



**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



New CSR New Creation

2009
INTERIM REPORT

The image features a light gray background with a decorative graphic of thick, rounded lines. A blue line runs vertically from the top center, then turns right to run horizontally across the top. A green line runs horizontally from the left edge, then turns up, then right, then down, and finally right again. A gray line runs horizontally from the left edge, then turns up, then right, then down, and finally right again. The text 'CSR' is centered in the middle of the page, rendered in a blue outline font.

CSR

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IMPORTANT NOTICE

- (I) The board of directors (the "Board") and supervisory committee (the "Supervisory Committee") of the Company and its directors (the "Director(s)"), supervisors (the "Supervisor(s)") and senior management (the "Senior Management") warrant that there are no false representations, misleading statements contained in or material omissions from this report and they will assume joint and several liability for the truthfulness, accuracy and completeness of the contents disclosed herein.
- (II) Mr. Dai Deming, the independent non-executive Director, was absent for business reasons and appointed Mr. Yang Yuzhong, the independent Director, in writing to attend the meeting and exercise voting rights on his behalf.
- (III) The interim financial report of the Company is unaudited.
- (IV) None of our controlling shareholder or its associates has appropriated the Company's capital on an infrequent basis.
- (V) The Company did not provide any guarantee in favour of any external party in violation of the prescribed decision-making procedures.
- (VI) Zhao Xiaogang, the Chairman of the Company, Zhan Yanjing, the person-in-charge of accounting affairs, and Xu Weifeng, the head of the Accounting Department, warrant the truthfulness and completeness of the financial statements in this interim report.
- (VII) Unless otherwise stated, the monetary unit in this report is RMB.



Company Profile



1. Legal Chinese name: (the “Company” or “CSR”)
Chinese abbreviation:
English name: China South Locomotive & Rolling Stock Corporation Limited
English abbreviation: CSR
2. Place of listing of A share: Shanghai Stock Exchange
Abbreviation of A share: CSR
Stock code of A share: 601766
Date of listing: 18 August 2008
Place of listing of H share: The Stock Exchange of Hong Kong Limited
Abbreviation of H share: CSR
Stock code of H share: 1766
Date of listing: 21 August 2008
3. Registered address: No. 16 Central West Fourth Ring Road, Haidian District, Beijing
Business address: No. 16 Central West Fourth Ring Road, Haidian District, Beijing
Postcode: 100036
Website: www.csrgc.com.cn
Email: csr@csrgc.com.cn
4. Legal representative: Zhao Xiaogang



5. Secretary to the Board: Shao Renqiang
Tel: 010-51862188
Fax: 010-63984785
E-mail: csr@csrgc.com.cn
Correspondence address: No. 16 Central West Fourth Ring Road, Haidian District, Beijing
Representative of securities affairs: Wang Gongcheng
Tel: 010-51862188
Fax: 010-63984785
E-mail: csr@csrgc.com.cn
Correspondence address: No. 16 Central West Fourth Ring Road, Haidian District, Beijing
6. Newspapers designated by the Company for disclosure of A share information: China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Internet websites designated by China Securities Regulatory Commission for publishing half-year report (A Share) of the Company: www.sse.com.cn
Website designated by The Stock Exchange of Hong Kong Limited for publishing the interim report (H Share) of the Company: www.hkex.com.hk
Place where the half-year report is available: the Board Office, No. 16 Central West Fourth Ring Road, Haidian District, Beijing
7. Other relevant information
First business registration date: 28 December 2007
First registered address: No. 16 Central West Fourth Ring Road, Haidian District, Beijing
Date of change of registration: On 28 January 2008, the paid-up capital was changed to RMB7,000,000,000
On 7 October 2008, the registered capital was changed to RMB11,840,000,000; the paid-up capital was changed to RMB11,840,000,000
Corporate business license registration number: 100000041417
Taxation registration number: Jing Shui Zheng Zi 110108710935222
Organization code: 71093522-2

Company Profile (Continued)

8. Auditors appointed by the Company
- Name of auditors (domestic): Ernst & Young Hua Ming
- Address of the auditors (domestic): Level 16, Ernst & Young Tower (Tower E3), Oriental Plaza, No. 1 East Chang An Avenue, Dongcheng District, Beijing, the PRC
- Name of auditors (overseas): Ernst & Young
- Address of auditors (overseas): 18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
9. Joint company secretary Shao Renqiang, Wang Kai Yan, Thomas (qualified accountant)
10. Authorised representative Liu Hualong, Wang Kai Yan, Thomas
11. Legal advisors
- As to Hong Kong laws:*
- Baker & McKenzie
- 23/F., One Pacific Place, 88 Queensway, Hong Kong
- As to PRC laws:*
- Jia Yuan Law Firm
- F407 Ocean Plaza, 158 Fuxing Men Nei Avenue, Beijing, the PRC
12. Principal place of business in Hong Kong: Unit H, 41/F., Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong
13. PRC share registrar China Securities Depository and Clearing Corporation Limited, Shanghai Branch
- Address: 36/F, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai
14. Hong Kong share registrar Computershare Hong Kong Investor Services Limited
- Address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Results Highlights

For the first six months of 2009 (the “Reporting Period”), the Company recorded operating revenue of RMB18,235,373,000, representing an increase of 24.33% as compared with the same period last year. However, as the Ministry of Railways of the People’s Republic of China (the “PRC”) and all of its subordinate railway bureaus (together as “CR”) postponed its tendering process for new freight wagons, which led to insufficient production tasks in freight wagon business and a higher amount of shared fixed costs, the Company recorded profits after taxation of RMB821,259,000 in the first half of the year, representing a decrease of 12% as compared with the same period last year. Profit attributable to equity holders of the Company was RMB626,337,000, representing a decrease of 22.58% as compared with the same period last year. Basic earnings per share were RMB0.05.

Major financial data and indexes are set out in the following tables:

Currency: RMB

Item	January to June 2009	January to June 2008	Increase/ (decrease) (%)
Operating revenue (RMB'000)	18,235,373	14,667,064	24.33
Profit after tax (RMB'000)	821,259	933,207	(12.00)
Profit attributable to equity holders of the Company (RMB'000)	626,337	808,966	(22.58)
Basic earnings per share (RMB/share)	0.05	0.12	

Currency: RMB

Item	30 June 2009	As at 31 December 2008	Increase/ (decrease) (%)
Total assets (RMB'000)	49,700,227	45,516,251	9.19
Total liabilities (RMB'000)	30,683,112	26,873,674	14.18
Total equity (RMB'000)	19,017,115	18,642,577	2.01
Including: Equity attributable to equity holders of the Company (RMB'000)	16,280,768	16,021,128	1.62
Shareholder interest per share (RMB/share)	1.38	1.35	

Results Highlights (Continued)

Comparisons between revenue from all business segments of the Company for the first six months of 2009 and that of the same period last year are set out in the following table:

Business segment	January to June 2009		January to June 2008		
	Amount	Percentage	Amount	Percentage	Growth rate
	(RMB'000)	%	(RMB'000)	%	%
Locomotives	4,244,380	23.28	4,244,982	28.94	—
Passenger carriages	2,810,804	15.41	1,401,311	9.55	100.58
Freight wagons	2,024,394	11.10	4,754,146	32.41	(57.42)
MUs	4,070,135	22.32	1,327,895	9.06	206.51
Rapid transit vehicles	1,194,487	6.55	891,601	6.08	33.97
Others	3,891,173	21.34	2,047,129	13.96	90.08
Total	18,235,373	100.00	14,667,064	100.00	24.33

Changes in Share Capital and Particulars of Shareholders

(I) CHANGES IN SHARES

During the Reporting Period, there was no change in the number of total shares or share capital structure of the Company.

For the six months ended 30 June 2009, none of the Company or its subsidiaries has repurchased, sold or redeemed any of the Company's securities under the Rules Governing the Listing of Securities ("Hong Kong Listing Rules") on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange").

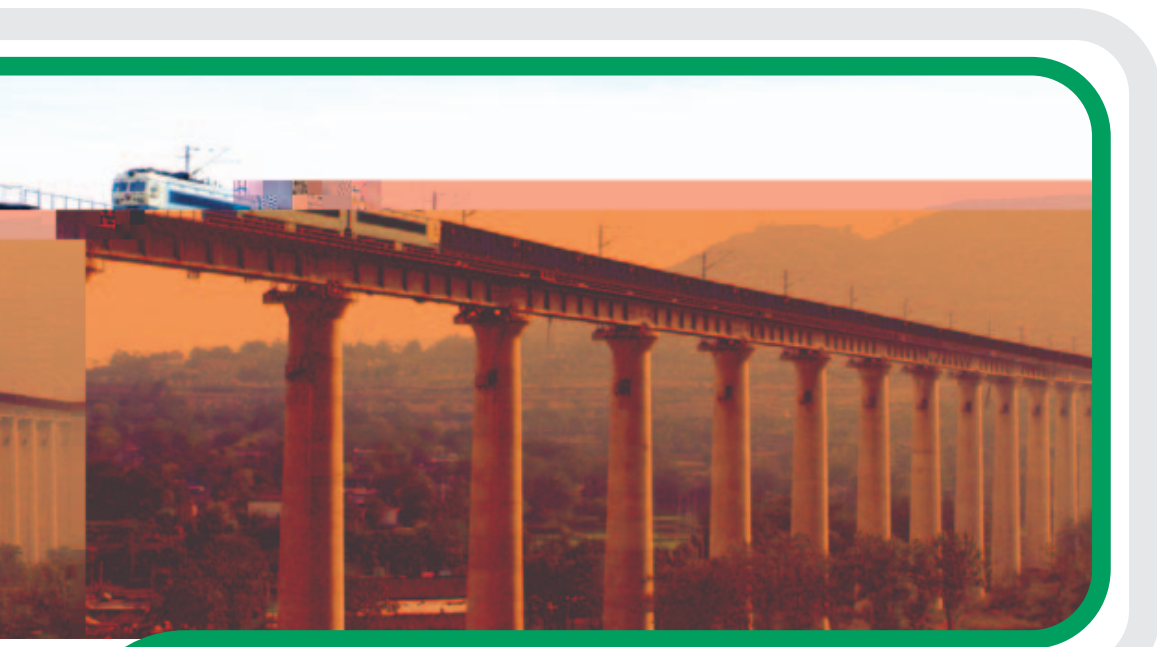
The minimum public float of the Company satisfies the requirement of Rule 8.08 of the Hong Kong Listing Rules.

