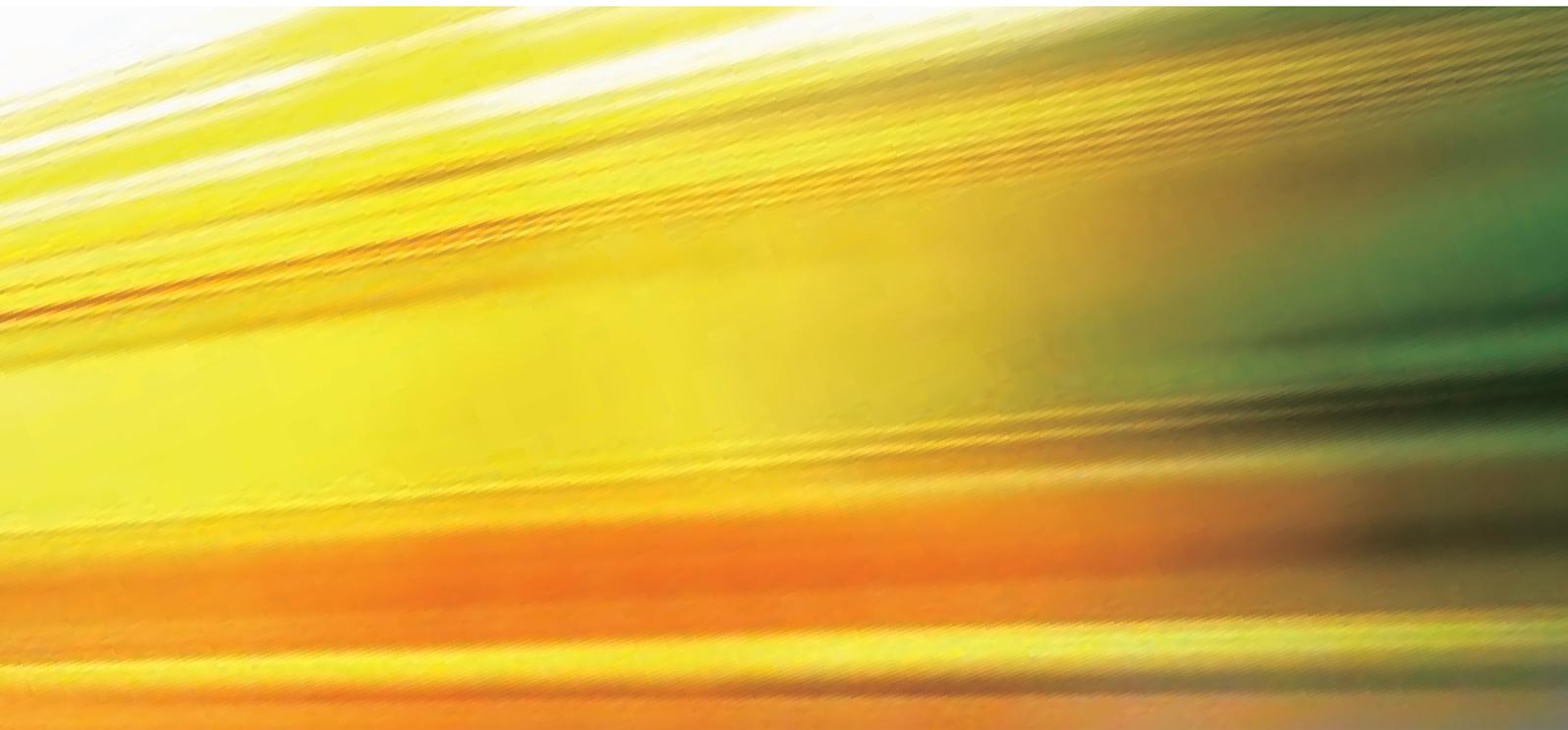




(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 1766



Interim Report 2010



Important Notice

- (I) The board of directors and supervisory committee of the Company and its Directors, supervisors and 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 liabilities for the truthfulness, accuracy and completeness of the contents disclosed herein.
- (II) All Directors of the Company attended the board meeting.
- (III) The interim financial report of the Company is unaudited.
- (IV) 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 of the Company, warrant the truthfulness and completeness of the financial statements in this interim report.
- (V) None of our controlling shareholder or its associates has appropriated the Company's capital for non-operating purpose.
- (VI) The Company did not provide any guarantee in favour of any external party in violation of the prescribed decision-making procedures.
- (VII) Unless otherwise stated, the monetary unit in this report is RMB.

Contents

I.	Company Profile	2
II.	Results Highlights	7
III.	Changes in Share Capital and Particulars of Shareholders	8
IV.	Particulars of Directors, Supervisors and Senior Management	18
V.	Report of Directors	20
VI.	Significant Events	40
VII.	Financial Report	50
VIII.	Definitions	81





Company Profile

(I) BASIC INFORMATION OF THE COMPANY

1. Legal Chinese name: 中國南車股份有限公司
Chinese abbreviation: 中國南車
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

Company Profile (Continued)

5. Secretary to the board of directors: 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

Company Profile (Continued)

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
On 7 October 2008 |
| Corporate business license
registration number: | 100000000041417 |
| Taxation registration number: | 110108710935222 |
| Organization code: | 71093522-2 |
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 |



Company Profile (Continued)

- | | | |
|-----|--|---|
| 9. | Joint company secretary | Shao Renqiang, Wong Kai Yan,
Thomas (qualified accountant) |
| 10. | Authorised representative | Liu Hualong, Wong Kai Yan, Thomas |
| 11. | Legal advisors | <i>As to Hong Kong laws:</i>
Baker & McKenzie
23/F., One Pacific Place, 88 Queensway,
Hong Kong

<i>As to PRC laws:</i>
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

Correspondence address: | China Securities Depository and Clearing
Corporation Limited, Shanghai Branch
36/F, China Insurance Building,
166 East Lujiazui Road, Pudong New District,
Shanghai |
| 14. | Hong Kong share registrar
Correspondence address: | Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong |

Results Highlights

For the first six months of 2010, the Company recorded operating revenue of RMB27,692,094,000, representing an increase of 51.86% as compared with the same period last year. The Company recorded profits after taxation of RMB1,490,678,000, representing an increase of 81.51% as compared with the same period last year. Profit attributable to equity holders of the Company was RMB1,104,065,000, representing an increase of 76.27% as compared with the same period last year. Basic earnings per share were RMB0.09.

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

Currency: RMB

Item	January to June 2010	January to June 2009	Increase/ (decrease) %
Operating revenue (RMB'000)	27,692,094	18,235,373	51.86
Profit after tax (RMB'000)	1,490,678	821,259	81.51
Profit attributable to equity holders of the Company (RMB'000)	1,104,065	626,337	76.27
Basic earnings per share (RMB/share)	0.09	0.05	

Currency: RMB

Item	30 June 2010	As at 31 December 2009	Increase/ (decrease) %
Total assets (RMB'000)	65,578,003	55,238,315	18.72
Total liabilities (RMB'000)	43,600,277	34,917,164	24.87
Total equity (RMB'000)	21,977,726	20,321,151	8.15
Including: Equity attributable to equity holders of the Company (RMB'000)	17,821,027	17,330,168	2.83
Shareholder interest per share (RMB/share)	1.51	1.46	

Changes in Share
Capital and Particulars
of Shareholders



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 2010, none of the Company or its subsidiaries has repurchased, sold or redeemed any of the Company's securities under the Hong Kong Listing Rules.

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 194,090 shareholders in total, including 190,929 holders of A shares and 3,161 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
CSRG	State-owned legal person	54.25	6,422,914,285	0	6,422,914,285	
HKSCC NOMINEES LIMITED	Overseas legal person	17.04	2,017,552,900	391,000		
Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)	—	2.50	295,714,286	0	295,714,286	
BRIT	State-owned legal person	0.82	97,371,429	0	97,371,429	4,285,714
China Resources Shenzhen International Investment Trust Co., Ltd. – Chongyang Phase III Stock Investment Collective Fund Trust Program (華潤深國投信託有限公司 — 重陽3期證券投資集合資金信託計劃)	Other	0.57	67,397,762	28,730,464		
China Construction Bank - Great Wall Brand Selective Stock Investment Fund (中國建設銀行 — 長城品牌優選股票型證券投資基金)	Other	0.54	64,371,102	-712,430		
Industrial and Commercial Bank of China – South Longyuan Industrial Subject Stock Investment Fund (中國工商銀行 — 南方隆元產業主題股票型證券投資基金)	Other	0.50	58,974,107	19,827,195		
Agricultural Bank of China – Bank of Communications Schroder Select Stock Securities Investment Fund (中國農業銀行 — 交銀施羅德精選股票證券投資基金)	Other	0.49	58,461,605	58,461,605		
Donghai Securities – – Bank of Communications Dongfeng No.5 Collective Asset Management Plan (東海證券 — 交行 — 東風5號集合資產管理計劃)	Other	0.49	58,008,400	58,008,400		
China Construction Bank - Bank of Communications - Schroders Blue-chip Stock Fund (中國建設銀行 — 交銀施羅德藍籌股票證券投資基金)	Other	0.48	56,839,918	56,839,918		

Changes in Share Capital and Particulars of Shareholders (Continued)

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

2. BRIT is a wholly-owned subsidiary of CSRG; Agricultural Bank of China - Bank of Communications Schroder Select Stock Securities Investment Fund and China Construction Bank - Bank of Communications - Schroders Blue-chip Stock Fund are funds managed by Bank of Communications Schroder Fund Management Co., Ltd.

Save as the above, the Company is not aware of whether there is any connection among such other shareholders or whether they are parties acting in concert.

