inventories sold	<b>11,920,016</b>	10,660,028
Depreciation of items of property, plant and equipment	<b>312,269</b>	324,170
Amortisation of lease prepayments	<b>28,901</b>	4,451
Amortisation of other intangible assets	<b>29,325</b>	25,217
Provision against obsolete inventories	<b>8,758</b>	21,900
Provision for warranties	<b>79,276</b>	64,379
Minimum lease payments under operating leases:		
Plant and machinery	<b>10,032</b>	6,080
Land and buildings	<b>11,321</b>	10,692
Research and development costs	<b>264,496</b>	124,221
Less: amount capitalised	<b>(17,827)</b>	—
	<b>246,669</b>	124,221
Included in other expenses, net:		
Impairment of trade receivables	<b>47,710</b>	32,175
Impairment/(Reversal of impairment) of other receivables	<b>8,378</b>	(2,063)
Exchange losses, net	<b>14,093</b>	26,336
Loss on disposal of items of property, plant and equipment, net	<b>13,170</b>	9,697
Loss on disposal of items of other Intangible assets, net	<b>106</b>	—
Impairment of items of property, plant and equipment	<b>—</b>	4,949

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 6. FINANCE COSTS

	<b>For the six-month period ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	<b>RMB'000</b>
Interest on bank and other borrowings wholly repayable within five years	255,282	160,862
Interest on bills discounted	4,347	1,695
Less: Interest capitalised in construction in progress	<u>(10,383)</u>	<u>(367)</u>
	<u>249,246</u>	<u>162,190</u>

## 7. TAX

The major components of income tax expense are as follows:

	<b>For the six-month period ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	<b>RMB'000</b>
Group:		
Current income tax	330,530	92,978
Deferred income tax	<u>(45,331)</u>	<u>(34,714)</u>
Total tax charge for the period	<u>285,199</u>	<u>58,264</u>

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 six-month period ended 30 June 2008 (six-month period ended 30 June 2007: 33%), except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the periods.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

## 7. TAX *(Continued)*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two periods ended 30 June 2007 and 2008.

The share of tax attributable to associates and jointly-controlled entities amounting to RMB5,522,000 (unaudited) (six-month period ended 30 June 2007: RMB2,877,000 (unaudited)) is included in the "Share of profit and losses of associates and jointly-controlled entities" on the face of the condensed consolidated income statement for the six-month period ended 30 June 2008.

## 8. DIVIDEND

The board of directors of the Company does not recommend the payment of an interim dividend for the six-month period ended 30 June 2008 (six-month period ended 30 June 2007: Nil).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on:

	<b>For the six-month period ended 30 June</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
<b>Earnings</b>		
Profit attributable to equity holders of the Company used in the basic earnings per share calculation	<b>808,966</b>	325,138
<b>Shares</b>		
Weighted average number of domestic shares in issue during the period used in the calculation of basic earnings per share	<b>7.0 billion</b>	6.9 billion

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY *(Continued)*

The Company's weighted average number of domestic shares in issue during the six-month period ended 30 June 2007 used in the basic earnings per share calculation is determined on the assumption that the 6,900 million domestic shares of RMB1.00 each issued as a result of the Reorganisation (as defined in the Prospectus) had been in issue throughout the six-month period ended 30 June 2007.

No diluted earnings per share have been disclosed as no diluting events existed during the six-month period ended 30 June 2007 and 2008.

## 10. PROPERTY, PLANT AND EQUIPMENT

During six-month period ended 30 June 2008, the Group acquired property, plant and equipment with an aggregate cost amounting to approximately RMB1,136 million (six-month period ended 30 June 2007: RMB634 million). In addition, during the same period, property, plant and equipment with aggregate net carrying value of approximately RMB41 million (six-month period ended 30 June 2007: RMB112 million) were disposed of which resulted in a net loss on disposal of approximately RMB13 million (six-month period ended 30 June 2007: RMB10 million) and recorded as other expenses.