(II) PARTICULARS OF SHAREHOLDERS AND THE ULTIMATE CONTROLLER

1. The number of shareholders and their shareholdings

(1) Total number of shareholders as at the end of the Reporting Period

At the end of the Reporting Period, the Company had 295,823 shareholders in total, including 292,023 holders of A shares and 3,800 holders of H shares.



Changes in Share Capital and Particulars of Shareholders (Continued)

(2) Shareholdings of the top ten shareholders

Unit: share

Name of shareholders	Nature of shareholder	Percentage of shareholding (%)	Total number of shares held	Change during the Reporting Period	Number of shares subject to trading moratorium held	Number of shares frozen
China South Locomotive & Rolling Stock Industry (Group) Corporation	State-owned legal person	56.75	6,718,628,571	—	6,718,628,571	295,714,286
HKSCC NOMINEES LIMITED	Overseas legal person	17.03	2,016,214,900	(269,100)	—	Unknown
Beijing Railway Industry Trade Company	State-owned legal person	0.82	97,371,429	—	97,371,429	4,285,714
Donghai Securities Co., Ltd.	Other	0.68	80,000,000	80,000,000	—	Unknown
China Life Insurance Company Limited—Bonus—Individual Bonus—005L—FH002 Hu 005L FH002	Other	0.40	47,100,000	47,100,000	—	Unknown
Zhang Yan	Other	0.31	36,190,620	36,190,620	—	Unknown
Xu Bailiang	Other	0.30	35,000,000	35,000,000	—	Unknown
Industrial and Commercial Bank of China—China Southern Longyuan Industrial Subject Stock Investment Fund	Other	0.26	30,639,005	30,139,005	—	Unknown

Changes in Share Capital and Particulars of Shareholders (Continued)

Name of shareholders	Nature of shareholder	Percentage of shareholding (%)	Total	Change	Number of shares	Number of shares frozen
			number of shares held	during the Reporting Period	subject to trading moratorium held	
CITIC Securities Co., Ltd.	Other	0.22	26,202,584	26,202,584	–	Unknown
Industrial and Commercial Bank of China–Bosera Tertiary Industry Growth Stock Securities Investment Fund	Other	0.21	24,999,877	24,999,877	–	Unknown

- Notes:
- H shares held by HKSCC NOMINEES LIMITED were shares held on behalf of various customers.
 - Beijing Railway Industry Trade Company (“BRIT”) is a wholly-owned subsidiary of China South Locomotive & Rolling Stock Industry (Group) Corporation (“CSRG” or “CSRG Group”). Apart from this, the Company is not aware of whether there is any connection among such other shareholders or whether they are parties acting in concert.
 - According to Implementation Measures on the Transfer of Certain State-owned Shares in Domestic Stock Market for Replenishing Social Security Fund, which was promulgated on 19 June 2009, the holders of the State-owned shares of the Company shall transfer the state-owned shares equivalent to 10% of shares actually issued and listed pursuant to the initial public offering (“IPO”) to the National Council for Social Security Fund. Therefore, a portion of shares held by CSRG and BRIT are currently frozen.

Changes in Share Capital and Particulars of Shareholders (Continued)

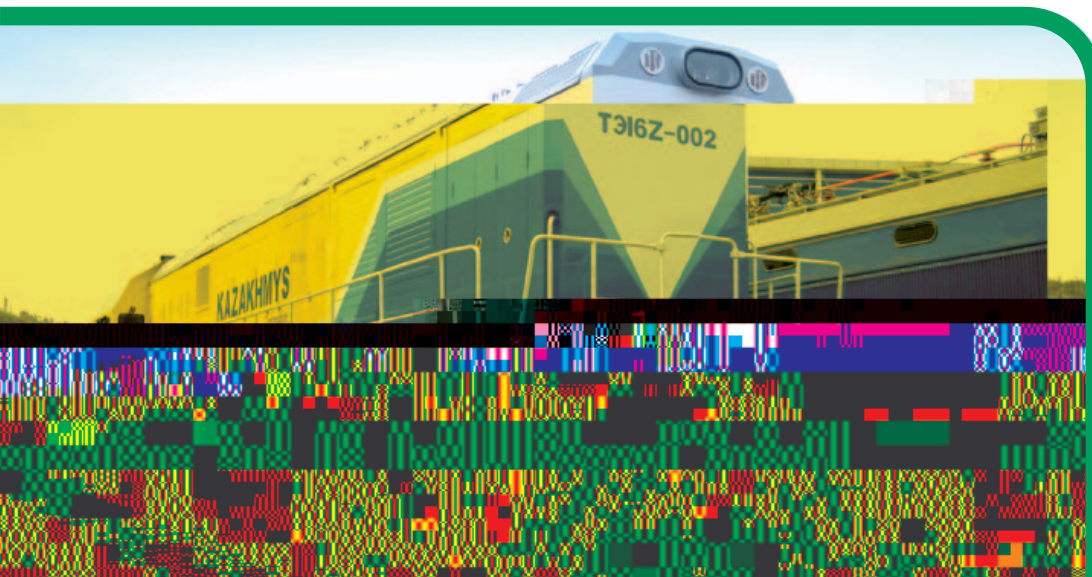


(3) Shareholding of the top 10 holders of shares not subject to trading moratorium *Unit: Share*

Name of Shareholders	Number of shares not subject to trading moratorium held	Type of share
HKSCC NOMINEES LIMITED	2,016,214,900	Overseas listed foreign invested shares
Donghai Securities Co., Ltd.	80,000,000	Ordinary shares denominated in RMB
China Life Insurance Company Limited —Bonus—Individual Bonus—005L—FH002 Hu 005L FH002	47,100,000	Ordinary shares denominated in RMB
Zhang Yan	36,190,620	Ordinary shares denominated in RMB
Xu Bailiang	35,000,000	Ordinary shares denominated in RMB

Changes in Share Capital and Particulars of Shareholders (Continued)

Name of Shareholders	Number of shares not subject to trading moratorium held	Type of share
Industrial and Commercial Bank of China —China Southern Longyuan Industrial Subject Stock Investment Fund	30,639,005	Ordinary shares denominated in RMB
CITIC Securities Co., Ltd.	26,202,584	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China —Bosera Tertiary Industry Growth Stock Securities Investment Fund	24,999,877	Ordinary shares denominated in RMB
Industrial Bank Co., Ltd.—Industrial Trend Investment Mixed Securities Investment Fund	24,000,000	Ordinary shares denominated in RMB
Bank of China—Harvest Shanghai —Shenzhen 300 Index Securities Investment Fund	23,777,170	Ordinary shares denominated in RMB
300		
Connections or parties acting in concert among the aforesaid shareholders		The Company is not aware of whether there are any connections among such shareholders or whether they are parties acting in concert.





Notes: the Company placed a total of 267,576,000 H shares to China Life Insurance Company Limited, GE Capital Equity Investment Ltd and Mirae Asset Global Investments (Hong Kong) Limited during the IPO of H shares in August 2008. The six-month lock-up period for the shares placed to such three institutional investors has expired on 23 February 2009. Such shares have been released from trading moratorium and become freely tradable on the same day. The H shares held by such three institutional investors were held in the name of HKSCC NOMINEES LIMITED.

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

Unit: Share

Name of holders of shares subject to No. trading moratorium	Number of shares subject to trading moratorium held	Release of trading moratorium		Trading moratorium
		Expiry date of trading moratorium	No. of additional shares available for listing and trading	
1. China South Locomotive & Rolling Stock Industry (Group) Corporation	6,718,628,571	18 August 2011	6,718,628,571	Promoter shareholder undertook that its A shares would be subject to a moratorium period of 36 months from the date of A shares listing
2. Beijing Railway Industry Trade Company	97,371,429	18 August 2011	97,371,429	Promoter shareholder undertook that its A shares would be subject to a moratorium period of 36 months from the date of A shares listing

Changes in Share Capital and Particulars of Shareholders (Continued)

(5) Substantial shareholders' interests and short positions in the Company

As at 30 June 2009, the following persons had interests or short positions in the Company's shares as recorded in the register of interests and short positions in shares required to be kept under section 336 of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong):

Name of Shareholders	Capacity	H Share or A Share	Nature of Interest	Number of H Shares or A Shares held	Percentage of	Percentage
					H share or A share in the total issued	of total share capital of the Company
					H shares or total issued A shares (%)	(%)
CSRG (Note 1)	Beneficial owner	A shares	Long position	6,816,000,000	69.44	57.57
National Council for Social Security Fund (Note 2)	Beneficial owner	H shares	Long position	184,000,000	9.09	1.55
Mirae Asset Global Investments (Hong Kong) Limited	Investment manager	H shares	Long position	138,424,000	6.84	1.17
Deutsche Bank Aktiengesellschaft	Beneficial owner/ investment manager/ person having a security interest in shares	H shares	Long position Short position	119,102,200 4,974,200	5.88 0.25	1.01 0.04
JPMorgan Chase & Co.	Investment manager/ custodian-corporation/ approved lending agent	H shares	Long position Interests in a lending pool	106,339,353 88,016,353	5.25 4.35	0.90 0.74

Changes in Share Capital and Particulars of Shareholders (Continued)

Notes:

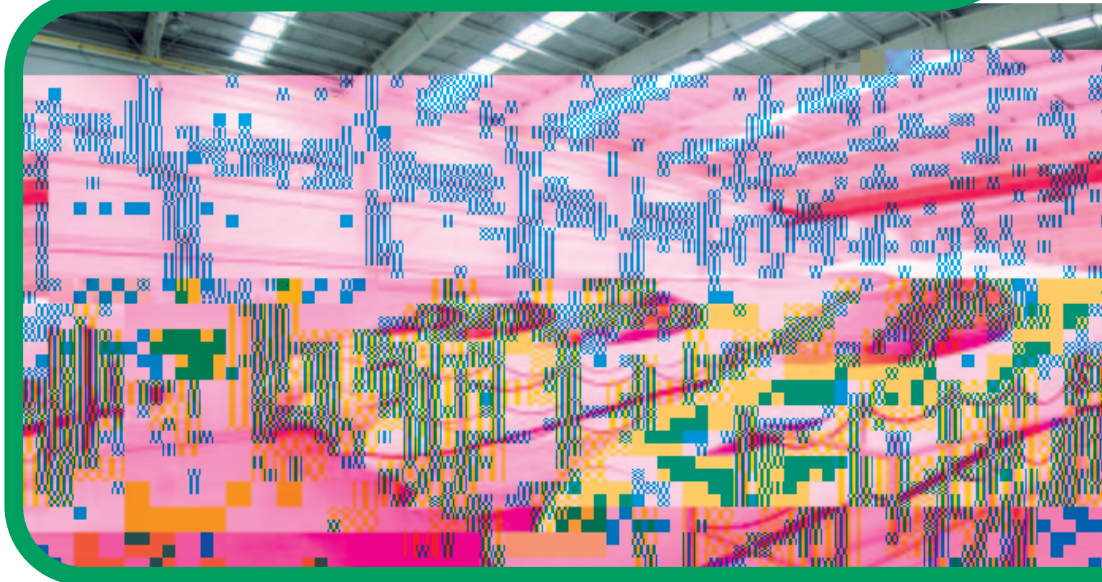
1. CSRG holds 97,371,429 A shares of the Company through its wholly-owned subsidiary, BRIT.
2. The Company issued a total of 1.84 billion overseas listed foreign invested shares (H shares) (upon the full exercise of the over-allotment option). In accordance with the relevant rules in respect of reduction of shareholding in State-owned shares, the holders of the Company's State-owned legal person shares, CSRG and BRIT, transferred the State-owned shares held according to 10% of the total H shares offered at the H share offering, or 184 million shares, to the National Council for Social Security Fund. Such State-owned shares were converted into H shares on a 1:1 basis.
3. Information disclosed hereby is based on the information available on the website of the Hong Kong Stock Exchange at www.hkex.com.hk.

Save as disclosed above, as far as the Directors of the Company are aware, as at 30 June 2009, no other person had interests and/or short positions in the shares or underlying shares (as the case may be) of the Company which were required to be recorded in the register pursuant to section 336 of Part XV of the SFO, or was otherwise a substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company.

2. Changes in the controlling shareholder and the ultimate controller

There was no change in the controlling shareholder and the ultimate controller during the Reporting Period.

Particulars of Directors, Supervisors and Senior Management



(I) CHANGES IN SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, none of the Directors, Supervisors or Senior Management has held or traded any of the Company's shares.

(II) APPOINTMENT OR DISMISSAL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, the Company has not appointed or dismissed any of its Directors, Supervisors or Senior Management.

As considered and approved at the 12th meeting of the first session of the Board on 15 June 2009, Mr. Zhao Xiaogang and Mr. Yang Yuzhong were appointed as members of the Nomination Committee of the Board.

(III) SHAREHOLDING INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 30 June 2009, none of the Directors, Supervisors and Senior Management of the Company had any 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, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Hong Kong Listing Rules.

As at 30 June 2009, none of the Directors, Supervisors and Senior Management or their spouses or children under the age of 18 has been granted any equity securities or warrants of the Company.

Report of Directors

(I) SUMMARY OF THE OVERALL OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

From January to June 2009, the Company achieved operating revenue of RMB18,235,373,000, representing an increase of 24.33% as compared with the same period last year. Profit after tax and profit attributable to the equity holders of the Company amounted to RMB821,259,000 and RMB626,337,000, representing
I)



Report of Directors (Continued)

Our operating revenue is mainly derived from locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and other revenues. During the Reporting Period, the Company proactively seized the development opportunities and made full use of its technology advantages to further new products development and investment in technological renovation. Accordingly, the business scale was expanded and market sales were boosted, which led to an admirable growth in operating revenue during the Reporting Period.

Revenue from our locomotive product line basically remained constant as compared with the same period last year. The Company delivered certain eight-axle high-powered electric locomotives in the same period last year while two new high-powered locomotives of the Company were in the experimental stage during the first half of 2009. With a lesser amount of products being delivered, the corresponding revenue increase from such products was unable to be fully reflected in the Reporting Period.

Revenue from our passenger carriage product line saw a considerable increase as compared with the same period last year, primarily due to the fact that CR increased its demand for passenger carriages as driven by the domestic demand stimulation policies of the PRC government, which led to the increase in the Company's passenger carriage orders. Meanwhile, most products ordered were delivered in the first half of 2009.

Revenue from our freight wagon product line recorded a noticeable decrease as compared with the same period last year, principally due to the severe insufficiency of orders for the first half of 2009 as CR postponed its tendering process for new freight wagons to June. Most orders in hand are in the process of being executed and sales has not been achieved yet.

Revenue from our MUs product line increased significantly as compared with the same period last year, mainly due to the Company's smooth delivery of oversize arrangement sleeper MUs, as compared with less delivery of MUs (impacted by certain imported components) in the same period last year. The substantial increase in the delivery of new MUs led to the significant growth in revenue from MUs product line.

Revenue from our rapid transit vehicle product line increased substantially as compared with the same period last year, primarily attributable to the gradual release of the domestic rapid transit vehicle demand in 2007 and 2008 and over 60% market share occupied by the Company. Mass delivery of orders drove up the revenue from our rapid transit vehicle product line significantly.

Revenue from other businesses includes revenue from businesses that closely utilize proprietary rolling stock technologies which increased significantly as compared with the same period last year, primarily attributable to the considerable increase in revenue from proprietary rolling stock technologies related products under the Company's proactive development in this field by means of its technological competence and edges. The considerable increase in revenue from proprietary rolling stock technologies related products was contributed by: over 1000% of year-on-year increase in revenue from wind power generation, over 300% of year-on-year increase in revenue from special-purpose vehicles, over 100% of year-on-year increase in revenue from other maintenance services, and nearly 50% of year-on-year increase in revenue from sales of non-locomotive accessories and materials as well as road maintenance machineries.

3. Revenue breakdown by regions

From January to June 2009, operating revenue from the Company's operations by regions and the comparison with that of the same period last year is shown in the following table:

Composition and percentage of revenue by regions

Business segment	January to June 2009		January to June 2008		Growth rate
	Amount (RMB'000)	Percentage %	Amount (RMB'000)	Percentage %	
Domestic market	17,678,543	96.95	14,129,566	96.34	25.12
Overseas market	556,830	3.05	537,498	3.66	3.60
Total	18,235,373	100.00	14,667,064	100.00	24.33

Revenue from domestic market of the Company increased by 25.12% as compared with the same period last year whereas revenue from overseas market increased by 3.60% as compared with the same period last year.

4. Breakdown of gross profit and gross profit margin

Consolidated gross profit of the Company from January to June 2009 and the comparison with that of the same period last year is shown in the following table:

Consolidated gross profit and gross profit margin

Item	January to June 2009	January to June 2008	Growth rate %
	Amount (RMB'000)	Amount (RMB'000)	
Operating revenue	18,235,373	14,667,064	24.33
Cost of operation	15,302,945	11,920,016	28.38
Gross profit	2,932,428	2,747,048	6.75
Gross profit margin	16.08%	18.73%	

Gross profit of the Company increased modestly as compared with the same period last year as driven by operating revenue growth, but gross profit margin decreased from same period last year, as freight wagon business suffered from the postponement of the tendering process for new freight wagons by our major customer CR till June, which led to insufficient production tasks and a higher amount of shared fixed costs for the first half of the year.

(III) 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

The composition and year-on-year changes of major assets of the Company as at 30 June 2009 are shown in the following table:

Composition and changes of major assets (net)

Item	30 June 2009		31 December 2008		Growth rate %
	Amount (RMB'000)	Percentage %	Amount (RMB'000)	Percentage %	
Total current assets	34,083,886	68.58	31,087,693	68.30	9.64
Of which: cash and cash equivalents	7,685,470	15.46	11,065,179	24.31	(30.54)
Trade receivables	7,935,147	15.97	5,995,583	13.17	32.35
Prepayment, deposits and other receivables	4,676,595	9.41	4,417,719	9.71	5.86
Inventories	10,673,601	21.48	8,389,453	18.43	27.23
Total non-current assets	15,616,341	31.42	14,428,558	31.70	8.23
Of which: property, plant and equipment	11,357,754	22.85	10,242,102	22.50	10.89
Total assets	49,700,227	100.00	45,516,251	100.00	9.19

The balance of the Company's cash and cash equivalents is relatively significant, accounting for 15.46% of the total assets as at the end of the Reporting Period. Such a high proportion was attributable to the Company's effort in sustaining a suitable amount of cash and bank balance for daily production and operation.

The trade receivables of the Company are mainly contract receivables. As at the end of the Reporting Period, net trade receivables increased by 32.35% as compared with the end of last year, which is due to the increased sales revenue for the Reporting Period and the fact that some major customers prefer to settle at the end of the year rather than in the middle of the year, which explains higher trade receivables in the middle of the year than those at the end of the year.

Inventories of the Company increased by 27.23% as compared with the end of last year. Such increase was mainly attributable to a higher business volume following an upscale of the Company's operation.

The property, plant and equipment of the Company increased by 10.89% as compared with the end of last year, mainly attributable to more investment in capacity expansion, upgrades of products and technologies by the Company.