3. According to Implementation Measures on the Transfer of Certain State-owned Shares in Domestic Stock Market for Replenishing Social Security Fund promulgated in 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 BRIT were frozen as at the end of the Reporting Period.

4. "Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)" is the name registered by National Council for Social Security Fund in our register of members.



Changes in Share Capital and Particulars of Shareholders (Continued)



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	2,017,552,900	Overseas listed foreign invested shares
China Resources Shenzhen International Investment Trust Co., Ltd. – Chongyang Phase III Stock Investment Collective Fund Trust Program (華潤深國投信託有限公司 – 重陽3期證券投資集合資金信託計劃)	67,397,762	Ordinary shares denominated in RMB
China Construction Bank - Great Wall Brand Selective Stock Investment Fund (中國建設銀行 – 長城品牌優選股票型證券投資基金)	64,371,102	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China - South Longyuan Industrial Subject Stock Investment Fund (中國工商銀行 – 南方隆元產業主題股票型證券投資基金)	58,974,107	Ordinary shares denominated in RMB
Agricultural Bank of China – Bank of Communications Schroder Select Stock Securities Investment Fund (中國農業銀行 – 交銀施羅德精選股票證券投資基金)	58,461,605	Ordinary shares denominated in RMB
Donghai Securities – Bank of Communications – Dongfeng No.5 Collective Asset Management Plan (東海證券 – 交行 – 東風5號集合資產管理計劃)	58,008,400	Ordinary shares denominated in RMB
China Construction Bank – Bank of Communications – Schroders Blue-chip Stock Fund (中國建設銀行 – 交銀施羅德藍籌股票證券投資基金)	56,839,918	Ordinary shares denominated in RMB
Shanghai International Trust Co., Ltd. - T- 0204	51,666,629	Ordinary shares denominated in RMB
Industrial and Commercial Bank of China - SSE 50 Trading Index Stock Investment Open-ended Fund (中國工商銀行 – 上證50交易型開放式指數證券投資基金)	41,522,231	Ordinary shares denominated in RMB

Changes in Share Capital and Particulars of Shareholders (Continued)

Unit: Share

Name of Shareholders	Number of shares not subject to trading moratorium held	Type of share
China AMC Growth Stock Investment Fund (華夏成長證券投資基金)	36,727,900	Ordinary shares denominated in RMB
Connections or parties acting in concert among the aforesaid shareholders	<ol style="list-style-type: none"> 1. Agricultural Bank of China - Bank of Communications Schroder Select Stock Securities Investment Fund and China Construction Bank - Bank of Communications - Schrodgers Blue-chip Stock Fund are funds managed by Bank of Communications Schroder Fund Management Co., Ltd. 2. Save as the above, the Company is not aware of whether there is any connection among such other shareholders or whether they are parties acting in concert. 	

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

Unit: Share

No.	Name of holders of shares subject to trading moratorium	Number of shares subject to trading moratorium held	Release of trading moratorium		Trading moratorium
			Expiry date of trading moratorium	No. of additional shares available for listing and trading	
1	CSRG	6,422,914,285	18 August 2011	6,422,914,285	Promoter shareholder undertook that the A shares of the Company held by it would be subject to a moratorium period of 36 months from the date of A shares listing
2	Account No. 2 of the National Council for Social Security Fund (全國社會保障基金理事會轉持二戶)	295,714,286	18 August 2014	295,714,286	Implementation Measures on the Transfer of Certain State-owned Shares in Domestic Stock Market for Replenishing Social Security Fund
3	BRIT	97,371,429	18 August 2011	97,371,429	Promoter shareholder undertook that the A shares of the Company held by it would be subject to a moratorium period of 36 months from the date of A shares listing
	Connections or parties acting in concert among the aforesaid shareholders		BRIT is a wholly-owned subsidiary of CSRG.		

Changes in Share Capital and Particulars of Shareholders (Continued)

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

As at 30 June 2010, 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 SFO:

Name of Shareholders	Capacity	H share or A share	Nature of Interest	Number of H shares or A shares held	Percentage of	
					H share or A share held in the issued H shares or issued A shares (%)	Percentage of total share capital of the Company (%)
CSRG	Beneficial owner	A shares	Long position	6,520,285,714	66.43	55.07
National Council for Social Security Fund (全國社會保障基金理事會)	Beneficial owner	H shares	Long position	184,000,000	9.09	1.55
GE Asset Management Incorporated	Investment manager	H shares	Long position	181,963,535	8.99	1.54
JPMorgan Chase & Co.	Beneficial owner, investment manager, custodian - corporation/ approved lending agent	H shares	Long position Short position Interests in a lending pool	162,525,317 3,842,874 108,439,443	8.03 0.19 5.36	1.37 0.03 0.92
Mirae Asset Global Investments (Hong Kong) Limited	Investment manager	H shares	Long position	119,357,000	5.90	1.01

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 2010, 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 shareholders (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.

3. Issue of shares by subsidiaries

On 18 May 2010, Times New Material, a non-wholly owned subsidiary of the Company, completed its non-public issue. A total of 30.8 million new Times New Material A Shares were issued and allotted. The subscription price of Times New Material A Shares was RMB27.18 per share. Times New Material received net proceeds of RMB800.294 million (after deduction of the relevant expenses and costs) from the non-public issue. CSR ZELRI subscribed for a total of 12.4 million new A Shares of Times New Material (or 40.26% of the total new A Shares of Times New Material issued pursuant to the non-public issue) pursuant to the relevant subscription agreement. The total consideration paid by CSR ZELRI for the subscription was RMB337.032 million. Upon completion of the non-public issue, the Company, through CSR ZELRI and other subsidiaries of the Company, controls a total of approximately 38.69% of the total issued shares in Times New Material, and the Company will continue to maintain its controlling status in Times New Material.

Particulars of Directors,
Supervisors and Senior
Management



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 of the Company had held or traded in any of the Company's shares.

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

During the Reporting Period, the Company had not appointed or dismissed any of its Directors, supervisors or senior management.

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

As at 30 June 2010, none of the Directors, supervisors or senior management of the Company had any interests or short positions in any 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.

As at 30 June 2010, none of the Directors, supervisors or senior management of the Company or their spouses or children under the age of 18 has been granted any equity securities or warrants of the Company.

(IV) CHANGES IN SUPERVISOR'S PROFILE

Mr. Li Jianguo, a supervisor of the Company, ceased his term of office as the chairman of the supervisory committee of CSR Sifang Rolling Stock Co., Ltd. (南車四方車輛有限公司) since February 2010.



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

The revenue of the Company was mainly derived from the business of rolling stock equipment manufacturing. Therefore, the Company's business depends to a large extent on the development landscape as well as the infrastructural investment in railway transportation in the PRC. Over recent years, the State has pressed ahead with the infrastructural investment in railway transportation which put the Company's development on a sound platform.

With the more aggressive investment by the State in the rolling stock equipment sector, coupled with the Company's initiatives to develop new businesses and the overseas markets, the Company's business volume and profitability substantially increased in the first half of 2010. From January to June 2010, the Company achieved operating revenue of RMB27,692,094,000, representing an increase of 51.86% as compared with the same period last year. Profit attributable to shareholders of the Company increased by 76.27% as compared with the same period last year to RMB1,104,065,000.

In the first half of 2010, the Company successfully completed the delivery of all 400 units of HXD1C (7,200KW high-powered electric locomotive) and 300 units of HXN5 (6,000-horsepower high-powered internal-combustion locomotive) to customers, technical performance of which fully satisfied the relevant operational requirements. In the performance of the order delivery, the Company was completely in control of the core technology of such products, which acted as a powerful driving force for upgrade in R&D, production and operation of freight locomotives in China.

By innovating high-speed MUs through the process of introduction, assimilation and digestion, the Company dedicated to pursue technological development through combining technology introduction and independent innovation. The visionary strategy adopted by the Company proved to be successful. During first half of 2010, the new generation high speed MU model CRH380A independently developed by the Company had seen major breakthroughs. The first unit was shown in China Railway Exhibition Hall of World Expo 2010 Shanghai, and became a shining star "created in China" in the Expo. As the new achievement of independent innovation in China's high speed railway sector, it has received overwhelming response and attention. The test model of such MUs was manufactured successfully in the first half of the year and has completed high speed test over 350km per hour.

The Company is the only qualified producer in China with manufacturing technology of passenger carriages used on the Qinghai-Tibetan Railway. In the first half of 2010, the Company further signed contracts for 83 units of such passenger carriages with an aggregate contract value amounting to approximately RMB440 million, all of which had been delivered by the end of June.

The Company possesses world-class capacity for the production of rapid transit vehicles. It has established a series of R&D and production sites for rapid transit vehicles which have reached the advanced level in the world. The Company has formed the rapid transit vehicles R&D and production system featuring independent R&D with auxiliary system, advanced equipment and large scale. In the first half of 2010, 2 major domestic markets for rapid transit vehicle included Guangzhou and Chongqing. The Company won the bid for 196 units or 62% of the total number of vehicles under all purchase contracts, and achieved the total contract value of approximately RMB1.725 billion, or 70.2% of the total contract value.

The Company's new business segment maintained rapid growth in the first half of 2010. New orders for over 300 electric automobiles have been secured. The newly developed TEG6120EV low floor pure electric city bus and TEG6119SHEV series hybrid power city bus successfully made their debut on Busworld Asia-Shanghai, which have received high recognition and applause in the industry. The Company possesses 8 core technologies including entire vehicle design, electric system integration, series/parallel connection hybrid power system integration and network control, as well as advanced and sophisticated manufacturing system, which provide beneficial foundation, condition and environment for development. The Company formally established a semi-conductor R&D centre, and aims to turn it into a world-class centre around the world. In face of energy crisis and environment protection pressure, development of low carbon and green economy has become global consensus. Semiconductor components, especially high-powered semiconductor components, are to enjoy unprecedented growth potentials and promising market prospects as energy-saving and environment-friendly high-tech products. Furthermore, the Company's rail construction machinery, new material and wind power generator manufacturing businesses saw steady growth, with sustained improvement in technology and market share.

