You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our H Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of the risks mentioned in this section. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC, our business is primarily located in China and we are governed by a legal and regulatory environment that may differ from that which prevails in other countries and jurisdictions. For more information concerning China and certain related matters discussed below, see "Regulations", "Appendix V—Summary of Certain Legal and Regulatory Matters" and "Appendix VI—Summary of Articles of Association" in this prospectus for further details.

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterized as: (i) risks relating to our business operations; (ii) risks relating to our industry; (iii) risks relating to the People's Republic of China; and (iv) risks relating to the Global Offering. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial may develop and become material and could also harm our businesses, financial condition and results of operations.

## RISKS RELATING TO OUR BUSINESS OPERATIONS

***Our business and financial performance may be affected by changes in PRC government policies in respect of the rolling stock industry; any decrease in public spending on, or any change in public procurement policies or industry standards relating to rail or urban rapid transit transportation system could impact our business.***

We provide most of our rolling stock products and services in the PRC. The development of China's rolling stock industry is dependent upon the development of major rail and urban rapid transit transportation system. The nature, extent and timing of these projects are, however, determined by a combination of factors, including but not limited to the overall spending on railway infrastructure and urban rapid transit systems in China and approval of new railway construction projects and urban rapid transit systems, over which the PRC government exerts significant influence. In addition, the PRC government also formulates and implements rolling stock industry related policies, plans and other economic measures, such as those relating to technology and safety requirement of rolling stock products, and foreign investment restriction in the rolling stock industry. These industry policies and economic measures may significantly reduce the level of construction activities and capital expenditures in the PRC rolling stock industry, which in turn could have a material and adverse effect on our business and financial performance.

In recent years, the PRC government implemented a systematic upgrade of China's existing transportation infrastructures. Under the 12th Five-Year Plan, the PRC government plans to increase overall investment in transportation infrastructure by implementing measures such as accelerating the development of railway and urban rapid transit systems. Accordingly, it has promulgated a number of laws and regulations to support and encourage the development of the PRC rolling stock industry. The rolling stock industry in the PRC has historically been, and will continue to receive, support from the PRC government. However, PRC government may change its industry policies from time to time by adopting new policies and measures to further regulate this industry due to changes in macroeconomic trends or certain unexpected events. For instance, after the collision accident of two high-speed MUs on the Yongwen railway line in China on 23 July 2011, the maximum operating speed of high-speed MUs in China had been lowered since September 2011 upon request of the State Council, which had an adverse effect on China's development of high-speed rail. As such, there can be no assurance that the specific favorable policies that are currently available will continue to exist. For the years ended 31 December 2011, 2012 and 2013, we generated approximately 79.3%, 72.4% and 70.3% of our revenue from the manufacture and refurbishment of rolling stock products, respectively. Any decrease in public spending on, or any change in the public procurement policies or industrial standards relating to, rail transportation or urban rapid transit systems may have a negative impact on us, and materially and adversely affect our business and financial performance.

***A significant portion of our revenue is derived from our major customers. As such, the loss of one or more of our major customers or changes in their orders may have a material and adverse effect on our business.***

Our customer base is relatively concentrated. Historically, revenue from a few major customers accounted for a significant portion of our revenues. For the years ended 31 December 2011, 2012 and 2013, we generated 62.4%, 56.3% and 58.9% of our revenue from our top five customers, respectively. Revenue from our largest customer, CRC and its affiliated enterprises, amounted to 58.0%, 47.8% and 48.5% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively. Although we constantly seek to expand our customer base, we believe we will continue to rely on a limited number of customers to generate a majority of our revenue due to the nature of our business.

Substantially all China railway lines are operated by CRC and its affiliated enterprises. We generally win purchase orders for our rail vehicle products from CRC and its affiliated enterprises through public bidding processes. However, as our largest customer and the operator of China's rail industry, CRC has a relatively strong influence over the procurement in the PRC railway industry. During the Track Record Period, we did not experience any cancellation of orders from CRC or any of its affiliated enterprises, neither did we experience any change of the contract terms by CRC after we entered into such contracts upon completion of the bidding process. However, if CRC and/or any of its affiliated enterprises materially reduce, revise, delay or cancel their purchase orders with us, we might not be able to obtain replacement orders from other customers on similar terms, in a timely manner, or at all. In addition, if we fail to win CRC's bids to generate a number of purchase orders as expected or enter into contracts with terms that are favorable to us, or at all, our business and financial condition could be adversely affected.

***We may face potential product liability claims or suffer losses due to defective products.***

Due to the nature of our business, we are exposed to the risk of product liability claims that is inherent in the research and development, manufacture, refurbishment and sale of our rolling stock products. Although we provide limited product warranties to our customers, we may be subject to product liabilities caused by defects in our products. We cannot guarantee that we will be able to have our actual or alleged product defects remedied in a timely manner, at reasonable costs, or at all. Moreover, in certain jurisdictions where strict liability is imposed for product defects, we could incur liability if any accident or incident involving our products occurs for reasons for which our Company is not responsible. We may be held liable for any damages or losses incurred in connection with or arising from defective products manufactured by us. If our products are proven to be defective and result in personal injuries, property damage or other losses to our customers, we may be liable to product liability claims under the laws of the PRC or other jurisdictions in which our products are sold or used. In addition, unless otherwise required by our customers, we generally do not carry product liability insurance for our products, or third-party liability insurance for personal injuries. Any such claims may result in costly litigation and may adversely affect our results of operations, financial condition and profitability.