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 30 June 2009 are shown in the following table:

Composition and changes of major liabilities

Item	30 June 2009		31 December 2008		
	Amount	Percentage	Amount	Percentage	Growth rate
	(RMB'000)	%	(RMB'000)	%	%
Total current liabilities	27,862,314	90.81	23,652,158	88.01	17.80
Of which: interest bearing bank and other borrowings	3,831,106	12.49	3,747,420	13.94	2.23
Bills payables	5,578,686	18.18	3,127,130	11.64	78.40
Trade payables	10,453,222	34.07	8,415,044	31.31	24.22
Other payables and accruals	7,542,029	24.58	7,986,766	29.72	(5.57)
Total non-current liabilities	2,820,798	9.19	3,221,516	11.99	(12.44)
Of which: interest bearing bank and other borrowings	192,702	0.63	664,996	2.47	(71.02)
Provision for supplemental pension subsidies and early retirement benefits	2,033,490	6.63	2,141,570	7.97	(5.05)
Total liabilities	30,683,112	100.00	26,873,674	100.00	14.18

The bill payables of the Company are mainly bills issued to suppliers for liquidity. As at the end of the Reporting Period, the bill payables of the Company increased significantly by 78.40% as compared with the end of last year, mainly attributable to the increase in the procurement amount given the increase in business volume of the Company. In addition, in order to lower financing costs, the Company increased the bill financing from cooperating banks with lower cost by virtue of its credit advantages.

The trade payables of the Company are mainly outstanding amount payable to suppliers of raw materials, machinery and equipment and outstanding construction amount. As at the end of the Reporting Period, the trade payables of the Company increased by 24.22% as compared with the end of last year, which was mainly attributable to the increase in the procurement amount given the increase in business volume of the Company.

Report of Directors (Continued)

As at the end of the Reporting Period, the long-term interest bearing bank and other borrowings of the Company decreased by 71.02% from the end of last year. The substantial decrease is mainly attributable to repayment of certain loans in advance by the Company as it was in possession of abundant capital.

3. Capital structure

As at 30 June 2009, the gearing ratio of the Company was 51.95%.

(IV) MATERIAL CHANGES IN FINANCIAL FIGURES SUCH AS ADMINISTRATIVE EXPENSES DURING THE REPORTING PERIOD

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

Item	January to June 2009 Amount (RMB'000)	January to June 2008 Amount (RMB'000)	Growth rate %
Selling and distribution costs	422,142	316,388	33.43
Administrative expenses	1,633,115	1,325,140	23.24
Finance costs	133,779	249,246	(46.33)
Share of profits and losses of associate companies and jointly-controlled entities	56,144	86,478	(35.08)
Tax	186,380	285,199	(34.65)

Report of Directors (Continued)

From January to June 2009, the selling and distribution costs of the Company increased by 33.43% as compared with the same period last year, which was attributable to the increase in selling expenses arising from the increased sales revenue of the Company. The increase of 23.24% in administrative expenses of the Company as compared with that of last year was mainly attributable to the increase in corresponding management fees arising from the increase in business volume and R&D expenses during the Reporting Period. Finance costs decreased by 46.33% as compared with the same period last year, mainly attributable to less debt financing after the listing of the shares of the Company in August 2008. Share of profits and losses of associate companies and jointly-controlled entities decreased by 35.08% as compared with the same period last year, mainly due to the increase in holding of shares with voting rights in certain joint ventures enterprises by the Company which made them become subsidiaries of the Company. Figures for the same period last year included investment income shared by the Company according to the shareholdings in such companies, and the large gain from disposal of certain available-for-sale financial assets (equity interest in Dingsheng Tiangong) by the Company. Tax decreased by 34.65% from the same period last year, mainly due to less operating profits for the Reporting Period and the 15% preferential enterprise income tax rate for high-tech enterprises enjoyed by certain subsidiaries since the end of 2008 and the beginning of 2009, whereas applicable tax rate was 25% for the same period last year.

(V) BREAKDOWN OF CASH FLOW DURING THE REPORTING PERIOD

From January to June 2009, cash flow of the Company and year-on-year changes thereof are set out in the following table:

Item	January to June 2009 Amount (RMB'000)	January to June 2008 Amount (RMB'000)	Growth rate %
Net cash flow from operating activities	(1,716,542)	(1,820,818)	(5.73)
Net cash flow from investing activities	(1,428,909)	(1,072,401)	33.24
Net cash flow from financing activities	(571,681)	(765,339)	(25.30)

From January to June 2009, deficit of net cash flow from operating activities was RMB1,716,542,000, which was slightly lower than that of the same period last year. Deficit of net cash flow from investing activities was RMB1,428,909,000, representing an increase of RMB356,508,000 or 33.24% as compared with the same period last year, mainly due to the increased expenditure in investment projects financed by proceeds. Deficit of net cash flow from financing activities was RMB571,681,000, representing a decrease of 25.30% as compared with the same period last year, mainly due to less repayment of bank loans and interests payment in the Reporting Period as compared with the same period last year.

(VI) INVESTMENT OF THE COMPANY

1. Use of proceeds raised from A share offering

The Company raised aggregate net proceeds of RMB6.36941 billion from the IPO of A shares in August 2008. As at 30 June 2009, interests accrued from deposit of proceeds in bank amounted to RMB17.21 million.

In the first half of 2009, the Company's investment projects funded by proceeds (the "Projects") had utilized proceeds of RMB1.05289 billion. RMB630 million of proceeds was utilized to supplement working capital. As at 30 June 2009, the Projects had utilized proceeds of RMB5.29039 billion in total, and the designated proceed account had a total balance of RMB466.22 million.

- (1) Use of proceeds for the Projects. In the first half of 2009, the Company had invested proceeds of RMB1.05289 billion in the Projects. As at the end of the Reporting Period, the Company had invested RMB5.29039 billion in total (including replacement of its own funds of RMB2.01474 billion previously invested in the Projects) in the Projects.
- (2) As considered and approved at the 12th meeting of the first session of the Board of the Company, the Company has applied proceeds of RMB630 million which was not in use to temporarily supplement the working capital on 16 June 2009.
- (3) Use of balance of proceeds. As at 30 June 2009, the total balance of proceeds of the Company in the designated proceed account amounted to RMB466.22 million. The balance will continue to be utilized for the Projects undertaken by the Company.

2. Use of proceeds raised from A share offering for the undertaken projects

Unit: RMB0'000

Total proceeds	654,000	Total proceeds used in the Reporting Period	105,289
		Total proceeds used accumulatively	529,039

No.	Project undertaking	With or without change	Planned investment of proceeds	Investment of proceeds	Whether is in line with plan	Profits achieved during the Reporting Period	Whether the planned profit is achieved
1	Production and construction project of MUs with maximum speed of 200 km/h	No	20,000	20,000	Yes	3,305	Yes
2	Industrialization project of high-speed MUs with maximum speed of 300 km/h and over	No	24,353	24,353	Yes	Not applicable	Not applicable
3	Industrialization project of high-speed passenger carriages and inter-city MUs	No	23,500	14,082	Yes	Not applicable	Not applicable
4	Industrialization project of high-powered AC locomotives (locomotive section)	No	8,000	8,000	Yes	1,070	Yes
5	AC electronic locomotive R&D system building and industry upgrade (six-axles) project	No	10,000	10,000	Yes	Not applicable	Not applicable
6	High-powered electric locomotive production base project	No	10,000	10,000	Yes	Not applicable	Not applicable
7	Technology renovation project of the domestic production of AC diesel locomotives	No	31,984	30,235	Yes	Not applicable	Not applicable
8	Industry upgrade project of high-powered diesel locomotives	No	15,000	5,000	Yes	Not applicable	Not applicable
9	Construction project of locomotive production base	No	15,000	15,000	Yes	Not applicable	Not applicable
10	Auxiliary AC motor technology renovation project for GE high-powered AC diesel locomotives technology transfer and domestic production	No	3,938	3,938	Yes	Not applicable	Not applicable
11	Industrialization project of key components for high-speed MUs and high-powered locomotives	No	4,000	4,000	Yes	Not applicable	Not applicable
12	Large engine crank production base project	No	15,000	15,000	Yes	Not applicable	Not applicable

Report of Directors (Continued)

No.	Project undertaking	With or without change	Planned investment of proceeds	Investment of proceeds	Whether is in line with plan	Profits	Whether
						achieved during the Reporting Period	the planned profit is achieved
13	Capacity upgrade project of heat processing of key components for diesel locomotives (electronic control)	No	10,000	10,000	Yes	Not applicable	Not applicable
14	Capacity upgrade project of cold processing of key components for diesel locomotives (electronic control)	No	10,000	10,000	Yes	Not applicable	Not applicable
15	Technology renovation project of high-powered AC electric locomotive and MUs traction motors transformer	No	30,000	30,000	Yes	Not applicable	Not applicable
16	Capacity expansion project of rapid transit vehicles	No	7,785	7,785	Yes	Not applicable	Not applicable
17	Resources optimization project of rapid transit vehicles R&D and manufacturing	No	30,000	30,000	Yes	Not applicable	Not applicable
18	Construction project of stainless steel rail rolling stock	No	9,883	9,883	Yes	Not applicable	Not applicable
19	Metro cars R&D and industry upgrade project	No	20,956	20,956	Yes	Not applicable	Not applicable
20	Construction project of headquarter of CSR Yangtze, R&D Centre and Wuhan production base	No	153,548	142,937			
20.1	Construction project of head office and R&D Centre	No	46,996	42,994	Yes	Not applicable	Not applicable
20.2	Construction project of railway wagon production	No	55,134	50,472	Yes	Not applicable	Not applicable
20.3	Construction project of railway wagon refurbishment	No	53,743	49,471	Yes	Not applicable	Not applicable
21	Technology renovation project of CSR Yangtze, Zhuzhou base	No	10,000	7,483	Yes	Not applicable	Not applicable
22	Technology renovation project of CSR Yangtze Rolling Stock Co., Ltd, Tongling branch	No	10,000	5,129	Yes	Not applicable	Not applicable
23	Technology renovation project of rail heavy duty, high-speed freight wagon and key components	No	10,000	10,000	Yes	Not applicable	Not applicable

Report of Directors (Continued)

No.	Project undertaking	With or without change	Planned investment of proceeds	Investment of proceeds	Whether is in line with plan	Profits	Whether
						achieved during the Reporting Period	the planned profit is achieved
24	High-end passenger carriages refurbishment base project	No	—	—	Yes	Not applicable	Not applicable
25	Capacity expansion project of automobile superchargers parts industrialization	No	50,000	22,858	Yes	Not applicable	Not applicable
26	Industrialization project of gear transmission system	No	40,000	24,199	Yes	Not applicable	Not applicable
27	Complete wind power equipment production project	No	20,171	20,171	Yes	Not applicable	Not applicable
28	Industrialization base construction project of complete electric automobile and critical components	No	18,000	18,000	Yes	Not applicable	Not applicable
29	Corporate IT capacity upgrade construction project	No	25,823	30	Yes	Not applicable	Not applicable
	Total		636,941	529,039			
	Reason for changes and description of the procedures	Nil					
	Balance of proceeds and planned uses	As at 30 June 2009, total balance of proceeds at the designated proceed account amounted to RMB466.22 million, which is being deposited in the designated bank account held by the Company					

3. Use of proceeds raised from H share offering

The Company raised net proceeds of HK\$4.647 billion from the IPO of H shares in August 2008. In 2008, approximately HK\$316 million of proceeds raised from the H share offering were used by the Company while approximately HK\$1,884 million of such proceeds were used in the first half of 2009, of which approximately HK\$257 million were used to acquire advanced foreign R&D, manufacturing and laboratory equipment; approximately HK\$1,618 million were used to import critical components which facilitated the domestic production of complete rolling stock units; approximately HK\$9 million were used to import key foreign technologies for rail vehicles; and HK\$390 million were injected into CSR (Hong Kong) Company Limited. As at 30 June 2009, the balance of proceeds raised from the H share offering in the proceed account of the Company amounted to approximately HK\$2.108 billion (inclusive of bank interests), including HK\$1.503 billion and US\$78 million.