(II) CORE BUSINESSES OF THE COMPANY AND OPERATION THEREOF

1. Summary of the Company's core businesses

The core businesses of the Company include research and development, manufacturing, sales, refurbishment and leasing of locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as new businesses that utilize proprietary rolling stock technologies.

2. Revenue breakdown by business segments

Comparisons between revenue from all business segments of the Company from January to June 2010 and that for the same period last year are set out in the following table:

Business segment	January to June 2010		January to June 2009		
	Amount	Percentage	Amount	Percentage	Growth rate
	(RMB'000)	%	(RMB'000)	%	%
Locomotives	7,944,438	28.69	4,244,380	23.28	87.18
Passenger carriages	2,096,551	7.57	2,810,804	15.41	-25.41
Freight wagons	3,571,881	12.90	2,024,394	11.10	76.44
MUs	4,961,254	17.92	4,070,135	22.32	21.89
Rapid transit vehicles	3,414,447	12.33	1,194,487	6.55	185.85
New businesses	3,684,840	13.31	1,996,691	10.95	84.55
Others	2,018,682	7.28	1,894,481	10.39	6.56
Total	27,692,094	100.00	18,235,373	100.00	51.86

Our operating revenue is mainly derived from locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles, new businesses and others. During the Reporting Period, the Company gained considerable growth in business scale and the increase in operating revenue was mainly attributable to the Company's proactive effort in seizing development opportunities arising from the rapid development in the PRC rolling stock manufacturing market whilst making full use of its technological renovation to further commit to new product development and investment in technological renovation, thereby leading to a surge in operating revenue for the Reporting Period on basis of extended business foothold and significant growth in market sales.

From January to June 2010, revenue from our locomotive product line saw a substantial increase as compared with the same period last year, primarily attributable to the more earnest market demand arising from the high speed and heavy load railway development in the PRC.

From January to June 2010, revenue generated from our passenger carriage business declined as compared with the same period last year, mainly due to the decreased demand for passenger carriage along with the rising demand for MUs as a result of high speed railway development in the PRC.

Report of Directors (Continued)

From January to June 2010, revenue from our freight wagon business increased as compared with the same period last year, principally due to the lower revenue for the first half of 2009 as the Ministry of Railways of the PRC and all of its subordinate railway bureaus (together as “CR”) postponed its purchase bidding for new freight wagons and the recovered demand from CR for new freight wagons in the first half of 2010.

From January to June 2010, revenue from our MUs business recorded an increase as compared with the same period last year, primarily attributable to the more earnest market demand arising from the high speed railway development in the PRC.

From January to June 2010, revenue from our rapid transit vehicle business saw material increase as compared with the same period last year, mainly due to the rising market demand arising from the fast growth of rapid transit vehicle industry, which led to significant increase in our sales and production volume of rapid transit vehicles.

New businesses include those that are closely related to proprietary rolling stock technologies. From January to June 2010, new businesses grew significantly as compared with the same period last year, primarily attributable to the Company’s proactive development of proprietary rolling stock technologies related products by virtue of its technological competence and edges, which drove the market size. In particular, revenue from wind power generators amounted to RMB1,532 million, representing an increase of 174% as compared with the same period last year; revenue from automobile equipments amounted to RMB230 million, representing an increase of 129% as compared with the same period last year; revenue from compound materials amounted to RMB564 million; and revenue from rail construction machinery amounted to 332 million.

Other revenue includes income from sales of materials. From January to June 2010, our other revenue increased as compared with the same period last year, primarily due to the market expansion and business growth.

3. Operating revenue breakdown by regions

From January to June 2010, operating revenue from the Company's operations by regions and the comparison with that of the same period last year are shown in the following table:

Business segment	January to June 2010		January to June 2009		
	Amount	Percentage	Amount	Percentage	Growth rate
	(RMB'000)	%	(RMB'000)	%	%
Domestic market	26,662,011	96.28	17,678,543	96.95	50.82
Overseas market	1,030,083	3.72	556,830	3.05	84.99
Total	27,692,094	100.00	18,235,373	100.00	51.86

Revenue from domestic market of the Company increased by 50.82% as compared with the same period last year whereas revenue from overseas market increased by 84.99% as compared with the same period last year, which was primarily attributable to the Company's proactive efforts in market exploration and especially more revenue generated from the delivery of overseas orders for locomotives and passenger carriages in the first half of 2010.

4. Analysis of gross profit and gross profit margin

From January to June 2010, consolidated gross profit of the Company and the comparison with that of same period last year are shown in the following table:

Item	January to	January to	Growth rate
	June 2010	June 2009	
	Amount	Amount	
	(RMB'000)	(RMB'000)	%
Revenue	27,692,094	18,235,373	51.86
Operating cost	23,140,258	15,302,945	51.21
Gross profit	4,551,836	2,932,428	55.22
Gross profit margin	16.44%	16.08%	

From January to June 2010, the Company's gross profit and gross profit margin increased as compared with the same period last year, mainly due to the change in product mix and expansion of production scale.

(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 2010 are shown in the following table:

Composition and changes of major assets (in net value)

Item	30 June 2010		31 December 2009		Growth rate %
	Amount (RMB'000)	Percentage %	Amount (RMB'000)	Percentage %	
Total current assets	45,405,864	69.24	36,686,815	66.42	23.77
Of which: Cash and					
cash equivalents	10,419,038	15.89	11,273,147	20.41	-7.58
Trade receivables	14,410,044	21.97	6,638,161	12.02	117.08
Prepayments, deposits and other					
receivables	5,308,890	8.10	4,640,365	8.40	14.41
Inventories	13,564,651	20.68	11,415,069	20.67	18.83
Total non-current assets	20,172,139	30.76	18,551,500	33.58	8.74
Of which: Property, plant					
and equipment	15,126,157	23.07	13,509,207	24.46	11.97
Total assets	65,578,003	100.00	55,238,315	100.00	18.72

Report of Directors (Continued)

The balance of the Company's cash and cash equivalents was relatively significant, accounting for 15.89% of the total assets as at the end of the Reporting Period, which was attributable to the Company's expansion of financing scale and effort in sustaining a suitable amount of cash and bank balance for daily production and operation.

The trade receivables of the Company were mainly contract receivables. As at the end of the Reporting Period, trade receivables increased by 117.08% as compared with the beginning of the year, which was due to the dramatic increase in sales revenue for the Reporting Period and the delay in payment by major customers in the first half of the year.

The prepayments, deposits and other receivables of the Company rose by 14.41% as compared with the beginning of the year, mainly due to the increase in prepayments as a result of more procurement during the period.

Net inventories of the Company increased by 18.83% as compared with the beginning of the year, mainly attributable to a higher business volume following an expansion of the Company's operation.

The property, plant and equipment of the Company increased by 11.97% as compared with the beginning of the year. Such increase was mainly attributable to the increase in investment due to the Company's endeavour to cater for its growing business by expanding production capacity and upgrading products and technologies.

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 2010 are shown in the following table:

Item	30 June 2010		31 December 2009		Growth rate %
	Amount (RMB'000)	Percentage %	Amount (RMB'000)	Percentage %	
Total current liabilities	36,338,783	83.35	30,066,604	86.11	20.86
Of which: Interest-bearing					
bank and					
other borrowings	2,317,558	5.32	3,193,345	9.15	-27.43
Bills payable	6,095,255	13.98	4,975,387	14.25	22.51
Trade payables	16,553,565	37.97	13,676,189	39.17	21.04
Other payables and					
accruals	10,744,156	24.64	7,597,602	21.76	41.42
Total non-current liabilities	7,261,494	16.65	4,850,560	13.89	49.70
Of which: Interest-bearing					
bank and					
other borrowings	4,211,156	9.66	2,171,866	6.22	93.90
Provision for					
supplemental					
pension subsidies					
and early					
retirement					
benefits	1,889,210	4.33	1,969,740	5.64	-4.09
Total liabilities	43,600,277	100.00	34,917,164	100.00	24.87

The short-term interest-bearing bank and other borrowings of the Company decreased by 27.43% as compared with the beginning of the year, which was mainly due to the decrease in short-term borrowings as a result of the issue of mid-term notes with an aggregate amount of RMB4 billion in the second half of 2009 and in the first half of 2010 to satisfy its capital needs.

The bills payable of the Company were mainly bills issued to suppliers for liquidity. As at the end of the Reporting Period, bills payable rose by 22.51% as compared with the beginning of the year, mainly attributable to the increase in procurement given the increase in business scale and business volume of the Company.

The trade payables of the Company were mainly outstanding amount payable to suppliers of raw materials. As at the end of the Reporting Period, trade payables increased by 21.04% as compared with the beginning of the year. The increase was mainly attributable to the increase in procurement given the increase in business scale and business volume of the Company.

Other payables and accruals of the Company increased by 41.42% as compared with the beginning of the year, mainly due to the substantial prepayments received under the sales contracts.

The long-term interest-bearing bank and other borrowings of the Company increased by 93.90% as compared with the beginning of the year. The dramatic increase was mainly attributable to the issue of RMB2 billion mid-term notes in the first half of 2010.