If any of our products is proven to have quality issues, fails to meet the national or industrial standards or has potential risks to the safety of human and properties, we may have to recall such products, be subject to penalties, have our operating licenses or permits revoked, suspend production and sale of our products, or be ordered to take corrective measures. A product recall may also affect our reputation and brand name, result in a decreased demand for our products and lead to stricter scrutiny by regulatory agencies over our operations.

During the Track Record Period, we had a product return on a one-off basis. Due to the occurrence of several delay incidents of our CRH380BL high-speed MUs which were caused by a potential flaw in its automatic safety alarm system, on 11 August 2011 our Company reported this issue to the MOR and voluntarily withdrew 54 CRH380BL high-speed MUs in use on the Beijing-Shanghai high-speed railway. After these high-speed MUs were returned to us, we immediately conducted a thorough internal investigation into the manufacturing, quality control and product evaluation procedures for those products. Upon our rectification of the flaw, completion of an experimental verification process and third-party evaluations and receiving approval of experts, our rectification of such flaw was approved to be effective, and the high-speed MUs in question resumed operation on 16 November 2011. As at the Latest Practicable Date, we had not been subject to any administrative penalties as a result of this product return. We do not expect to be liable for any future legal proceeding in connection with this product return. As at the Latest Practicable Date, we had not encountered return or recall for any other products. See "Business—Quality Control" for more detailed information.

On 3 March 2014, we were informed by KiwiRail Limited ("**KiwiRail**"), a New Zealand based railway company that 40 locomotives supplied by us might contain chrysotile asbestos and the operation of such locomotives was temporarily suspended. Immediately upon receipt of the notification, we conducted a thorough investigation on all our production processes. KiwiRail commissioned an independent institution approved by the New Zealand government to carry out a sampling inspection of such locomotives. The laboratories that undertook the analysis of the samples meet International Standard ISO 17025 and as such are New Zealand Accredited Laboratories as accredited by International Accredited New Zealand. According to the results of the examination, a well-bonded spray on asbestos materials was identified under the roof of the engine room and in the internal linings of the drivers cab of such locomotives. The results of the examination indicated that the asbestos materials had not become airborne, but the asbestos materials identified in the packing materials around hinges of some of the engine room doors were friable and considered an asbestos risk. We worked actively with KiwiRail to investigate and resolve the incident, and arranged our technicians to process or replace the relevant components and parts. As at the Latest Practicable Date, it was anticipated that those locomotives would resume operations progressively, upon completion of the currently on-going processing or replacement and further follow-up inspections. See "Business—Quality Control" for more detailed information. There is no assurance that we will not be subject to litigations, investigations, complaints or disputes with KiwiRail or other third parties in relation to this incident, which may cause material and adverse effect to our business, results of operations and financial condition, and our brand name and image may be adversely affected as well. See also the subsection headed "—We are subject to litigation risks".

We cannot assure you that serious incidents relating to our product quality will not arise in the future. Any claims against us, regardless of their merits, could materially and adversely affect our financial condition. If we recall any of our products or are punished by the competent governmental authorities, our business, financial condition and results of operations, as well as reputation, could be adversely affected.

***Our operation depends on the availability of an adequate supply of raw materials, key components and parts and energy at acceptable prices, in satisfactory quality and in a timely manner.***

Our successful operation depends on our ability to obtain from suppliers sufficient quantities of raw materials, key components and parts and energy at acceptable prices, in satisfactory quality and in a timely manner. We are exposed to the price fluctuations in raw materials, particularly steel, aluminum, copper and other materials that we use to manufacture our rolling stock products, which represent a significant portion of our cost of sales.

We mainly procure components and parts from independent third-party suppliers, including certain overseas suppliers. We do not maintain significant inventories of raw materials and components and parts. As we do not have exclusive contracts with our suppliers, we may not be able to obtain sufficient key components and parts in a timely manner from such suppliers to meet our delivery schedule as agreed with our customers. As a result, if we are unable to purchase the key components and parts from those suppliers upon agreed terms or in a cost-effective manner and if we cannot find alternative suppliers on commercially acceptable terms in a timely manner, we may experience delays in our production and incur substantial costs.

For the years ended 31 December 2011, 2012 and 2013, our raw materials consumed and components and parts purchased from third-party suppliers for rolling stock products accounted for 89.8%, 87.2% and 85.8% of our production costs for rolling stock products before consolidation, respectively. The prices and availabilities of such raw materials and components and parts may vary significantly from period to period due to factors such as consumer demand, supply, market conditions and costs of raw materials. In particular, steel, aluminum and copper, which are the major raw materials required for our operations, may be subject to pricing cyclicality and periodic shortages in China from time to time. In addition, any unavailability of or interruption in electricity could materially and adversely affect our production and business operations.