4. Projects not funded by proceeds

In the first half of 2009, the Company's investment projects not funded by proceeds amounted to RMB425.1 million, mainly comprising construction project of the engineering laboratory for high-speed train of CSR Sifang Co., Ltd., technology renovation project of railway project machines of CSR Luoyang Locomotive Co., Ltd., large size semiconductors R&D and industrialization project of Zhuzhou CSR Times Electric Co., Ltd. etc.

(VII) EXCHANGE RATE RISKS AND COUNTER MEASURES

As at 30 June 2009, the Company held a total of RMB4,064,508,000 of financial assets and RMB408,210,000 of financial liabilities denominated in foreign currencies.

The Company adopts the following principal measures against exchange rate risks: 1) Acceleration of payment. The Company organizes subsidiaries to accelerate project implementation and payment progress as committed in the use of proceeds from H share offering. 2) Remittance of proceeds into the PRC. Pursuant to the PRC government domestic demand stimulation policies, in order to ease working capital pressure and lower exchange rate risks, the Company is actively communicating with relevant authorities to remit some of the proceeds from the H share offering back to the PRC. 3) Deliberation on risk free asset management. Using calculated payment plan and catching favourable interest rate opportunities, the Company deposits the proceeds from the H share offering which is not in use as fixed deposits.

(VIII) EMPLOYEES OF THE COMPANY

During the Reporting Period, there is no substantial change in the total number or structure of the employees of the Company.

The Company spared no effort in improving the deployment of talents and made great effort to nurture key personnel by fostering the hiring and reviewing mechanism for chiefs and management members of all sections. It also carried out a succession scheme as a preliminary move to establish a backup talent data bank at each management level. The Company also pledges to recruit talents, establish a high calibre R&D team, whilst strengthening its labour systems and aspiring for harmonious staff relationships in compliance with the Labour Contract Law of the People's Republic of China. The Company standardized the training and development of talents on management, technology and expertise with reference to its human resources strategic plans, and focused on seeking talents for backup and key positions, with a view to increasing overall staff quality, skills and international competitiveness.

(IX) PARTICULARS OF PLEDGE OF ASSETS OF THE COMPANY

As at 30 June 2009, the following assets of the Company (with a total book value of RMB2,748,198,000)
e Tw(entB2,748,15,6)) TJ, cash Jnd HComobalancMB2, -1.8T Tc00r1276 T08850

Significant Events

(I) CORPORATE GOVERNANCE

During the Reporting Period, the Company has strictly complied with the laws, regulations as well as the requirements of the regulatory documents for listing in the PRC and Hong Kong, established and gradually improved its corporate governance structure, formulated modern enterprise system, standardized its operations, improved the operation management, done its best endeavour in information disclosure, investor relations management and investor services, and committed to maintain and enhance the good image of the Company in the market. At present, the Company's corporate governance meets the requirements of regulatory documents applicable to listed companies in the PRC and Hong Kong.

Audit and Risk Management Committee

The Audit and Risk Management Committee of the Board of the Company consists of 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 serves as the chairman of the Audit and Risk Management Committee of the Company.

The Audit and Risk Management Committee has reviewed the unaudited interim financial statements of the Company for the six months ended 30 June 2009. 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.

(II) PROFIT DISTRIBUTION PLAN AND ITS IMPLEMENTATION DURING THE REPORTING PERIOD

The 2008 final dividend of the Company was approved at the annual general meeting for 2008 held on 15 June 2009. Such final dividend distribution was completed on 14 July 2009.

For details of the above dividend distribution plan, please refer to the relevant announcements published in the China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times and on the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange on 16 June 2009.

(III) PROPOSAL FOR PROFIT DISTRIBUTION AND CONVERSION OF SURPLUS RESERVES INTO SHARE CAPITAL FOR THE HALF YEAR

The Company had no profit distribution plan or conversion of surplus reserves into share capital plan for the first half of 2009.

(IV) IMPLEMENTATION OF CASH DIVIDEND POLICY DURING THE REPORTING PERIOD

The Articles of Association, which were considered and revised at the 2008 annual general meeting on 15 June 2009 and filed with State-owned Assets Supervision and Administration Commission of the State Council, specify the Company's cash dividend policy as follows: "The Company's profit distribution policy shall remain consistent and stable. The Company may distribute dividends in any of the following manner (or both): (I) cash; (II) stocks. The Company may distribute cash dividends as appropriate on a pro rata basis provided that sufficient capital is maintained for its ordinary operation and development needs."

Significant Events (Continued)

As approved by the 2008 annual general meeting on 15 June 2009, the Company distributed cash dividend to all shareholders of the Company for 2008, of RMB0.32 (tax inclusive) for every 10 shares. The total amount of the dividend distributed was RMB378,880,000, accounting for 30.41% of the Company's profit available for distribution for the year. Such dividend distribution was completed on 14 July 2009.

(V) MATERIAL LITIGATION AND ARBITRATION

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

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

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

Unit: RMB0'000

Stock Code	Abbreviated name	Initial investment amount	Percentage of total equity in the Company (%)	Carrying amount at the end of the Reporting Period	Gain and loss occurred in the Reporting Period	Changes in the owner's equity during the Reporting Period	Accounting items	Source of equity interest
601328	Bank of Communications	99.00	—	778.99	18.82	369.18	Financial assets available-for-sale	Purchase
600335	Dingsheng Tiangong	340.25	0.29	538.40	—	173.60	Financial assets available-for-sale	Set-off of debts

Significant Events (Continued)

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

Name of institution	Initial investment amount (RMB)	Number of shares held (share)	Percentage in equity of the company (%)	Carrying amount at the end of the Reporting Period (RMB)	Gain or loss occurred in the Reporting Period (RMB)	Changes in owner's equity in the Reporting Period (RMB)	Accounting items	Source of equity interest
Donghai Securities Co., Ltd.	19,483,800	20,000,000	1.2	19,483,800	3,200,000	—	Long-term equity investment	Purchase
Zhuzhou City Commercial Bank	770,000	700,000	0.28	550,000	42,000	—	Long-term equity investment	Purchase
Jiangsu Bank	74,400	74,400	—	74,400	5,952	—	Long-term equity investment	Purchase

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

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

(VIII) MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

According to the relevant provisions of the securities regulatory authority in the PRC, the connected transactions under the Rules Governing the Listing of Shares on the Shanghai Stock Exchange are disclosed as follows:

1. Connected transactions related to ongoing operations

Connected transactions related to ongoing operations of the Company refer to transactions between the Company and CSG Group and its subsidiaries (other than the Company and its controlling enterprises).

Significant Events (Continued)

CSR Group is the controlling shareholder of the Company, directly holding a 56.75% equity interest in the Company and indirectly holding a 0.82% equity interest through BRIT. According to the requirements of the Rules Governing the Listing of Shares on the Shanghai Stock Exchange, CSR Group and its subsidiaries are therefore connected persons of the Company. The Company generally sells raw materials and accessories to CSR Group for processing into rolling stock components and then purchases such components back. Meanwhile, the Company purchases ancillary products and services such as fuel from CSR Group. Due to the business relationship established on a long-term basis, the connected transactions between the Company and CSR Group and its subsidiaries are necessary for the Company's continuous production.

To regulate the continuing connected transactions between the Company and CSR Group and its subsidiaries, relevant parties have entered into the Product Mutual Provision Framework Agreement, Comprehensive Service Mutual Provision Framework Agreement and Property Leasing Framework Agreement for the relevant transactions, pursuant to which the scope of mutual provision of products, services and property leasing as well as pricing principles were specified.

The Company conducted transactions with the connected persons in strict compliance with the agreements as specified in the aforesaid framework agreements for connected transactions. As most of the products and services mutually supplied and property leased between the Company and the CSR Group and its connected persons are also available from other third parties, the prices of the connected transactions between the Company and CSR Group are mainly determined by market price or tender price. The transactions between the Company and CSR Group and its connected persons are based on arm's length negotiation while matters and prices thereof are determined according to the market-oriented principle. Such connected transactions cause no damage to the interests of the Company or other non connected shareholders of the Company, and will not have major impacts on the sustainable operation, profit and loss and assets status of the Company.