3. Capital structure

As at 30 June 2010, the gearing ratio of the Company was 62%, representing an increase of 10 percentage points from the beginning of the year, which was mainly due to the increase in bond financing to fund the expansion of the Company's operations and production capacity.

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

From January to June 2010, 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 2010 Amount (RMB'000)	January to June 2009 Amount (RMB'000)	Growth rate %
Selling and distribution costs	693,211	422,142	64.21
Administrative expenses	2,192,664	1,633,115	34.26
Finance costs	164,562	133,779	23.01
Share of profits and losses of associates and jointly-controlled entities	167,928	56,144	199.10
Income tax expense	281,675	186,380	51.13

From January to June 2010, the selling and distribution costs of the Company increased by 64.21% as compared with the same period last year, which was attributable to the increase in selling expenses such as product warrant expenses and transportation expenses arising from the increased sales revenue of the Company. The increase of 34.26% in administrative expenses as compared with the same period last year was mainly attributable to the increase in business volume and R&D expenses during the Reporting Period. Finance costs increased by 23.01% as compared with the same period last year, mainly attributable to the increase in interest expenses arising from more financing activities and losses from foreign exchanges. Share of profits and losses of associates and jointly-controlled entities increased by 199.10% as compared with the same period last year, mainly due to the increase in profits of associates and jointly-controlled entities. Income tax expense increased by 51.13% as compared with the same period last year, mainly due to the increase in profit before tax.

(V) BREAKDOWN OF CASH FLOW DURING THE REPORTING PERIOD

From January to June 2010, cash flow of the Company and year-on-year changes thereof are set out in the following table:

Item	January to	January to	Increase
	June 2010	June 2009	
	Amount	Amount	
	(RMB'000)	(RMB'000)	(RMB'000)
Net cash flow from operating activities	-529,049	-1,716,542	1,187,493
Net cash flow from investing activities	-1,833,720	-1,428,909	-404,811
Net cash flow from financing activities	1,617,795	-571,681	2,189,476

From January to June 2010, deficit of net cash flow from operating activities of the Company was RMB529,049,000, which was RMB1,187,493,000 lower than that of the same period last year. Deficit of net cash flow from investing activities was RMB1,833,720,000, representing an increase of RMB404,811,000 as compared with the same period last year, mainly due to the increase in cash payment for purchase of fixed assets, intangible assets and other long-term assets. Net cash flow from financing activities was RMB1,617,795,000, representing an increase of RMB2,189,476,000 as compared with the same period last year, mainly due to the issue of RMB2 billion medium-term notes in the first half of this year.

(VI) OPERATIONS OF MAJOR COMPANIES INVESTED BY THE COMPANY

Unit: RMB0'000

Company name	Business scope	Net profit	Investment	Percentage of
			income from	net profit of
			companies	the Company
			invested by	(attributable to
			the Company	the parent)
				(%)
Bombardier Sifang (Qingdao) Transportation Ltd. (青島四方龐巴迪鐵路運輸設備有限公司)	Design and production of high-end passenger carriages, ordinary passenger carriages, electric MUs, luxury double-decker passenger carriages, high-speed passenger carriages and rapid transit vehicles, sales of self-produced products and provision of relevant after-sales service	27,965.16	13,982.58	12.66

(VII) OUTSTANDING ORDERS AS AT THE END OF THE REPORTING PERIOD

Unit: RMB0'000

Business segment	Contract amount
Locomotives	955,729
Passenger carriages	96,096
Freight wagons	150,397
MUs	4,976,982
Rapid transit vehicles	1,837,799
New businesses	<u>389,587</u>
Total	<u>8,406,590</u>
Including foreign operations	871,352

(VIII) INVESTMENT OF THE COMPANY

1. Use of proceeds raised from A share offering

The Company raised net proceeds of RMB6.36941 billion from the IPO of A shares in August 2008. In the first half of 2010, the Company invested RMB380.32 million in the projects funded by the proceeds. As at the end of the Reporting Period, the Company used RMB5.96901 billion in total in the projects funded by the proceeds.

As considered and approved at the 15th meeting of the first session of the board of directors of the Company, on 27 November 2009, the Company utilized RMB630 million in aggregate out of the proceeds to temporarily supplement the working capital which was subsequently fully returned on 25 May 2010.

As at 30 June 2010, the balance of proceeds in the designated proceeds account of the Company aggregated to RMB421.21 million. The balance will continue to be used on projects funded by the proceeds according to the planned purposes.

2. Use of proceeds for the undertaken projects

Unit: RMB0'000

Total proceeds	654,000	Total proceeds used in the period	38,032
		Total proceeds used accumulatively	596,901

No.	Project undertaking	With or without change	Planned investment of proceeds	Investment of proceeds	Whether is in line with plan	Profits	
						achieved during the 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	3,270	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	19,082	Yes	Not applicable	Not applicable
4	Industrialization project of high-powered AC locomotives (locomotive section)	No	8,000	8,000	Yes	2,069	Yes
5	AC electric locomotive R&D system building and industry upgrade (six-axles) project	No	10,000	10,000	Yes	4,800	Yes
6	High-powered electric locomotive production base project	No	10,000	10,000	Yes	1,120	Yes
7	Technology renovation project of the domestic production of AC diesel locomotives	No	31,984	31,984	Yes	2,148	Yes
8	Industry upgrade project of high-powered diesel locomotives	No	15,000	15,000	No	Not applicable	Not applicable
9	Construction project of locomotive production base	No	15,000	15,000	No	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	523	Yes
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	No	Not applicable	Not applicable
13	Capacity upgrade project of heat processing of key components for diesel locomotives (electronic control)	No	10,000	10,000	No	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	
						achieved during the period	Whether the planned profit is achieved
14	Capacity upgrade project of cold processing of key components for diesel locomotives (electronic control)	No	10,000	10,000	No	Not applicable	Not applicable
15	Technology renovation project of high-powered AC electric locomotive and MUs traction motors transformer	No	30,000	30,000	No	Not applicable	Not applicable
16	Capacity expansion project of rapid transit vehicles	No	7,785	7,785	No	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	670	Yes
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	148,937	Yes	6,113	Yes
21	Technology renovation project of CSR Yangtze, Zhuzhou base	No	10,000	10,000	Yes	3,700	Yes
22	Technology renovation project of CSR Yangtze Rolling Stock Co., Ltd, Tongling branch	No	10,000	10,000	No	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
24	High-end passenger carriages refurbishment base project	No	0	0	Yes	Not applicable	Not applicable
25	Capacity expansion project of automobile superchargers parts industrialization	No	50,000	45,067	Yes	Not applicable	Not applicable
26	Industrialization project of gear transmission system	No	40,000	33,102	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	<u>25,823</u>	<u>6,643</u>	Yes	Not applicable	Not applicable
	Total		<u>636,941</u>	<u>596,901</u>			

Report of Directors (Continued)

Reasons of not meeting the schedule

8. The upgrade project of high-powered internal-combustion locomotive segment. The construction of the project has been moderately slowed down to smooth the way between the introduction of technology and industrial promotion. The project was put into production in July 2010.
9. The construction of the locomotive manufacture base. The early stage of research and demonstration of the construction plan have been prolonged, for the major products have switched from 9,600KW to 7,200KW, which affected the construction schedule to some degree. It has commenced production in July 2010.
12. The project concerning the large-scale engine crankshaft production base. Since the international financial crisis had impacted on the shipbuilding industry to some extent, the crankshaft and engine market was subject to volatility. In order to control investment risks and use capital more effectively, the Company duly slowed down the implementation of the project, and it is expected that all construction work will be completed for commencement of production by the end of April 2011.
13. The project concerning the promotion of thermal processing and producing capacity of key spare parts for (electricity-controlled) internal-combustion engines. Since the international financial crisis had impacted on the shipbuilding industry to some extent, the crankshaft and engine market was subject to volatility. In order to control investment risks and stay in line with the urban planning, the Company duly slowed down the implementation of the project, and it is expected that the project will be completed for commencement of production by the end of October 2011.
14. The project concerning the promotion of cold processing and producing capacity of key spares for (electricity-controlled) internal-combustion engines. Since the international financial crisis had impacted on the shipbuilding industry to some extent, the crankshaft and engine market was subject to volatility. In order to control investment risks and use capital more effectively, the Company duly slowed down the pace of investment, and it is expected that the project will be completed for commencement of production by the end of April 2011.

Report of Directors (Continued)

	<p>15. As for the technology renovation project of high-powered AC electric locomotive and MUs traction motors transformer, due to the considerable impact of international financial crisis on the oil and high-voltage motor sectors, to control investment risk and better utilize the capital, the Company slowed down the investment of parts of its programs. While the takeover of certain land parcels had been postponed, so was relevant construction projects, all of which are expected to come on stream before the end of November in 2011.</p> <p>16. As for the capacity expansion project of rapid transit vehicles, in order to optimize the overall technical layout of the company, the construction progress of the project needs to be reasonably tied in with the construction project of the industrialization project of high-speed MUs with a maximum speed of 350 km/h. Such move has moderately slowed down the construction progress of the main installation and bogie. The construction is expected to complete by the end of October 2010.</p> <p>22. As for the technology renovation project of CSR Yangtze Rolling Stock Co., Ltd, Tongling branch, in accordance with the strategy of "specialized production of major components", Tongling branch was positioned as the production base specialized in manufacturing cast and forged parts such as metro and cargo axles, bolsters, measurement shelves, couplers, buffers and box structures. Aggravated by the impact of the financial crisis on the cargo market, the Company slowed down its construction progress to control its pace of investment. The entire project is expected to complete by the end of March 2011.</p>
Reason for changes and description of the procedures	Nil
Balance of proceeds and planned uses	As at 30 June 2010, the balance of proceeds in the designated proceeds account aggregated to RMB421.21 million, which is being deposited in the designated bank account held by the Company. The balance will continue to be used on projects funded by the proceeds according to the planned purposes.

