



中國南車股份有限公司

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)

INTERIM RESULTS ANNOUNCEMENT 2008

The board of directors (the “Board”) of China South Locomotive & Rolling Stock Corporation Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six-month period ended 30 June 2008 (the “Reporting Period”), with comparative figures for the corresponding period of last year, as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2008

		For the six-month period ended 30 June	
		2008	2007
	<i>Notes</i>	(Unaudited) RMB'000	(Unaudited) RMB'000
REVENUE	3	14,667,064	12,485,654
Cost of sales		(11,920,016)	(10,660,028)
Gross profit		2,747,048	1,825,626
Other income and gains	3	359,111	207,385
Selling and distribution costs		(316,388)	(240,016)
Administrative expenses		(1,325,140)	(1,118,809)
Other expenses, net	4	(83,457)	(71,094)

PROFIT FROM OPERATIONS		1,381,174	603,092
Finance costs	5	(249,246)	(162,190)
Share of profits and losses of associates and jointly-controlled entities		<u>86,478</u>	<u>73,679</u>
PROFIT BEFORE TAX	4	1,218,406	514,581
Tax	6	<u>(285,199)</u>	<u>(58,264)</u>
PROFIT FOR THE PERIOD		<u>933,207</u>	<u>456,317</u>
Attributable to:			
Equity holders of the Company		808,966	325,138
Minority interests		<u>124,241</u>	<u>131,179</u>
		<u>933,207</u>	<u>456,317</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO EQUITY			
HOLDERS OF THE COMPANY	8		
— Basic		<u>11.6 cents</u>	<u>4.7 cents</u>
— Diluted		<u>N/A</u>	<u>N/A</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

		As at 30 June 2008 (Unaudited) RMB'000	As at 31 December 2007 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		7,850,639	7,067,638
Lease prepayments		2,854,826	2,804,055
Goodwill		3,150	3,150
Other intangible assets		301,714	296,547
Interests in jointly-controlled entities		437,263	409,565
Interests in associates		170,779	163,490
Available-for-sale investments		45,198	82,346
Deferred tax assets		83,524	19,765
Other non-current assets		69,185	52,940
Total non-current assets		11,816,278	10,899,496
CURRENT ASSETS			
Inventories		6,991,079	5,839,556
Trade receivables	9	6,423,799	4,020,423
Bills receivable	10	390,716	487,309
Prepayments, deposits and other receivables		4,764,095	3,172,613
Financial assets at fair value through profit or loss		101,561	—
Derivative financial instruments		72,151	—
Pledged deposits		523,033	479,038
Cash and cash equivalents		3,488,402	7,792,483
Total current assets		22,754,836	21,791,422

CURRENT LIABILITIES

Trade payables	11	7,126,865	6,229,873
Bills payable	12	2,252,880	1,612,181
Other payables and accruals		6,937,683	7,061,711
Interest-bearing bank and other borrowings		6,139,481	6,278,989
Provision for supplemental pension subsidies and early retirement benefit		252,280	252,280
Tax payable		222,653	54,478
Provision for warranties		152,096	127,005
Government grants		56,776	66,155

Total current liabilities		23,140,714	21,682,672
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NET CURRENT (LIABILITIES)/ASSETS		(385,878)	108,750
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TOTAL ASSETS LESS

CURRENT LIABILITIES		11,430,400	11,008,246
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NON-CURRENT LIABILITIES

Interest-bearing bank and other borrowings		1,717,885	2,086,368
Provision for supplemental pension subsidies and early retirement benefit		2,172,540	2,251,750
Government grants		282,026	268,480
Deferred tax liabilities		20,144	10,525
Other non-current liabilities		5,323	10,196

Total non-current liabilities		4,197,918	4,627,319
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Net assets		7,232,482	6,380,927
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EQUITY

Equity attributable to equity holders of the Company		5,116,494	4,311,021
Minority interests		2,115,988	2,069,906

Total equity		7,232,482	6,380,927
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INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six-month period ended 30 June 2008

	For the six-month period ended 30 June	
	2008	2007
	(Unaudited) <i>RMB'000</i>	(Unaudited) <i>RMB'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,820,818)	(1,031,302)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,072,401)	(1,376,767)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<u>(765,339)</u>	<u>494,099</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,658,558)	(1,913,970)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>6,899,460</u>	<u>5,307,325</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>3,240,902</u></u>	<u><u>3,393,355</u></u>

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2008 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “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 accountants’ report included in the Company’s prospectus dated 8 August 2008 (the “Prospectus”). The interim condensed consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

Significant accounting policies

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

2. SEGMENT INFORMATION

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

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

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

4. PROFIT BEFORE TAX

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

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

5. FINANCE COSTS

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

6. TAX

The major components of income tax expense are as follows:

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

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 25% is applied to the Group for the six-month period ended 30 June 2008 (six-month period ended 30 June 2007: 33%), except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the periods.