Significant Events (Continued)

During the Reporting Period, major connected transactions related to ongoing operations between the Company and its connected persons are as follows:

1) Sales to connected persons

Unit: RMB'000

Connected persons	Name of the Company and its subsidiaries	Connected relationship	Type of connected transaction	Content of transaction	Pricing principle	Amount of connected transaction	Percentage in the same type of business	Payment method
Hunan Railway Professional Technology College-Tian Yi Co., Ltd.	CSR Zhuzhou Electric Locomotive Co., Ltd.	Other connected person controlled by the parent company	Sale of goods	Sales of locomotive components	Market price	11,855	1.10%	Cash
CSR Group Xiangfan Traction Motor Co., Ltd.	Zhuzhou Times Electric Insulation Co., Ltd.	Other connected person controlled by the parent company	Sale of goods	Sale of other products	Market price	3,140	1.46%	Cash
South Huiton Co., Ltd.	CSR Investing & Leasing Co., Ltd.	Other connected person controlled by the parent company	Sale of goods	Sale of steel products	Market price	2,002	4.10%	Cash
South Huiton Co., Ltd.	CSR Feb.7th Rolling Stock Co., Ltd.	Other connected person controlled by the parent company	Sale of goods	Sale of freight wagons components	Market price	1,925	1.9%	Cash
Changzhou Changcheng Railway Machinery Plant	CSR Qishuyan Locomotive Co., Ltd.	Other connected person controlled by the parent company	Sale of goods	Sale of other products	Market price	1,282	1.8%	Cash
Others						6,315	0.90%	Cash
Total						26,519		

Significant Events (Continued)

2) Purchase from connected persons

Unit: RMB'000

Connected person	The Company and its subsidiaries	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle	Amount of connected transaction	Percentage	
							in the same type of business	Payment method
China South Locomotive and Rolling Stock Industry (Group) Corporation	CSR Sifang Co., Ltd.	Parent company	Purchase of goods	Purchase of metro bogie	market price	28,019	1.58%	Cash
Hunan Railway Professional Technology College Tian Yi Co., Ltd.	CSR Zhuzhou Electric Locomotive Co., Ltd.	Other connected person controlled by the parent company	Purchase of goods	Purchase of components for locomotive and rapid transit vehicle	market price	19,953	1.12%	Cash
CSR Group Xiangfan Traction Motor Co., Ltd.	CSR Ziyang Locomotive Co., Ltd.	Other connected person controlled by the parent company	Purchase of goods	Purchase of locomotive components	market price	9,553	2.7%	Cash
Hunan Railway Professional Technology College Tian Yi Co., Ltd.	Zhuzhou CSR Times Electric Co., Ltd.	Other connected person controlled by the parent company	Purchase of goods	Purchase of locomotive components	market price	5,325	1.51%	Cash
CSR Group Xiangfan Traction Motor Co., Ltd.	Zhuzhou Times New Material Technology Co., Ltd.	Other connected person controlled by the parent company	Purchase of goods	Purchase of other products	market price	4,781	1.35%	Cash
CSR Group Xiangfan Traction Motor Co., Ltd.	CSR Qishuyan Locomotive Co., Ltd.	Other connected person controlled by the parent company	Purchase of goods	Purchase of locomotive components	market price	4,024	1.14%	Cash

Significant Events (Continued)

Unit: RMB'000

Connected person	The Company and its subsidiaries	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle	Amount of connected transaction	Percentage	
							in the same type of business	Payment method
Qingdao Siji Construction and Installation Co., Ltd.	CSR Sifang Locomotive & Rolling Stock Co., Ltd.	Other connected person controlled by the parent company	Purchase of goods	Purchase of raw materials	market price	2,697	15.9%	Cash
Changzhou Changcheng Railway Machinery Plant	CSR Qishuyan Locomotive Co., Ltd.	Other connected person controlled by the parent company	Purchase of goods	Purchase of locomotive components	market price	1,294	0.74%	Cash
CSR Group Xiangfan Traction Motor Co., Ltd.	CSR Xiangfan Locomotive Co., Ltd.	Other connected person controlled by the parent company	Purchase of goods	Purchase of locomotive components	market price	1,161	0.66%	Cash
Others						8,240	8.1%	Cash
Total						85,047		

2. Material connected transactions regarding transfer of assets and equity interests

During the Reporting Period, the Company had no material connected transactions regarding transfer of assets and equity interests.

Significant Events (Continued)

3. Debts due to or from connected persons

During the Reporting Period, the Company had following debts due to or from connected persons:

Unit: RMB'000

Connected person	Capital provided to connected person		Capital provided by connected person	
	Amount	Balance	Amount	Balance
CSRG Group and its subsidiaries	(60,945)	152,540	31,721	81,532
including:				
Accounts receivable (or accounts payable)	(10,140)	38,589	8,551	42,820
Bills receivable (or bills payable)	—	—	21,610	28,020
Other receivables (or other payables, advances or prepayments)	(46,929)	113,951	(9,133)	—

Debts due to or from connected persons all arose from operational activities such as purchase and sale of products and services.

4. Appropriation of funds

As at the end of the Reporting Period, the Company's funds were not appropriated by CSRG

Significant Events (Continued)

(3) Lease arrangement

The Company did not have material lease arrangement during the Reporting Period.

2. Guarantees

Unit: RMB'000

Guarantee provided by the Company to external parties (excluding guarantee provided by the Company in favour of its subsidiaries)	
Total guarantee amount provided during the Reporting Period (excluding guarantee provided by the Company in favour of its subsidiaries)	—
Total guarantee balance at the end of the Reporting Period (excluding guarantee provided by the Company in favour of its subsidiaries)	—
Guarantee provided by the Company in favour of its subsidiaries	
Total guarantee amount provided to the Company's subsidiaries during the Reporting Period	267,025
Total guarantee balance provided to the Company's subsidiaries at the end of the Reporting Period	3,059,511
Aggregate guarantee amount provided by the Company (including guarantee provided by the Company in favour of its subsidiaries)	
Total guarantee amount	3,059,511
Percentage of total guarantee amount to net assets of the Company (%)	16.09
including:	
Amount of guarantees provided in favour of shareholders, ultimate controller and their connected persons	—
Amount of guarantees directly or indirectly provided in favour of parties with gearing ratio over 70%	1,413,874
Portion of the total guarantee amount in excess of 50% of net assets	—
Total amount of the three above-stated guarantees	1,413,874

Significant Events (Continued)

During the Reporting Period, total guarantee amount provided by the Company in favour of its subsidiaries was RMB267 million. As at 30 June 2009, total guarantee balance was RMB3.06 billion, among which, RMB2.289 billion and RMB515 million were provided to the Company's wholly-owned subsidiaries and controlling subsidiaries respectively. Guarantee amount provided by the Company's subsidiaries to their sub-subsidiaries was RMB256 million. As far as guarantee type is concerned, out of the RMB3.06 billion of guarantee in total, RMB2.196 billion was provided by way of bank acceptance drafts, RMB157 million was provided by way of letter of guarantee and letter of credit, RMB109 million was provided by way of factoring guarantee and RMB598 million was provided by way of loan guarantee.

As at the end of the Reporting Period, all guarantee balance were provided for the Company's subsidiaries. Relevant review procedures have been performed accordingly. The Company had no over-due guarantee or breach of contract.

3. Entrusted investment

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

4. Other major contracts

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

(X) PERFORMANCE OF UNDERTAKINGS

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

- (1) The lock-up undertaking in respect of the shares held by CSRG Group in the Company is as follows: within 36 months from the date of listing of the Company's A shares on the Shanghai Stock Exchange, CSRG Group will not transfer or authorize others to manage its shareholdings in the Company, nor will the Company acquire such shares.
- (2) The undertaking made by CSRG Group in respect of restructuring of South Huiton Co., Ltd. ("South Huiton") is as follows: there should be a proposed restructuring in CSRG Group's shareholdings and relevant assets in South Huiton. This includes but not limit to CSRG Group's proposed acquisition of South Huiton's assets in relation to the freight wagon businesses. CSRG Group will transfer the above-mentioned assets in relation to the freight wagon businesses acquired from South Huiton to the Company within three months from the date of CSRG Group's 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 are subject to necessary review procedures pursuant to the requirements of the domestic and overseas regulatory bodies.
- (3) The non-competition undertakings are as follows: 1. CSRG Group undertakes that CSRG Group will not and will, through legal procedures, procure its wholly owned and holding subsidiaries not to engage in any businesses which might directly compete with the Company's current operating businesses; 2. Subject to the aforesaid undertaking 1, should CSRG Group (including its wholly-owned and holding 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 Group 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 Group; 3. Subject to the aforesaid undertaking 1, CSRG Group may develop advanced and lucrative projects in the future which fall within the Company's business scope, but it should preferentially transfer any achievements on such projects to the Company for operation under the same terms of transfer; 4. CSRG Group should indemnify the Company for its actual losses due to the losses arising from the failure in fulfilling undertakings 1 to 3 as described above.

During the Reporting Period, CSRG Group, the Company's controlling shareholder, fully fulfilled its undertakings as stated above.

2. Commitment to buildings' ownership

As disclosed in the Prospectus, the Company has not yet obtained proper property ownership certificates for properties with a total gross floor area of 282,019.03 m² (representing 7.85% of the total gross floor area of the properties occupied by the Company). Of these properties, 125 properties have not been granted property ownership certificates by the local government authorities due to the implementation of the “Leaving the City and Entering the Suburb” policy in Shijiazhuang and the changes in urban planning in Chengdu area. In respect of those those urban plannings, Shijiazhuang Administration of Urban and Rural Planning 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. Chengdu Administration of Urban Planning has issued the Explanation on the Road Planning in the Area of CSR Chengdu Locomotive & Rolling Stock Works and pointed out that two municipal roads planned would run through the land of the area of the works based on the need of urban development. The remaining 201 properties with a total gross floor area of 195,396.80 m² (representing 5.44% of the total gross floor area of the properties included in the listing scope) have not yet obtained proper property ownership certificates due to the fact that the relevant planning procedures or construction procedures have not yet been completed. As the land use rights of such 201 properties belong to CSR Group, there would be no disputes in its operation and use. For the properties without property ownership certificates, CSR Group has undertaken in the Restructuring Agreement that, in respect of the assets injected by CSR Group into the Company including properties without proper ownership certificates due to incomplete planning or construction procedures, such properties should meet the requirement for the Company's production and operational use and that it should assume all the responsibilities to compensate and indemnify the Company for all the financial losses incurred due to losses in relation to such properties.