3. Use of proceeds raised from H share offering

In 2008, the Company raised aggregate proceeds of HK\$4.784 billion from the listing of the H shares. Actual capital received amounted to HK\$4.647 billion after netting of relevant issuing expenses. As at 30 June 2010, a total of approximately HK\$3.934 billion of proceeds raised from the H share offering were used. Approximately HK\$35 million of such proceeds was used to acquire advanced foreign R&D, manufacturing and laboratory equipment in the first half of 2010.

As at 30 June 2010, the balance of proceeds raised from the H share offering in the designated proceeds account of the Company amounted to approximately HK\$778 million (including bank interests), including HK\$361 million and US\$54 million. The uses of proceeds stated above are in strict compliance with the disclosures in the Prospectus and the relevant approvals from the SAFE and supervised by the bank(s) where such account is opened.

4. Material project not funded by proceeds from share offerings

In the first half of 2010, the Company's investment projects not funded by proceeds from share offerings amounted to RMB1.259 billion. The Company had invested RMB399.02 million during the Reporting Period in industrialization project of high-speed MUs with maximum speed of 350 km/h of CSR Sifang Co., Ltd. which had a total investment of RMB1,293.60 million. It has completed the main constructions, but has not been put into production.

(IX) MAJOR RISKS FACED BY THE COMPANY AND COUNTER MEASURES THERETO

1. Major risks faced by the Company

(1) Risk of macroeconomic policies

The national industrial policies and domestic market demand will be subject to considerable fluctuations in light of the random nature of political, economic, legal and natural environmental variables. As a basic industry of national economy, the development of the rolling stock production industry in which the Company operates is highly correlated to the prosperity of the national economy. When economic development gathers pace, it stimulates the demands for the rolling stock and increases the demand for rolling stock products; on the contrary, when the economy declines, it will suppress the growth in the demand for rolling stock products, which will in turn affect the performance of the Company and bring risks to the production and operation of the Company to a certain extent.

(2) Risk of talents availability

Availability of human resource, which is a core resource, is complicated as it is vulnerable to both internal and external environment. The Company has considerable demand for human resources as it is in a high-speed growth stage and needs talents in various aspects such as marketing, R&D, production and management as well as a great many skilled technical workers. If it fails to meet the rapidly growing demand for human resources, the Company would face a risk of talent availability, which would pose a risk to the rapid development of the Company's production and operation.

(3) Risk of technology

Since the incorporation of the Company, achievements have been made in technical innovation. The need for constant upgrades and modernisation of rolling stock products remains a challenge to the Company's ability of continuous technical innovation. Following product updates, new challenges also lie in the improvement of product quality and product reliance. Failing to response to such challenges and to maintain higher competitive edges in terms of technical innovation could adversely affect the operating results and financial position of the Company.

(4) Risk of volatility of foreign exchange rate

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arises from changes in exchange rates. The Company's foreign currency risk mainly arises from sales or purchases by operating units in currencies other than the units' functional currency and from net investments in foreign operations. The Group's businesses are mainly located in the PRC and are mainly transacted and settled in Renminbi. Certain sales, purchases and borrowings are settled in foreign currencies. The fluctuation of the exchange rates of foreign currencies against Renminbi will affect the Company's results of operations.

2. Counter-measures of the Company

- (1) The Company will establish a system for collection, analysis and application of macro information such as industry policies, arrange relevant department and designate person to regularly and randomly collect and analyse different sorts of information to generate analysis report for industry policy trend, and promptly take proactive counter measures and plans in response to the condition of industry policies, so as to avoid risks in advance. The Company will consistently enhance management innovation work to improve overall operation of the Company. The Company is to improve product quality and production efficiency by implementing advanced management approaches such as "lean production" and ERP.

- (2) The Company plans to recruit high calibre professional talents or train and foster specially selected talents within the Company to build a talent reserve for future development, each of which will be conducted in line with strategic planning and need for business development. The overall human resource demand planning will be formulated according to future market prospect, business development status, compatibility of positions as well as quality and potential tapping of human resource.
- (3) While learning and absorbing foreign advanced technology, the Company improves its design level and experiment practices by establishing simulation design platform and strengthen technology innovation for products (especially core products) to ensure applicability, reliability and safety of technological R&D results.
- (4) The Company aims to reduce foreign currency risk to a minimum mainly by closely monitoring market exchange rate changes and actively adopting counter measures. Price quotations for foreign business contracts under negotiation will take into account the expected exchange rate changes. When negotiating foreign business, the relevant terms should clearly state the scope of exchange rate fluctuations and the related risk to be borne by both the seller and buyer. For import activities, the relevant import entities are required to monitor the timing of settlement such that the appreciation of Renminbi can be utilised to reduce the cost of purchase.

(X) EMPLOYEES OF THE COMPANY AND THEIR REMUNERATION AND TRAINING

During the Reporting Period, there was no material change in the total number, structure, remuneration and training of the employees of the Company.

(XI) PARTICULARS OF CONTINGENT LIABILITIES OF THE COMPANY

Save as the guarantees provided by the Company as stated in Significant Events under Chapter 6 of this interim report, the Company had no other material contingent liabilities.

(XII) PARTICULARS OF PLEDGE OF ASSETS OF THE COMPANY

As at 30 June 2010, the following assets of the Company with a total book value of RMB1,318,017,000 were charged to obtain bank loans and other banking facilities. Such assets included property, plant and equipment of RMB184,414,000, pre-paid rent of RMB42,304,000, time deposits and bank balances of RMB749,915,000, inventories of RMB53,926,000 and other assets of RMB287,458,000.

Significant Events

(I) CORPORATE GOVERNANCE

During the Reporting Period, the Company had strictly complied with the laws, regulations as well as the requirements of the regulatory documents for listing in the PRC and Hong Kong, improved its corporate governance structure, standardized its operations and improved the operation management. At present, the Company's corporate governance meets the requirements of regulatory documents applicable to listed companies in the PRC and Hong Kong.

Compliance with Code on Corporate Governance Practices

The Company is committed to improving its corporate governance, and has established a system of corporate governance practices in accordance with the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules. The Company had been in full compliance with the provisions of the Code on Corporate Governance Practices and most of the recommended best practices as specified therein throughout the six months period ended 30 June 2010.

Securities transactions by Directors and Supervisors

The Company has formed and adopted "Management Methods on Shares and Changes on the Shareholdings held by Directors, Supervisors and Senior Management of China South Locomotive & Rolling Stock Corporation Limited" on terms no less exacting than the required standard set out in the Model Code. Relevant employees who are likely to be in possession of unpublished price sensitive information of the Company in relation to the purchase and sale of the shares of the Company are also required to comply with the required standard.

As at 30 June 2010, after specific inquiries with all the Directors and supervisors, the Company confirmed that all the Directors and supervisors had complied with the relevant codes on securities transactions by Directors and supervisors set out in the Model Code and the "Management Methods on Shares and Changes on the Shareholdings held by Directors, Supervisors and Senior Management of China South Locomotive & Rolling Stock Corporation Limited" formed by the Company.

Audit and Risk Management Committee

The Audit and Risk Management Committee of the board of directors 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 and the interim report of the Company for the six months ended 30 June 2010. 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 management of the Company.

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

The 2009 final dividend of the Company was approved at the annual general meeting for 2009 held on 17 June 2010. Such final dividend distribution was completed on 14 July 2010. 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 18 June 2010.

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

In accordance with the provisions of the Articles of Association, the Company's profit distribution policy shall remain consistent and stable. The Company may distribute dividends in any of the following manners (or both): (I) cash; (II) stocks. The Company may distribute cash dividends as appropriate provided that sufficient capital is maintained for its ordinary operation and development needs.

As approved by the 2009 annual general meeting of the Company held on 17 June 2010, the Company distributed cash dividend to all shareholders of the Company for 2009, of RMB0.40 (tax inclusive) for every 10 shares. The total amount of the dividend distributed was RMB473,600,000. Such dividend distribution was completed on 14 July 2010.

The Company had no profit distribution plan or conversion of surplus reserves into share capital plan for the first half of 2010.

(IV) MATERIAL LITIGATION AND ARBITRATION

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

(V) MATTERS RELATED TO BANKRUPTCY AND REORGANISATION

The Company was not involved in any events relating to bankruptcy or reorganisation during the Reporting Period.

Significant Events (Continued)

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

1. Stock investment

Currency: HK\$

Stock variety	Stock code	Abbreviated name	Initial investment amount (dollar)	Number of shares held (share)	Carrying amount at the end of the Reporting Period (dollar)	Percentage in securities investment held by the Company at the end of the Reporting Period (%)	Gain or loss occurred in the Reporting Period (dollar)
Shares listed in Hong Kong	01618	MCC	38,484,429	6,000,000	20,220,000	100	-7,320,000

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

Unit: RMB

Stock code	Abbreviated name	Initial investment amount	Percentage of equity interest in the company (%)	Carrying amount at the end of the Reporting Period	Gain or 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	989,952.80	–	5,196,161.86	0	-2,887,717.24	Financial assets available-for-sale	Purchase
600335	Dingsheng Tiangong	1.36	–	8.18	0	0.68	Financial assets available-for-sale	Set-off of debts

Note: Percentage of equity interests in the abovementioned listed companies held by the Company were below 0.01%.