The details of the above property, plant and equipment pledged to secure general banking facilities granted to the Group are set out in note 22 below.

## 11. LEASE PREPAYMENTS

The leasehold land is held under medium term leases and is situated in the PRC.

During six-month period ended 30 June 2008, the Group acquired lease prepayments with an aggregate cost of RMB80 million (six-month period ended 30 June 2007: RMB37 million).

The details of the above lease prepayments pledged to secure general banking facilities granted to the Group are set out in note 22 below.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

## 12. AVAILABLE-FOR-SALE INVESTMENTS

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Unlisted equity investments, at cost less impairment	<b>34,234</b>	33,190
Listed equity investments, in the PRC, at fair value	<b>10,964</b>	49,156
	<b><u>45,198</u></b>	<u>82,346</u>

## 13. TRADE RECEIVABLES

The Group generally requires its customers to make payment before or upon delivery, however, the Group granted certain credit period to those long starting customers with bulk purchase and good payment history. In the opinion of the Directors, the Group has effectively granted an average credit period of around 2 to 3 months to the customers after taking into account the practice of the industry in which the Group conducted its business.

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

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Within 6 months	<b>5,225,687</b>	3,294,087
6 months to 1 year	<b>734,815</b>	413,402
Over 1 year	<b>463,297</b>	312,934
	<b><u>6,423,799</u></b>	<u>4,020,423</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 13. TRADE RECEIVABLES *(Continued)*

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

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
CSRG and its subsidiaries, excluding the Group (the "CSRG Group")	<b>89,873</b>	44,069
Jointly-controlled entities	<b>6,449</b>	81,972
	<b><u>96,322</u></b>	<u>126,041</u>

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

The Group has pledged trade receivables of approximately RMB617,938,000 and RMB46,151,000 as at 31 December 2007 and 30 June 2008 respectively for securing bank facilities granted to the Group.

## 14. BILLS RECEIVABLE

The maturity profiles of the bills receivable of the Group at the balance sheet date is as follows:

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Within 6 months	<b>390,716</b>	475,717
6 months to 1 year	<b>—</b>	11,592
	<b><u>390,716</u></b>	<u>487,309</u>

Included in bills receivable of the Group as at 30 June 2008 was bills receivable from jointly-controlled entities of approximately RMB18,674,000 (31 December 2007: Nil).

NOTES TO THE INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Prepayments	<b>3,529,248</b>	2,343,505
Deposits and other receivables	<b>1,234,847</b>	829,108
	<b><u>4,764,095</u></b>	<b><u>3,172,613</u></b>

Included in other receivables at 30 June 2008 are investments in short term maturity financial instruments with principal repayment guaranteed by banks aggregating to RMB500 million (31 December 2007: Nil). Such financial instruments are due from July 2008 to March 2009, and have interest returns ranging from 3.80% per annum to 7.47% per annum.

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

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
CSRG Group	<b>118,098</b>	284,301
Joint-controlled entities	<b>11,578</b>	—
Associates	<b>191,538</b>	89,738
	<b><u>321,214</u></b>	<b><u>374,039</u></b>

The above balances are unsecured, interest-free and have no fixed terms of repayment.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Deposits and investment with embedded derivatives	<u>101,561</u>	<u>—</u>

The principals of the above deposits and investments amounting to RMB100 million at 30 June 2008 (31 December 2007: Nil) are guaranteed by banks with repayment due date of 1 year. The return thereon will change in response to the changes in certain commodity price index and inflation index, and hence constitute embedded derivatives to the deposits and investments. The entire deposits and investments including the related embedded derivatives are accounted for as financial assets designated at fair value through profit or loss, and changes in fair value amounting to RMB1.6 million (31 December 2007: Nil) were credited to the income statement during the six-month period ended 30 June 2008.