In respect of the 4 properties with a total gross floor area of 21,223.04 m² leased by the Company, its subsidiaries and joint ventures in the PRC, the lessors have not yet been granted property ownership certificates. For the leasehold properties of which the lessors have not yet been granted property ownership certificates, CSR Group undertook, at the Company's establishment, to compensate the Company for all losses (if any) arising from the failure to obtain the property ownership certificates of the above properties rented from CSR Group. For properties rented by the Company from any third parties other than CSR Group, CSR Group undertook to settle all disputes related to the leases of such properties, to bear all expenses or related expenses for the settlements of such disputes and to compensate the Company for all losses (if any) suffered therefrom.

Significant Events (Continued)

During the Reporting Period, the Company has been actively applying for property ownership certificates. As at the end of the Reporting Period, the Company has not yet obtained proper property ownership certificates for 296 properties with a total gross floor area of 235,306.31 m².

(XI) APPOINTMENT AND REMOVAL OF THE AUDITORS

The Company continued the appointment of Ernst & Young Hua Ming and Ernst & Young as the Company's domestic and overseas auditors respectively.

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

During the Reporting Period, none of the Company, its Directors, Supervisors, Senior Management, shareholders or ultimate controller was subject to any investigation, administrative punishment or criticism by China Securities Regulatory Commission or any public condemnation by any stock exchanges.

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

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

(XIV) IMPLEMENTATION OF SHARE OPTION INCENTIVE SCHEME AND ITS EFFECTS

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

During the Reporting Period, the Company did not implement any share option incentive scheme.

Interim Condensed Consolidated Income Statement

Six months ended 30 June 2009

		For the six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
REVENUE	4	18,235,373	14,667,064
Cost of sales		(15,302,945)	(11,920,016)
Gross profit		2,932,428	2,747,048
Other income and gains, net	4	274,558	359,111
Selling and distribution costs		(422,142)	(316,388)
Administrative expenses		(1,633,115)	(1,325,140)
Other expenses, net	5	(66,455)	(83,457)
OPERATING PROFIT		1,085,274	1,381,174
Finance costs	6	(133,779)	(249,246)
Share of profits and losses of associates and jointly-controlled entities		56,144	86,478
PROFIT BEFORE TAX	5	1,007,639	1,218,406
Tax	7	(186,380)	(285,199)
PROFIT FOR THE PERIOD		821,259	933,207
Attributable to:			
Equity holders of the parent		626,337	808,966
Minority interests		194,922	124,241
		821,259	933,207
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	9		
— Basic		RMB0.05	RMB0.12
— Diluted		RMB0.05	RMB0.12

Interim Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2009

		For the six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
	Notes		
Profit for the period		821,259	933,207
Exchange differences on translation of foreign operations		16,237	—
Net gain/(loss) on available-for-sale investments	10	5,429	(36,063)
Income tax		(923)	8,809
		4,506	(27,254)
Other comprehensive income/(loss) for the period, net of tax		20,743	(27,254)
Total comprehensive income for the period, net of tax		842,002	905,953
Attributable to:			
Equity holders of the parent		638,556	781,712
Minority interests		203,446	124,241
		842,002	905,953

Interim Condensed Consolidated Statement of Financial Position

30 June 2009

		As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	11	11,357,754	10,242,102
Prepaid land lease payments		3,115,399	3,112,164
Goodwill		54,304	48,115
Other intangible assets		363,215	363,156
Interests in jointly-controlled entities		497,371	517,384
Interests in associates		73,226	27,419
Available-for-sale investments	12	36,207	30,640
Deferred tax assets		67,351	60,507
Trade receivables	13	27,590	—
Other non-current assets		23,924	27,071
		<hr/>	<hr/>
Total non-current assets		15,616,341	14,428,558
CURRENT ASSETS			
Inventories	14	10,673,601	8,389,453
Trade receivables	13	7,935,147	5,995,583
Bills receivable		747,169	399,650
Prepayments, deposits and other receivables		4,676,595	4,417,719
Financial assets at fair value through profit or loss	15	—	100,000
Tax recoverable		53,155	62,516
Pledged deposits		2,312,749	657,593
Cash and cash equivalents		7,685,470	11,065,179
		<hr/>	<hr/>
Total current assets		34,083,886	31,087,693

Interim Condensed Consolidated Statement of Financial Position (Continued)

30 June 2009

		As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables	17	10,453,222	8,415,044
Bills payable		5,578,686	3,127,130
Other payables and accruals	18	7,542,029	7,986,766
Interest-bearing bank and other borrowings	19	3,831,106	3,747,420
Provision for supplemental pension subsidies and early retirement benefits		200,970	200,970
Tax payable		105,934	34,133
Provision for warranties		104,812	86,901
Government grants		45,555	53,794
Total current liabilities		27,862,314	23,652,158
NET CURRENT ASSETS		6,221,572	7,435,535
TOTAL ASSETS LESS CURRENT LIABILITIES		21,837,913	21,864,093
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	19	192,702	664,996
Provision for supplemental pension subsidies and early retirement benefits		2,033,490	2,141,570
Provision for warranties		98,318	82,571
Government grants		480,230	317,495
Deferred tax liabilities		11,271	10,066
Other non-current liabilities		4,787	4,818
Total non-current liabilities		2,820,798	3,221,516
Net assets		19,017,115	18,642,577

Interim Condensed Consolidated Statement of Financial Position (Continued)

30 June 2009

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
<i>Notes</i>		
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	11,840,000	11,840,000
Reserves	4,440,768	3,802,248
Proposed final dividend	—	378,880
	16,280,768	16,021,128
Minority interests	2,736,347	2,621,449
Total equity	19,017,115	18,642,577

Interim Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2009

	Attributable to equity holders of the parent									
	Available									
	-for-sale									
	investment			Exchange		Retained		Proposed		
	Issued	Capital	revaluation	Reserve	fluctuation	earnings	final	Total	Minority	Total
capital	reserve	reserve	funds	reserve	earnings	dividend	Total	interests	equity	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	11,840,000	2,799,676	5,021	59,047	(7,809)	946,313	378,880	16,021,128	2,621,449	18,642,577
Profit for the period	—	—	—	—	—	626,337	—	626,337	194,922	821,259
Other comprehensive income	—	—	4,506	—	7,713	—	—	12,219	8,524	20,743
Total comprehensive income	—	—	4,506	—	7,713	626,337	—	638,556	203,446	842,002
Capital contribution from										
minority shareholders	—	—	—	—	—	—	—	—	18,879	18,879
Excess of the cost of acquisition of										
additional interests in subsidiaries										
over the acquirers' additional										
interests in the carrying value of										
identifiable net assets	—	(36)	—	—	—	—	—	(36)	36	—
Acquisition of minority interests	—	—	—	—	—	—	—	—	(6,044)	(6,044)
Dividends paid to minority										
shareholders	—	—	—	—	—	—	—	—	(101,419)	(101,419)
Final 2008 dividend										
declared (note 8)	—	—	—	—	—	—	(378,880)	(378,880)	—	(378,880)
At 30 June 2009 (unaudited)	11,840,000	2,799,640	9,527	59,047	(96)	1,572,650	—	16,280,768	2,736,347	19,017,115

Interim Condensed Consolidated Statement of Changes in Equity (Continued)

Six months ended 30 June 2009

	Attributable to equity holders of the parent							
	Issued capital	Capital reserve	Available -for-sale investment		Retained earnings	Minority interests	Total equity	
			revaluation	reserve				Total
			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	
Profit for the period	—	—	—	808,966	808,966	124,241	933,207	
Other comprehensive loss	—	—	(27,254)	—	(27,254)	—	(27,254)	
Total comprehensive income	—	—	(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 minority interests	—	—	—	—	—	(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 (unaudited)	7,000,000	(2,700,274)	7,802	808,966	5,116,494	2,115,988	7,232,482	

Interim Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2009

	Note	For the six months ended 30 June	
		2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(1,716,542)	(1,820,818)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,428,909)	(1,072,401)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(571,681)	(765,339)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,717,132)	(3,658,558)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		11,032,907	6,899,460
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16	7,315,775	3,240,902

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2009

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 Company’s A Shares were listed on the Shanghai Stock Exchange on 18 August 2008 and the Company’s H Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “HKSE”) on 21 August 2008. The address of the Company’s registered office is No. 16 Central West Fourth Ring Road, Haidian District, Beijing, the PRC.

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting and the disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2008. The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand, except when otherwise indicated.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Impact of new and amended international financial reporting standards

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of the new and revised International Financial Reporting Standards ("IFRS") as of 1 January 2009, noted below:

IFRS 1 and IAS 27 Amendments	Amendments to <i>IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements</i> – <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
IFRS 2 Amendments	Amendments to <i>IFRS 2 Share-based payment</i> – <i>Vesting Conditions and Cancellations</i>
Amendments to IFRS 7	<i>Financial Instruments: Disclosures</i> – <i>Improving Disclosure about Financial Instruments</i>
IFRS 8	<i>Operating Segments</i>
IAS 1 (Revised)	<i>Presentation of Financial Statements</i>
IAS 23 (Revised)	<i>Borrowing Costs</i>
IAS 32 and IAS 1 Amendments	Amendments to <i>IAS 32 Financial Instruments Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
IFRIC 9 and IAS 39 Amendments	<i>Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement</i>
IFRIC 13	<i>Customer Loyalty Programmes</i>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Impact of new and amended international financial reporting standards (Continued)

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The adoption of IAS 27 Amendment has no impact on the consolidated financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

The IFRS 2 Amendments clarify the definition of a vesting condition and prescribe the accounting treatment for an award that is effectively cancelled. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

The IFRS 7 Amendments requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures and the liquidity risk disclosures are not significantly impacted by the amendments.

IFRS 8, which replaces IAS 14 Segment Reporting, requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Impact of new and amended international financial reporting standards (Continued)

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

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard did not have any impact on the financial position or performance of the Group.