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

Name of institution	Initial investment amount (RMB)	Number of shares held (share)	Percentage of equity interest in the company (%)	Carrying amount at the end of the Reporting Period (RMB)	Gain or loss occurred in the Reporting Period (RMB)	Changes in the owner's equity in the Reporting Period (RMB)	Accounting items	Source of equity interest
Jiangsu Bank	74,400.00	74,400.00	–	74,400.00	0.00	0.00	Long-term equity investment	Purchase
Zhuzhou City Commercial Bank	770,000.00	700,000.00	0.21	550,000.00	0.00	0.00	Long-term equity investment	Purchase
Donghai Securities Co., Ltd.	19,483,800.00	20,000,000.00	1.20	19,483,800.00	0.00	0.00	Long-term equity investment	Purchase

Note: Percentage of equity interests in Jiangsu Bank held by the Company was below 0.01%.

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

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

(VIII) THE COMPANY'S IMPLEMENTATION OF SHARE OPTION INCENTIVE SCHEME AND ITS EFFECTS

The 9th meeting of the first session of the board of directors was held 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.

(IX) MATERIAL CONNECTED TRANSACTIONS

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 CSRG and its subsidiaries (other than the Company and its controlling enterprises).

CSRG is the controlling shareholder of the Company, directly holding a 54.25% 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, CSRG and its subsidiaries are therefore connected persons of the Company. The Company generally sells raw materials and accessories to CSRG for processing into rolling stock components and then purchases such components back. Meanwhile, the Company also purchases ancillary products and services such as fuel from CSRG. Due to the business relationship established on a long-term basis, the connected transactions between the Company and CSRG and its subsidiaries are necessary for the Company's continuous production.

Significant Events (Continued)

To regulate the continuing connected transactions between the Company and CSRG 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. To determine the prices of transactions on a fair and just basis, the abovementioned agreements specified the pricing principles for connected transactions as follows: If the government-prescribed prices are available, the government prescribed prices shall apply; in the absence of government-prescribed prices, the government-guided prices shall apply; in the absence of the government-prescribed and the government-guided prices, the market prices (including tender price) shall apply; if none of the above prices is applicable, or it is not possible to adopt the above principles in actual product transactions, the prices shall be determined by agreed price.

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 CSRG and its connected persons are also available from other third parties, the prices of the connected transactions between the Company and CSRG are mainly determined by market price or tender price. The transactions between the Company and CSRG 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.

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	Connected transaction agreement related to ongoing operations	Content of transaction	Pricing principle	Amount of connected transaction	Percentage in the same type of business
South Huiton (南方匯通)	Product Mutual Provision Framework Agreement	Sale of steel products etc.	Market price	54,831	0.20%
CSR Xiangfan Motor (南車襄樊電機)	Product Mutual Provision Framework Agreement	Sales of locomotive components etc.	Market price	5,243	0.02%
Changzhou Changcheng Railway Machinery Plant (常州昌成鐵路機械廠)	Product Mutual Provision Framework Agreement	Sales of locomotive components etc.	Market price	1,869	0.01%
CSR Qishuyuan Locomotive & Rolling Stock Works (中國南車集團戚墅堰機車車輛廠)	Product Mutual Provision Framework Agreement	Sales of locomotive components etc.	Market price	51	Less than 0.01%
Changzhou Railway Higher Vocational School (常州鐵道高等職業技術學校)	Product Mutual Provision Framework Agreement	Sales of components etc.	Market price	2	Less than 0.01%
Total				61,996	0.23%

Significant Events (Continued)

2) Purchase from connected persons

Unit: RMB'000

Connected persons	Connected transaction agreement related to ongoing operations	Content of transaction	Pricing principle	Amount of connected transaction	Percentage in the same type of business
CSRG (南車集團)	Product Mutual Provision Framework Agreement	Purchase of metro components etc.	Market price	65,616	0.28%
CSR Xiangfan Motor (南車襄樊電機)	Product Mutual Provision Framework Agreement	Purchase of locomotive components etc.	Market price	18,325	0.08%
South Huiton (南方匯通)	Product Mutual Provision Framework Agreement	Purchase of freight wagons components etc.	Market price	12,474	0.05%
Changzhou Changcheng Railway Machinery Plant (常州昌成鐵路機械廠)	Product Mutual Provision Framework Agreement	Purchase of raw materials and components etc.	Market price	3,727	0.02%
BRIT (鐵工經貿)	Product Mutual Provision Framework Agreement	Purchase of raw materials etc.	Market price	1,840	0.01%
Others	Product Mutual Provision Framework Agreement	Purchase of raw materials, components etc.	Market price	997	Less than 0.01%
Total				102,979	0.44%

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.

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 and its subsidiaries	29,248	73,914	(71,197)	233,111
Including:				
Accounts receivable (or accounts payable)	20,176	53,019	(112,165)	174,610
Bills receivable (or bills payable)	11,942	11,942	9,487	22,337
Other receivables (or other payables)	(3,420)	7,198	31,481	36,164
Advances (or prepayments)	550	1,755	0	0

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

(X) MATERIAL CONTRACTS AND THE PERFORMANCE

1. Trusts, contracts and lease arrangements which contributed 10% or more of the total profit of the Company for the period

(1) Trust

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

(2) Contract

The Company did not act as contractor during the Reporting Period.

(3) Lease arrangement

The Company did not have 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	3,443,174
Total guarantee balance provided to the Company's subsidiaries at the end of the Reporting Period	3,688,216
Aggregate guarantee amount provided by the Company (including guarantee provided by the Company in favour of its subsidiaries)	
Total guarantee amount	3,688,216
Percentage of total guarantee amount to net assets of the Company (%)	20.7
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%	1,587,454
Portion of the total guarantee amount in excess of 50% of net assets	—
Total amount of the three above-stated guarantees	1,587,454

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

During the Reporting Period, total guarantee amount provided by the Company in favour of its subsidiaries was RMB3.44 billion. As at 30 June 2010, total guarantee balance was RMB3.69 billion, representing 20.7% of the net assets, among which, RMB3.57 billion and RMB120 million were provided to the Company's wholly-owned subsidiaries and controlling subsidiaries respectively. As far as guarantee type is concerned, out of the RMB3.69 billion of guarantee balance in total, RMB3.233 billion was provided by way of bank acceptance drafts, RMB186 million was provided by way of letter of guarantee and letter of credit, RMB83 million was provided by way of factoring guarantee and RMB187 million was provided by way of loan guarantee.

As at the end of the Reporting Period, all guarantee balances were provided for the Company's subsidiaries. The Company did not provide any guarantee in favour of its controlling shareholders, ultimate controller and their related parties. As at the end of the period, the guarantee balance provided by the Company in favour of its subsidiaries with gearing ratio over 70% was RMB1.587 billion. Approval procedures have been complied with at the board meetings and the general meetings as required by the Articles of Associations in respect of the guarantees provided by the Company in favour of its wholly-owned and non wholly-owned subsidiaries with gearing ratio over 70%.

3. Entrusted Investment

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

4. Other Material Contracts

The Company did not have other material contracts during the Reporting Period.

(XI) PERFORMANCE OF UNDERTAKINGS

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

- (1) The lock-up undertaking in respect of the shares held by CSRG in the Company is as follows: within 36 months from the date of listing of the Company's A shares on the Shanghai Stock Exchange, CSRG will not transfer or authorize others to manage its shareholdings in the Company, nor will the Company acquire such shares.
- (2) The undertaking made by CSRG in respect of restructuring of South Huiton is as follows: there should be a proposed restructuring in CSRG's shareholdings and relevant assets in South Huiton. This includes but not limit to CSRG's proposed acquisition of South Huiton's assets in relation to the freight wagon businesses. CSRG will transfer the above-mentioned assets in relation to the freight wagon businesses acquired from South Huiton to the Company within three months from the date of CSRG's acquisition of such assets. The transfer price will be determined through negotiation based on the result of the assets valuation. The above transfer of assets is 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 undertakes that CSRG 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 (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 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; ③ Subject to the aforesaid undertaking ①, CSRG 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 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, the Company's controlling shareholder fully fulfilled its undertakings as stated above.

2. Commitment on building ownership problems

As disclosed in the Prospectus, the Company has not yet obtained proper property ownership certificates for 326 properties with a total gross floor area of 282,019.03 m², mainly because they have not been granted property ownership certificates by the local government authorities due to the implementation of the “Leaving the City and Entering the Suburb” policy in Shijiazhuang and the changes in urban planning in Chengdu area. In respect of those properties in Shijiazhuang, Shijiazhuang Administration of Urban and Rural Planning(石家莊市城鄉規劃局) has issued the Explanation on the Area Planning of CSR Shijiazhuang Rolling Stock Works and pointed out that it would, due to urban planning, not accept any applications for the planning permit in respect of any properties without property ownership certificates. In respect of those properties in Chengdu, Chengdu Administration of Urban Planning(成都市規劃管理局) has issued the Explanation on the Road Planning in the Area of CSR Chengdu Locomotive & Rolling Stock Works and pointed out that two municipal roads planned would run through the land of the area of the works based on the need of urban development. Application of property ownership certificates for the properties was temporarily on hold according to the request of the local governments. Apart from the above two subsidiaries which failed to obtain the property ownership certificates due to objective reasons, all the remaining properties have obtained property ownership certificates.

(XII) 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.

(XIII) 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.

(XIV) NOTES ON OTHER MATERIAL EVENTS

On 3 February 2010, the Company successfully issued the 2010 first tranche of medium-term notes in an issue amount of RMB2 billion in the inter-bank bond market in PRC. For details, please refer to the announcements published in China Securities Journal and Shanghai Securities News, Securities Times, Securities Daily and on the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange by the Company on 6 February 2010.