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Forward currency contracts	<u>72,151</u>	<u>—</u>

The carrying amounts of forward currency contracts approximate to their fair value at 30 June 2008. (31 December 2007: Nil). The above forward currency contracts entered into by the Group to manage its exchange rate exposures did not meet the criteria for hedge accounting, changes in fair value of such non-hedging currency derivatives amounting to RMB72.2 million were credited to the income statement during the six-month period ended 30 June 2008.



NOTES TO THE INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

## 18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Cash and bank balances	4,011,435	8,271,521
Less: Pledged time deposits	<u>(523,033)</u>	<u>(479,038)</u>
Cash and cash equivalents in the consolidated balance sheets	<b>3,488,402</b>	7,792,483
Less: Non-pledged time deposits with original maturity of three months or more when acquired	<u>(247,500)</u>	<u>(893,023)</u>
Cash and cash equivalents in the consolidated cash flow statements	<u><b>3,240,902</b></u>	<u>6,899,460</u>

## 19. TRADE PAYABLES

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

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Within 6 months	6,438,596	5,459,776
6 months to 1 year	507,555	500,448
Over 1 year	<u>180,714</u>	<u>269,649</u>
	<u><b>7,126,865</b></u>	<u>6,229,873</u>

NOTES TO THE INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

## 20. BILLS PAYABLE *(Continued)*

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

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
CSRG Group	9,231	16,770
Joint-controlled entities	—	9,150
	<u>9,231</u>	<u>25,920</u>

## 21. OTHER PAYABLES AND ACCRUALS

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

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
CSRG Group	17,255	567,280
Joint-controlled entities	52,118	—
Associates	15,404	60,341
	<u>84,777</u>	<u>627,621</u>

NOTES TO THE INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate per annum (%)	Maturity	As at 30 June 2008 (Unaudited) RMB'000	Effective interest rate per annum (%)	Maturity	As at 31 December 2007 (Audited) RMB'000
<b>Current</b>						
Bank loans						
— Secured	5.51-7.56	2008	106,551	5.00-7.96	2008	707,339
— Unsecured	4.45-8.96	2008	6,032,930	3.00-8.02	2008	4,777,103
			<u>6,139,481</u>			<u>5,484,442</u>
Short term bonds						
— Unsecured			—	2.67	2008	794,547
			<u>6,139,481</u>			<u>6,278,989</u>
<b>Non-current</b>						
Bank loans						
— Unsecured	0.20-7.56	2009-2035	1,717,885	0.2-6.57	2009-2035	2,086,368
			<u>7,857,366</u>			<u>8,365,357</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

## 22. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

The above secured bank loans and other banking facilities were secured by certain assets and their carrying values are as follows:

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Property, plant and equipment	110,856	139,982
Time deposits and bank balances	523,033	479,038
Lease prepayments	4,984	—
Other assets	46,151	617,938
	<b>685,024</b>	<b>1,236,958</b>

## 23. OUTSTANDING GUARANTEES

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

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Guarantees given to banks at nil consideration in connection with facilities granted to a jointly-controlled entity	<b>60,575</b>	<b>63,000</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 24. COMMITMENTS

### OPERATING LEASE COMMITMENTS

#### As lessee

The Group leases certain of its land and buildings under operating lease arrangements negotiated for terms ranging from 1 to 20 years.

At each of the balance sheet dates, the Group's future minimum rental payables under non-cancellable operating leases in respect of land and buildings falling due are as follows:

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Within one year	<b>16,809</b>	10,460
In the second to fifth years	<b>58,228</b>	59,347
More than five years	<b>195,692</b>	202,478
	<b><u>270,729</u></b>	<u>272,285</u>

NOTES TO THE INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

24. COMMITMENTS *(Continued)*

**CAPITAL COMMITMENTS**

The group had the following capital commitments:

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
Contracted, but not provided for:		
— Property, plant and equipment	1,546,976	865,155
— Lease prepayments	85,553	—
— Other intangible assets	163,652	155,521
	<u>1,796,181</u>	<u>1,020,676</u>
Authorised, but not contracted for:		
— Property, plant and equipment	3,684,837	1,509,850
— Other intangible assets	36,778	—
— Others	142,000	—
	<u>3,863,615</u>	<u>1,509,850</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 25. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

	<b>For the six-month period ended 30 June</b>	
	<b>2008 (Unaudited) RMB'000</b>	<b>2007 (Unaudited) RMB'000</b>
(a) Purchase of materials and components from:		
— CSRG Group	<b>80,722</b>	61,895
— Jointly-controlled entities	<b>163,242</b>	128,988
— Associates	<b>28,566</b>	63,033
	<b>272,530</b>	253,916
(b) Sales of goods to:		
— CSRG Group	<b>401,513</b>	27,649
— Jointly-controlled entities	<b>123,751</b>	165,734
	<b>525,264</b>	193,383
(c) Purchase of property, plant and equipment from CSRG Group	<b>27,165</b>	7,259



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

*Six months ended 30 June 2008*

## 25. RELATED PARTY TRANSACTIONS *(Continued)*

	<b>As at 30 June 2008 (Unaudited) RMB'000</b>	<b>As at 31 December 2007 (Audited) RMB'000</b>
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- (d) Guarantees given to banks at nil consideration in connection with facilities granted to:

— Jointly-controlled entity	<b>60,575</b>	63,000
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- (e) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in notes 13, 14, 15, 19, 20 and 21 above.

- (f) Compensation of key management personnel of the Group:

	<b>For the six-month period ended 30 June</b>	
	<b>2008 (Unaudited) RMB'000</b>	<b>2007 (Unaudited) RMB'000</b>

Short-term employee benefits	<b>2,916</b>	2,177
Post-employment benefits <i>(Note)</i>	<b>123</b>	112
 Total compensation paid/payable to key management personnel	<b>3,039</b>	2,289

*Note:*

Post-employment benefits represented the Company's statutory contribution to a defined contribution pension scheme organised by the PRC government, and is determined based on certain percentage of the salaries of the key management personnel.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Six months ended 30 June 2008

## 25. RELATED PARTY TRANSACTIONS *(Continued)*

- (g) Transactions with other state-controlled enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively the “State-controlled Enterprises”). During the six-month period ended 30 June 2008, the Group had transactions with State-controlled Enterprises including, but not limited to, the provision of rolling stock products and services. The Directors consider that the transactions with these State-controlled Enterprises are activities in the ordinary course of the Group’s business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and such other State-controlled Enterprises are ultimately controlled or owned by the PRC 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-controlled Enterprises. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

## 26. POST BALANCE SHEET EVENTS

There is no significant post balance sheet events subsequent to the six-month period ended 30 June 2008, except as follows:

- (a) In August 2008, the Company issued 3 billion A Shares at RMB2.18 per A Share for a gross proceeds of approximately RMB6.54 billion. The A Shares are listed on The Shanghai Stock Exchange on 18 August 2008.
- (b) In August 2008, the Company issued 1.6 billion H Shares at HK\$2.60 per H share for a gross proceeds of approximately RMB3.65 billion (HK\$4.16 billion). The H Shares are listed on the Main Board of The Hong Kong Stock Exchange on 21 August 2008. In August 2008, CSG converted 160,000,000 state legal person shares of the Company into H Shares and transferred such H shares to the National Council for Social Security Fund (“NSSF”) of the PRC.
- (c) On 19 September 2008, the over-allotment option of H Shares was exercised in full and an additional 240,000,000 Shares were issued at HK\$2.60 per H Share, for a gross proceeds of approximately HK\$624 million, which were listed on the Main Board of the Hong Kong Stock Exchange on the same day. On 19 September 2008, CSG converted its 24,000,000 state legal person shares of the Company into H Shares and transferred the shares to the NSSF.

## 27. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six-month period ended 30 June 2008 were approved and authorised for issue by the board of directors on 19 September 2008.