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

These amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Impact of new and amended international financial reporting standards (Continued)

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, IFRIC 13 is not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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

IFRIC 16 is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. As the Group currently has no hedge of a net investment in a foreign operation, the adoption of this interpretation did not have any financial impact on the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Impact of new and amended international financial reporting standards (Continued)

Improvements to IFRSs

In May 2008 the International Accounting Standards Board issued its first improvements to IFRSs which set out amendments to a numbers of IFRSs, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

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

IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Impact of new and amended international financial reporting standards (Continued)

Improvements to IFRSs (Continued)

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

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Error*
- *IAS 10 Events after the Reporting Period*
- *IAS 16 Property, Plant and Equipment*
- *IAS 18 Revenue*
- *IAS 19 Employee Benefits*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 28 Investment in Associates*

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Impact of new and amended international financial reporting standards (Continued)

Improvements to IFRSs (Continued)

- *IAS 31 Interest in Joint ventures*
- *IAS 34 Interim Financial Reporting*
- *IAS 36 Impairment of Assets*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*

3. SEGMENT INFORMATION

The Group has adopted IFRS 8 “Operating Segment” with effect from 1 January 2009. IFRS 8 requires the Group should report its operating segments, based on information about the components of the Group that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance.

For management purposes, the Group’s operating activities are attributable to a single operating segment, focusing on 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.

30 June 2009

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:

	For the six months ended 30 June	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Revenue		
Sales of goods and services	18,235,373	14,667,064
Other income		
Interest income	80,023	43,791
Dividend income	3,438	—
Profit from sales of scrap materials	9,772	29,877
Value-added tax refunds	98,107	95,135
Government grants	57,361	57,186
Total	248,701	225,989
Gains		
Gain on disposal of available-for-sale investments	188	32,531
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	25,669	26,879
Total	25,857	133,122

30 June 2009

5. PROFIT BEFORE TAX

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

	Notes	For the six months ended 30 June	
		2009	2008
		(Unaudited) RMB'000	(Unaudited) RMB'000
Cost of inventories sold		15,302,945	11,920,016
Depreciation of items of property, plant and equipment		402,013	312,269
Amortisation of lease prepayments		33,896	28,901
Amortisation of other intangible assets		43,565	29,325
Provision/(reversal of provision) against obsolete inventories	(i)	(2,704)	8,758
Provision for warranties		92,407	79,276
Minimum lease payments under operating leases:			
Plant and machinery		7,521	10,032
Land and buildings		15,428	11,321
Research and development costs		488,002	264,496
Less: amount capitalised		(1,159)	(17,827)
		486,843	246,669
Included in other expenses, net:			
Impairment of trade receivables		53,364	47,710
Impairment of other receivables		1,427	8,378
Exchange losses/(gains), net		(4,893)	14,093
Loss on disposal of items of property, plant and equipment, net		16,557	13,170
Loss on disposal of items of other intangible assets, net		—	106

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

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7. TAX

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

	For the six months ended 30 June	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Current income tax		
Current income tax charge	194,110	330,530
Deferred income tax		
Relating to origination and reversal of temporary differences	(7,730)	(45,331)
Income tax expense	186,380	285,199

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for certain preferential treatments available to the Company's subsidiaries, which were taxed at preferential rates of 15% primarily due to their status as entities engaging in technology development or their involvement in projects that were supported by the government and development projects in the western part of Mainland China, the entities within the Group are subject to corporate income tax at a rate of 25% (six months ended 30 June 2008: 25%) during the six months ended 30 June 2009.

Taxes on profit assessable elsewhere have been calculated at the rates of jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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 2008 and 2009.

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8. DIVIDENDS

At the annual general meeting held on 15 June 2009, the Company's shareholders approved the payment of the final dividend for the year ended 31 December 2008 of RMB0.032 per shares which amounted to RMB378,880,000. The dividend declared has not been paid as at 30 June 2009.

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on:

	For the six months ended 30 June	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Earnings		
Profit attributable to equity holders of the parent, used in the basic earnings per share calculation	<u>626,337</u>	<u>808,966</u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>11.8 billion</u>	<u>7.0 billion</u>

No diluted earnings per share have been disclosed as no diluting events existed during the six months ended 30 June 2008 and 2009.

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10. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2009	2008
	(Unaudited) RMB'000	(Unaudited) RMB'000
Available-for-sale investments:		
Gains/(losses) arising during the period	5,429	(4,868)
Less: Transfer to profit or loss on disposal	—	(31,195)
	<u>5,429</u>	<u>(36,063)</u>

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired property, plant and equipment with a cost of approximately RMB1,543 million (six months ended 30 June 2008: RMB1,136 million). In addition, during the same period, property, plant and equipment with a net book value of approximately RMB32 million (six months ended 30 June 2008: RMB41 million) were disposed of by the Group which resulted in a net loss on disposal of approximately RMB17 million (six months ended 30 June 2008: RMB13 million).

See also note 20 for capital commitments.

30 June 2009

12. AVAILABLE-FOR-SALE INVESTMENTS

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Unlisted equity investments, at cost less impairment	23,032	22,894

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13. TRADE RECEIVABLES (Continued)

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

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Within 6 months	6,299,371	5,044,384
6 months to 1 year	1,205,659	563,816
Over 1 year	457,707	387,383
	<u>7,962,737</u>	<u>5,995,583</u>

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

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
– CSG and its subsidiaries, excluding the Group (the “CSRG Group”)	38,589	48,729
– Jointly-controlled entities	128,011	124,042
	<u>166,600</u>	<u>172,771</u>

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

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14. INVENTORIES

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Cost, net of provision		
Raw materials	4,212,456	3,762,912
Work in progress	4,883,771	3,295,828
Finished goods	1,577,374	1,330,713
	<u>10,673,601</u>	<u>8,389,453</u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Deposit and investment with embedded derivatives	<u>—</u>	<u>100,000</u>

The entire deposits and investments including the related embedded derivatives were accounted for as financial assets designated at fair value through profit or loss and these deposits and investments were repaid during the six-month period ended 30 June 2009.

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16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2009 (Unaudited) RMB'000	As at 30 June 2008 (Unaudited) RMB'000
Cash and bank balances	9,998,219	4,011,435
Less: Pledged time deposits	(2,312,749)	(523,033)
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(369,695)	(247,500)
Cash and cash equivalents in the consolidated cash flow statements	<u>7,315,775</u>	<u>3,240,902</u>

17. TRADE PAYABLES

An aged analysis of trade payables as at the statement of financial position date, based on the invoice date, is as follows:

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Within 6 months	9,524,210	7,621,457
6 months to 1 year	649,301	460,652
Over 1 year	279,711	332,935
	<u>10,453,222</u>	<u>8,415,044</u>

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17. TRADE PAYABLES (Continued)

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

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
CSRG Group	42,820	34,268
Jointly-controlled entities	91,848	55,115
	<u>134,668</u>	<u>89,383</u>

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

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18. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Other payables	1,346,461	1,390,908
Advances from customers	5,200,560	6,252,075
Accruals	995,008	343,783
	<u>7,542,029</u>	<u>7,986,766</u>

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

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Jointly-controlled entities	<u>26,002</u>	<u>56,533</u>

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

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19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate per annum (%)	Maturity	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Current				
Bank loans				
— Secured	1.90 - 8.22	2009 - 2010	341,248	893,641
— Unsecured	2.84 - 7.84	2009 - 2010	3,489,549	2,853,525
			3,830,797	3,747,166
Other loans				
— Unsecured	Interest free		309	254
			3,831,106	3,747,420
Non-current				
Bank loans				
— Secured	4.74 - 6.56	2010 - 2015	31,420	3,585
— Unsecured	Interest free - 7.56	2010 - 2035	161,270	661,260
			192,690	664,845
Other loans				
— Unsecured	Interest free	2010 - 2011	12	151
			192,702	664,996
			4,023,808	4,412,416

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19. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

The carrying amounts of the Group's current borrowings approximate to their fair values.

The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Bank loans				
— secured	31,420	3,585	31,342	3,638
— unsecured	161,270	661,260	152,712	706,414
Other loans				
— unsecured	12	151	11	135
	192,702	664,996	184,065	710,187

The fair value of non-current borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

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20. COMMITMENTS AND CONTINGENT LIABILITIES

CAPITAL COMMITMENTS

The group had the following capital commitments:

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
Contracted, but not provided for:		
– Property, plant and equipment	1,320,269	2,391,586
– Prepaid land lease payments	–	43,494
– Other intangible assets	111,294	124,950
	1,431,563	2,560,030
Authorised, but not contracted for:		
– Property, plant and equipment	1,903,096	2,688,961
– Other intangible assets	52,658	4,436
	1,955,754	2,693,397

CONTINGENT LIABILITIES

As at 30 June 2009, the Group had no significant contingent liabilities (31 December 2008: Nil).

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21. RELATED PARTY TRANSACTIONS

The following table provides material transactions which have been entered into with related parties during the six months ended 30 June 2009 and 2008:

	For the six months ended 30 June	
	2009	2008
	(Unaudited) RMB'000	(Unaudited) RMB'000
(a) Purchase of materials and components from:		
— CSRG Group	85,047	80,722
— Jointly-controlled entities	69,217	163,242
— Associates	—	28,566
	<hr/>	<hr/>
(b) Sale of goods to:		
— CSRG Group	26,519	401,513
— Jointly-controlled entities	298,223	123,751
	<hr/>	<hr/>
(c) Purchase of property, plant and equipment from		
— CSRG Group	—	27,165
	<hr/>	<hr/>

30 June 2009

21. RELATED PARTY TRANSACTIONS (Continued)

(d) Outstanding balances with related parties

In addition to those disclosed in elsewhere in these interim condensed consolidated financial statements, the Group had the following outstanding balances with related parties:

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
(i) Prepayments, deposits and other receivables:		
— CSG Group	113,951	160,880
— Jointly-controlled entities	248,704	125,253
	362,655	286,133

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

	As at 30 June 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
(ii) Bills payable:		
— CSG Group	28,020	6,410
— Jointly-controlled entities	88,800	—
	116,820	6,410

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21. RELATED PARTY TRANSACTIONS (Continued)

(e) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Short-term employee benefits	3,130	2,916
Post-employment benefits (<i>note</i>)	138	123
Total compensation paid/payable to key management personnel	3,268	3,039

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.

22. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There are no significant events subsequent to the six months ended 30 June 2009.

23. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended 30 June 2009 were approved and authorised for issue by the board of directors on 20 August 2009.