Interim Condensed Consolidated Income Statement

Six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
REVENUE	4	27,692,094	18,235,373
Cost of sales		(23,140,258)	(15,302,945)
Gross profit		4,551,836	2,932,428
Other income and gains, net	4	219,216	274,558
Selling and distribution costs		(693,211)	(422,142)
Administrative expenses		(2,192,664)	(1,633,115)
Other expenses, net	5	(116,190)	(66,455)
OPERATING PROFIT		1,768,987	1,085,274
Finance costs	6	(164,562)	(133,779)
Share of profits and losses of associates and jointly-controlled entities		167,928	56,144
PROFIT BEFORE TAX	5	1,772,353	1,007,639
Income tax expense	7	(281,675)	(186,380)
PROFIT FOR THE PERIOD		1,490,678	821,259
Attributable to:			
Ordinary equity holders of the parent		1,104,065	626,337
Non-controlling interests		386,613	194,922
		1,490,678	821,259
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic	9	RMB0.09	RMB0.05
— Diluted		RMB0.09	RMB0.05

Interim Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
Profit for the period		1,490,678	821,259
Exchange differences on translation of foreign operations		(18,929)	16,237
Net gain/(loss) on available-for-sale investments	10	(2,888)	5,429
Income tax effect		382	(923)
		(2,506)	4,506
Other comprehensive income/(loss) for the period, net of tax		(21,435)	20,743
Total comprehensive income for the period, net of tax		1,469,243	842,002
Attributable to:			
Ordinary equity holders of the parent		1,091,214	638,556
Non-controlling interests		378,029	203,446
		1,469,243	842,002

Interim Condensed Consolidated Statement of Financial Position

30 June 2010

		As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	11	15,126,157	13,509,207
Prepaid land lease payments		3,432,616	3,469,812
Goodwill		48,856	52,544
Other intangible assets		420,203	439,780
Interests in jointly-controlled entities		714,555	782,798
Interests in associates		175,056	56,604
Available-for-sale investments	12	28,229	31,117
Deferred tax assets		202,745	183,440
Other non-current assets		23,722	26,198
		20,172,139	18,551,500
CURRENT ASSETS			
Inventories	14	13,564,651	11,415,069
Trade receivables	13	14,410,044	6,638,161
Bills receivable		873,603	999,097
Prepayments, deposits and other receivables		5,308,890	4,640,365
Financial assets at fair value through profit or loss	15	17,640	24,248
Tax recoverable		62,083	78,361
Pledged deposits	16	749,915	1,618,367
Cash and cash equivalents	16	10,419,038	11,273,147
		45,405,864	36,686,815

Interim Condensed Consolidated Statement of Financial Position (Continued)

30 June 2010

		As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables	17	16,553,565	13,676,189
Bills payable		6,095,255	4,975,387
Other payables and accruals	18	10,744,156	7,597,602
Interest-bearing bank and other borrowings	19	2,317,558	3,193,345
Provision for supplemental pension subsidies and early retirement benefits		174,010	174,010
Tax payable		198,185	186,194
Provision for warranties		176,184	215,094
Government grants		79,870	48,783
Total current liabilities		36,338,783	30,066,604
NET CURRENT ASSETS		9,067,081	6,620,211
TOTAL ASSETS LESS CURRENT LIABILITIES		29,239,220	25,171,711
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	19	4,211,156	2,171,866
Provision for supplemental pension subsidies and early retirement benefits		1,889,210	1,969,740
Provision for warranties		349,395	144,724
Government grants		793,851	549,118
Deferred tax liabilities		14,673	11,903
Other non-current liabilities		3,209	3,209
Total non-current liabilities		7,261,494	4,850,560
Net assets		21,977,726	20,321,151

Interim Condensed Consolidated Statement of Financial Position (Continued)

30 June 2010

	<i>Notes</i>	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Issued capital		11,840,000	11,840,000
Reserves		5,981,027	5,016,568
Proposed final dividend		—	473,600
		17,821,027	17,330,168
Non-controlling interests		4,156,699	2,990,983
Total equity		21,977,726	20,321,151

Interim Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2010

	Attributable to ordinary equity holders of the parent										
	Available-										
	for-sale										
	Issued capital	Capital reserve	investment revaluation reserve	Reserve funds	Exchange fluctuation reserve	Retained earnings	Proposed final dividend	Non- controlling interests	Total	Total	equity
At 1 January 2010	11,840,000	2,803,842*	6,153*	149,754*	(3,340)*	2,060,159*	473,600	17,330,168	2,990,983	20,321,151	
Profit for the period	–	–	–	–	–	1,104,065	–	1,104,065	386,613	1,490,678	
Other comprehensive income	–	–	(2,506)	–	(10,345)	–	–	(12,851)	(8,584)	(21,435)	
Total comprehensive income	–	–	(2,506)	–	(10,345)	1,104,065	–	1,091,214	378,029	1,469,243	
Capital contribution from/acquisition of non-controlling shareholders	–	–	–	–	–	–	–	–	798,797	798,797	
Dilution of non-controlling interests/ excess of the cost of acquisition of additional interests in subsidiaries over the acquirers' additional interests in the carrying value of identifiable net assets	–	(126,755)	–	–	–	–	–	(126,755)	126,755	–	
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(137,865)	(137,865)	
Final 2009 dividend declared (note 8)	–	–	–	–	–	–	(473,600)	(473,600)	–	(473,600)	
At 30 June 2010 (unaudited)	11,840,000	2,677,087*	3,647*	149,754*	(13,685)*	3,164,224*	–	17,821,027	4,156,699	21,977,726	

* These reserve accounts comprise the consolidated reserves of RMB5,981,027,000 (31 December 2009 RMB5,016,568,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
Six months ended 30 June 2009

	Attributable to ordinary equity holders of the parent										
	Available-										
	for-sale										
	Issued capital	Capital reserve	investment revaluation reserve	Reserve funds	Exchange fluctuation reserve	Retained earnings	Proposed final dividend	Non- controlling Total	Total	Non- controlling interests	Total equity
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 non-controlling 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 non-controlling interests	–	–	–	–	–	–	–	–	(6,044)	(6,044)	
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(101,419)	(101,419)	
Final 2008 dividend declared	–	–	–	–	–	–	(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 Cash Flow

Six months ended 30 June 2010

	Notes	For the six months ended 30 June	
		2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(529,049)	(1,716,542)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,833,720)	(1,428,909)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		<u>1,617,795</u>	<u>(571,681)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(744,974)	(3,717,132)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		<u>10,998,084</u>	<u>11,032,907</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16	<u>10,253,110</u>	<u>7,315,775</u>

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2010

1. CORPORATE INFORMATION

CHINA SOUTH LOCOMOTIVE & ROLLING STOCK CORPORATION LIMITED 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 CSR Group (中國南車集團公司) ("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 2010 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 2009. The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand, except when otherwise indicated.

2.2 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 2009, except for the adoption of the new and revised International Financial Reporting Standards (“IFRS”) as of 1 January 2010, noted below:

IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

30 June 2010

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring for annual periods beginning on or after 1 July 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

IAS 39 Financial Instruments: *Recognition and Measurement - Eligible Hedged Items*

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position nor performance of the Group.

IFRIC 17 *Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor performance of the Group.

Improvements to IFRSs (issued May 2008)

In May 2008, the board of directors issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at 31 December 2009, apart from the following:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and had no impact on the financial position nor financial performance of the Group.

30 June 2010

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

Improvements to IFRSs (issued April 2009)

In April 2009 the board of directors issued its second omnibus of amendments to its standards, 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.

IFRS 8 Operating Segment Information: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The adoption of this amendment had no impact on the Group's operating segment disclosure.

IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in future upon cash settlement.

IAS 36 Impairment of Assets: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 2 Share-based Payment

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IAS 1 Presentation of Financial Statements

IAS 17 Leases

IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition and Measurement

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 16 Hedge of a Net Investment in a Foreign Operation

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendment	<i>Limited Exemption from Comparatives HKFRS 7 Disclosures for First-time Adopters</i> ²
IFRS 9	<i>Financial Instruments</i> ⁴
IAS 24 (Revised)	<i>Related Party Disclosures</i> ³
IAS 32 Amendment	<i>Amendment to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues</i> ¹
IFRIC 14 Amendments	<i>Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement</i> ³
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²
Improvements to IFRSs (Issued May 2010)	<i>Amendments to a number of IFRSs</i>

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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 2010

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	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sales of goods and services	27,692,094	18,235,373
Other income		
Interest income	50,761	80,023
Dividend income	46	3,438
Profit from sales of scrap materials	17,374	9,772
Value-added tax refunds	6,976	98,107
Government grants	103,811	57,361
	178,968	248,701
Gains		
Gain on disposal of available-for-sale investments	—	188
Gain on disposal of jointly-controlled investments	28,900	—
Others	11,348	25,669
	40,248	25,857
	219,216	274,558

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited) RMB'000	(Unaudited) RMB'000
Cost of inventories sold	23,140,258	15,302,945
Depreciation of items of property, plant and equipment	511,624	402,013
Amortisation of lease prepayments	36,959	33,896
Amortisation of other intangible assets	45,158	43,565
Provision/(reversal of provision) against obsolete inventories (i)	13,496	(2,704)
Provision for warranties	244,422	92,407
Minimum lease payments under operating leases:		
Plant and machinery	19,528	7,521
Land and buildings	9,259	15,428
Research and development costs	743,850	488,002
Less: amount capitalised	—	(1,159)
	743,850	486,843
Included in other expenses, net:		
Impairment of trade receivables	74,325	53,364
Impairment of other receivables	373	1,427
Exchange losses/(gains), net	38,831	(4,893)
Losses/(gains) on disposal of items of property, plant and equipment, net	(2,992)	16,557
Gains on disposal of items of other Intangible assets, net	(733)	—
Loss on equity investments at fair value through profit or loss	6,386	—
	116,190	66,455

Notes: (i) Included in "Cost of sales" on the face of the consolidated income statements for the six months ended 30 June 2009 and 30 June 2010.

6. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	177,386	135,242
Interest on bills discounted	1,207	3
Less: Interest capitalised in construction in progress	(14,031)	(1,466)
	<u>164,562</u>	<u>133,779</u>

7. INCOME TAX

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax		
Current income tax charge	298,224	194,110
Deferred income tax		
Relating to origination and reversal of temporary differences	(16,549)	(7,730)
Income tax expense	<u>281,675</u>	<u>186,380</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 months ended 30 June 2009 and 2010, except for certain subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the years.

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.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2010 (six months ended 30 June 2009: no assessable profits).

8. DIVIDENDS

At the annual general meeting held on 17 June 2010, the Company's shareholders approved the payment of the final dividend for the year ended 31 December 2009 of RMB0.04 per shares which amounted to RMB473,600,000.

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

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

The calculation of basic earnings per share is based on:

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	1,104,065	626,337
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	11.8 billion	11.8 billion

No diluted earnings per share have been disclosed as no diluting events existed during the six months ended 30 June 2009 and 2010.

10. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Available-for-sale investments:		
Gains/(losses) arising during the period	(2,888)	5,429
Less: Transfer to profit or loss on disposal	—	—
	<u>(2,888)</u>	<u>5,429</u>

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired property, plant and equipment with a cost of approximately RMB2,200 million (six months ended 30 June 2009: RMB1,543 million). The amount of borrowing costs capitalised during the six months ended 30 June 2010 was approximately RMB14 million (six months ended 30 June 2009: RMB1 million). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation was 4.41%-5.71% (six months ended 30 June 2009: 4.779%).

In addition, during the same period, property, plant and equipment with a net book value of approximately RMB63 million (six months ended 30 June 2009: RMB32 million) were disposed of by the Group which resulted in a net gain on disposal of approximately RMB3 million (six months ended 30 June 2009: net loss on disposal of approximately RMB17 million).

See also note 20 for capital commitments.

12. AVAILABLE-FOR-SALE INVESTMENTS

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Unlisted equity investments, at cost less impairment	23,033	23,033
Listed equity investments, in the PRC, at fair value	<u>5,196</u>	<u>8,084</u>
	<u>28,229</u>	<u>31,117</u>

13. TRADE RECEIVABLES

The Group generally requires its customers to make payment before or upon delivery, however, the Group granted certain credit period to those long standing 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 three to six months to the customers after taking into account the practice of the industry in which the Group conducted its business.

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Trade receivables	14,831,514	6,989,343
Impairment	<u>(421,470)</u>	<u>(351,182)</u>
	14,410,044	6,638,161
Portion classified as current assets	<u>(14,410,044)</u>	<u>(6,638,161)</u>
Non-current portion	<u>—</u>	<u>—</u>

30 June 2010

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 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Within 6 months	12,158,407	5,117,702
6 months to 1 year	1,535,508	906,955
Over 1 year	716,129	613,504
	14,410,044	6,638,161

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

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
— CSGR and its subsidiaries, excluding the Group (the "CSRG Group")	53,019	32,843
— Jointly-controlled entities	11,052	129,175
	64,071	162,018

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

14. INVENTORIES

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Cost, net of provision		
Raw materials	4,988,357	4,026,279
Work in progress	6,198,942	5,093,284
Finished good	2,377,352	2,295,506
	<u>13,564,651</u>	<u>11,415,069</u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Listed equity investments, at market value	<u>17,640</u>	<u>24,248</u>

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Cash and bank balances	11,168,953	12,891,514
Less : Pledged time deposits	(749,915)	(1,618,367)
Cash and cash equivalents in the statements of consolidated financial position	10,419,038	11,273,147
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(165,928)	(275,063)
Cash and cash equivalents in the consolidated cash flow statements	10,253,110	10,998,084

30 June 2010

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 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Within 6 months	15,539,164	12,619,417
6 months to 1 year	639,873	650,811
Over 1 year	374,528	405,961
	<u>16,553,565</u>	<u>13,676,189</u>

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

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
CSRG Group	174,610	286,775
Jointly-controlled entities	165,853	92,029
	<u>340,463</u>	<u>378,804</u>

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

30 June 2010

18. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Other payables	1,775,217	1,662,207
Advances from customers	7,377,457	5,174,616
Accruals	1,591,482	760,779
	10,744,156	7,597,602

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

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
CSRG Group	36,164	4,683
Jointly-controlled entities	100,001	100,000
	136,165	104,683

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

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate per annum (%)	Maturity	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Current				
Bank loans				
— Secured	2.22- 7.20	2011	852,250	988,281
— Unsecured	Interest free-5.60	2011	1,450,260	2,204,856
			2,302,510	3,193,137
Other loans				
— Secured			—	44
— Unsecured	5.40	2010-2011	15,048	164
			2,317,558	3,193,345
Non-current				
Bank loans				
— Secured	0.20 - 6.56	2012 - 2035	11,607	37,234
— Unsecured	Interest free - 5.13	2012 - 2019	184,549	104,578
			196,156	141,812
Other loans				
— Secured	5.94	2014	5,000	5,050
— Unsecured	0.30	2012	10,000	25,004
			15,000	30,054
Long term bonds				
— Unsecured*	4.08-4.18	2012-2013	4,000,000	2,000,000
			4,211,156	2,171,866
			6,528,714	5,365,211

* On 3 February 2010, the group issued long-term bonds of RMB2 billion with three years term.

30 June 2010

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 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Bank loans				
— secured	11,607	37,234	5,023	30,611
— unsecured	184,549	104,578	183,777	103,853
Other loans				
— secured	5,000	5,050	5,000	5,050
— unsecured	10,000	25,004	9,057	23,292
Long term bonds				
— unsecured	4,000,000	2,000,000	4,069,978	2,008,914
	4,211,156	2,171,866	4,272,835	2,171,720

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

The fair value of long-term bonds at the end of the Reporting Period are measured at quoted market price.

20. COMMITMENTS AND CONTINGENT LIABILITIES

CAPITAL COMMITMENTS

The Group had the following capital commitments:

	As at 30 June 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
Contracted, but not provided for:		
– Property, plant and equipment	1,140,313	1,726,671
– Prepaid land lease payments	–	56,512
– Other intangible assets	112,848	320,761
	1,253,161	2,103,944
Authorised, but not contracted for:		
– Property, plant and equipment	386,902	1,019,299
– Other intangible assets	39,605	–
	426,507	1,019,299

CONTINGENT LIABILITIES

As at 30 June 2010, the Group had no significant contingent liabilities (31 December 2009: Nil).

30 June 2010

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 2010 and 2009:

	For the six months ended 30 June	
	2010	2009
	(Unaudited) RMB'000	(Unaudited) RMB'000
(a) Purchase of materials and components from:		
— CSRG Group	102,978	85,047
— Jointly-controlled entities	227,228	69,217
— Associates	56,268	—
(b) Sale of goods to:		
— CSRG Group	61,996	26,519
— Jointly-controlled entities	172,218	298,223
— Associates	59,928	—

21. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) 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 2010 (Unaudited) RMB'000	As at 31 December 2009 (Audited) RMB'000
(i) Prepayments, deposits and other receivables:		
— CSG Group	8,953	11,822
— Jointly-controlled entities	<u>201,196</u>	<u>242,657</u>
	<u>210,149</u>	<u>254,479</u>
The above balances are unsecured, interest-free and have no fixed terms of repayment.		
(ii) Bills receivable:		
— CSG Group	<u>11,942</u>	<u>—</u>
(iii) Bills payable:		
— CSG Group	22,337	12,850
— Jointly-controlled entities	<u>—</u>	<u>17,592</u>
	<u>22,337</u>	<u>30,442</u>

21. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Short-term employee benefits	3,488	3,130
Post-employment benefits (note)	146	138
Total compensation paid/payable to key management personnel	3,634	3,268

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 30 June 2010.

23. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended 30 June 2010 were approved and authorised for issue by the board of directors on 10 August 2010.

Definitions

BRIT	Beijing Railway Industry Trade Company (北京鐵工經貿公司)
Company or CSR	China South Locomotive & Rolling Stock Corporation Limited (中國南車股份有限公司)
CSR Sifang Company	CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. (南車青島四方機車車輛股份有限公司)
CSR Xiangfan Motor	CSR Xiangfan Traction Motor Co., Ltd. (中國南車集團襄樊牽引電機有限公司)
CSR ZELRI	CSR Zhuzhou Electric Locomotive Research Institute Co.,Ltd. (南車株洲電力機車研究所有限公司)
CSRG	CSR Group (中國南車集團公司), formerly known as “China South Locomotive and Rolling Stock Industry (Group) Corporation”
Director(s)	the director(s) of the Company
Hong Kong Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
projects funded by the proceeds	investment projects financed by raised proceeds of the Company
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Reporting Period	the 6 months ended 30 June 2010
SAFE	The State Administration of Foreign Exchange (國家外匯管理局)
SASAC	the State-owned Asset Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)

Definitions (Continued)

SFO	the Securities and Futures Ordinance of Chapter 571 of the Laws of Hong Kong
Shanghai Stock Exchange	the Shanghai Stock Exchange (上海證券交易所)
South Huiton	South Huiton Co., Ltd. (南方匯通股份有限公司)
ZTNM or Times New Material	Zhuzhou Times New Material Technology Co., Ltd. (株洲時代新材料科技股份有限公司)