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

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

7. DIVIDEND

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

8. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on:

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

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

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

9. TRADE RECEIVABLES

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

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

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

10. BILLS RECEIVABLE

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

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

11. TRADE PAYABLES

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

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

12. BILLS PAYABLE

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

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

13. OUTSTANDING GUARANTEES

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

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

14. COMMITMENTS

Operating Lease Commitments

As lessee

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

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

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

Capital Commitments

The group had the following capital commitments:

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

15. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the period:

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

	As at 30 June 2008 (Unaudited) RMB'000	As at 31 December 2007 (Audited) RMB'000
(d) Guarantees given to banks at nil consideration in connection with facilities granted to:		
— Jointly-controlled entity	<u>60,575</u>	<u>63,000</u>
(e) Compensation of key management personnel of the Group:		
	For the six-month period ended 30 June 2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Short-term employee benefits	2,916	2,177
Post-employment benefits (<i>Note</i>)	<u>123</u>	<u>112</u>
Total compensation paid/payable to key management personnel	<u>3,039</u>	<u>2,289</u>

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.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Future Outlook

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

Results of Operation

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

Revenue

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

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

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

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

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

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

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

Outstanding contracts

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

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

Cost of sales

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

Gross profit

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

Other income and gains

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

In order to mitigate exchange rate risk of certain foreign currency bank loans, we entered into several forward foreign currency contracts in the six months ended 30 June 2008, which resulted in a net fair value gain, due to the fluctuation of foreign exchange rates during the same period. The significant increase in VAT refunds was primarily due to refunds received by certain entities of our Company operating in government-encouraged industries and domiciled in third-tier PRC cities. Such preferential tax treatment is in accordance with the relevant regulations issued by the MOF and the SAT. The gain on disposal of available-for-sale investments was primarily attributed to our investment in a listed company in China.

Selling and distribution costs

Our selling and distribution costs increased by 31.7%, from RMB240 million for the six months ended 30 June 2007 to RMB316 million for the six months ended 30 June 2008, primarily due to our increased marketing efforts in relation to new products and new markets.

Administrative expenses

Our administrative expenses increased by 18.4%, from RMB1,119 million for the six months ended 30 June 2007 to RMB1,325 million for the six months ended 30 June 2008, primarily due to the increase in research and development expenses and amortization of lease prepayments.

Other expenses, net

Our other operating expenses net of other operating income increased by 16.9%, from RMB71 million in the six months ended 30 June 2007 to RMB83 million in the six months ended 30 June 2008. This was primarily attributable to an increase in impairment of trade and other receivables, net in the six months ended 30 June 2008, partly offset by a decrease in exchanges losses, net.

Finance costs

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

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

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

Tax

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

Profit for the period

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

Profit attributable to equity holders of the Company

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

Minority interests

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

Liquidity and Financial Resources

Working capital

We have historically met our working capital needs through cash generated from our operations and long and short-term debt. Taking into account the net proceeds available to us from the Global Offering, our available credit facilities and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this Report. In addition, given that most of the bank facilities of our Company were obtained from reputable PRC banks, the Directors are also of the view that our unutilized banking facilities will not be significantly affected by sub-prime lending issues currently affecting other overseas banks. As at 30 June 2008, cash and cash equivalents of the Company were derived from cash, bank deposit and operating activities during the period.

Trade and bills receivables

Our turnover days of trade and bills receivables decreased from 74 days in the six months ended 30 June 2007 to 69 days in the six months ended 30 June 2008. The following table sets forth an aging analysis of trade receivables as of the balance dates indicated below:

	As of 30 June 2008 (Unaudited) RMB'000	As of 31 December 2007 (Audited) RMB'000
Within 6 months	5,225,687	3,294,087
6 months to 1 year	734,815	413,402
Over 1 year	463,297	412,934
	<u>6,423,799</u>	<u>4,020,423</u>

As our customers are primarily government authorities and large enterprises with good credit histories and because of our increased efforts in recovering outstanding receivables, our Directors are of the view that our trade and other receivables balances aged over one year are generally recoverable although that relevant provisions for impairment losses have been made.

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

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

Trade and bills payables

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

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

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

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

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

Cash flow

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

Net cash (outflow) from operating activities

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

Net cash (outflow) from investing activities

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

Net cash (outflow) from financing activities

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

Capital expenditures

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

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

Indebtedness

Borrowings

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

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

Gearing ratio

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

Our borrowing requirement is not subject to seasonality.

Foreign Exchange risk

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

Contingent liabilities and outstanding guarantees

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

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

Material acquisition and disposal

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

Use of Proceeds

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

Off-balance Sheet Arrangements

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

Employees

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

OTHER INFORMATION

Directors, Supervisors and Senior Management

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

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

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

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

Directors, Supervisors and Chief Executive's Interests in Shares of the Company

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

Repurchase, Sale or Redemption of the Company's Securities

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

Corporate Governance

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

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

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

Code of Conduct Regarding Securities Transactions by the Directors and Supervisors

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

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

Audit and Risk Management Committee

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

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

SIGNIFICANT EVENTS

Successful dual listing in Shanghai and Hong Kong during the 2008 Beijing Olympic Games

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

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

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

Material litigation and arbitration

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

Material contract

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

Impacts of the Sichuan earthquake

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

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE HONG KONG STOCK EXCHANGE

The electronic version of this announcement will be published on both the websites of the Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.csrgc.com.cn). The interim report of the Company for the six months ended 30 June 2008, which contains all information required by Appendix 16 to the Listing Rules, will be dispatched to the shareholders and posted on the website of the Hong Kong Stock Exchange in due course.

By order of the Board
China South Locomotive & Rolling Stock Corporation Limited
Zhao Xiaogang
Chairman

Beijing, the PRC
19 September 2008

As at the date of this announcement, the executive Directors are Mr. Zhao Xiaogang, Mr. Zheng Changhong, Mr. Tang Kelin and Mr. Liu Hualong; and the independent non-executive Directors are Mr. Zhao Jibin, Mr. Yang Yuzhong, Mr. Chen Yongkuan, Mr. Dai Deming and Mr. Tsoi, David.