During the Track Record Period, we did not experience any material shortage of raw materials, key components and parts or energy. However, we cannot assure you that shortages of raw materials, key components and parts and energy will not occur in the future or that we will be able to pass any cost increases in raw materials, key components and parts or energy on to our customers. Any failure to obtain adequate raw materials, key components and parts or energy on commercially acceptable terms, in satisfactory quality or in a timely manner, or at all, could materially and adversely affect our business, results of operations and financial condition.

***Our research and development may not always produce anticipated results and we may not be able to develop new products that meet changing market demand or successfully introduce new products in a timely manner.***

Technology in the rolling stock industry evolves rapidly to meet changing customer needs and demands for faster traveling speeds, higher safety standards and greater hauling capacity. With the upgrading of technologies and increasing innovation of similar products on the market, we are required to continue our product innovation. To maintain our leading position in the rolling stock industry, we will be required, on an ongoing basis, to design and develop new products and/or upgrade existing products that closely follow the technology development trend and customer needs in order to meet the evolving demands of our customers. As such, we have devoted substantial resources to our research and development activities to improve our ability to cater to market needs. For the years ended 31 December 2011, 2012 and 2013, our expenditures on research and development amounted to RMB2,182.8 million, RMB2,589.2 million and RMB2,790.3 million, respectively, or 2.5%, 2.8% and 2.9%, respectively, of our revenues for the same periods. However, we cannot guarantee that our research and development activities will always keep pace with market demand and technological advances or yield the anticipated results. If we encounter delays in technology development, fail to meet changing market demands, underestimate or fail to follow the technological trend, or our competitors respond more quickly than we do, our business or operating results may be materially and adversely affected. Failure to develop and introduce new products in accordance with the rolling stock industry trends on a timely basis or at all could reduce our competitiveness and profitability.

The preference of our key customers for certain types of technologies with respect to rolling stock products may affect our focus on product development and overall profitability. If our customers change preference for products or technologies that we have developed or we are developing, or modify their procurement policies to favor certain types of products that we cannot produce or develop in a timely manner, we may fail to sell our products to such customers and thereby suffer losses or experience reduction or interruption in the production of our relevant products, or disruption of our relevant operations. The occurrence of such events could adversely affect our profitability.

***We face various risks relating to our development of modern service and emerging industry businesses, in particular, those to be conducted on a BT or other similar basis or involving finance leasing.***

We are engaged in the development of modern service and emerging industry businesses, and intend to continue to expand these businesses. Based on our estimates, approximately 26.5% of the net proceeds from the Global Offering will be used for projects relating to our modern service and emerging industry businesses, which include our further development of project management contracting services for urban rail and other related projects, finance leasing business and other businesses. Expansion in the modern service and emerging industry businesses may bring risks, including, for example, risks relating to insufficient operating experience in certain sectors and markets, changes in governmental policies and regulations and other adverse developments affecting such sectors and markets. Expansion may also stretch our capital, personnel and management resources and, as a result, we may fail to manage our growth effectively, incur additional indebtedness and net current liabilities and have negative cash flow in operating activities, which in turn could have a material and adverse effect on our business, results of operations and financial condition. In addition, there may already be established players in these sectors and markets which enjoy significant market shares, and it may be difficult for us to compete with them.

As part of our expansion of modern service and emerging industry businesses, we may continue to engage in BT projects and finance leasing business, both of which are capital intensive and require a high level of capital expenditures. Our engagement in BT projects and finance leasing business may subject us to the following risks:

- *BT projects*. We have developed, and expect to continue to develop, our project management contracting services for urban rail and other related projects through BT projects. The risks associated with BT projects include, among others, the risk that the customer may delay, or even be unable to make, payment upon completion of the project, which would have an adverse impact on our cash flow. In addition, BT and other similar projects have been conducted in China only relatively recently, and the governing laws and policies are new and may change from time to time. We have limited experience in assessing and addressing risks associated with BT and other similar projects. As a result, we may not be able to execute our BT and other similar projects effectively, which could materially and adversely affect our business, results of operations and financial condition.

- *Finance leasing business*. The results of operations of our finance leasing business depend on, among others, the financial strength of our lessees, our ability to appropriately assess the credit risk of our lessees and the ability of lessees to perform under our leases. The ability of our lessees to perform their obligations under our leases will depend primarily on the lessees' financial condition and cash flow, which may be affected by factors outside our control, including the economic condition of the industry in which our lessees operate, availability and cost of financing and the relevant government regulations. In addition, we may not correctly assess the credit risk of each lessee or charge lease rates which correctly reflect the related risk and our lessees may not be able to continue to meet their financial and other obligations under our leases in the future. If a lessee is late in making payments, fails to make payments in full or in part under a lease or has advised us that it will fail to make payments in full or in part under a lease in the future, we may elect or be required to restructure the lease, which could result in our acceptance of less favorable terms or termination of a lease without receiving part or any of the past due amounts.

If we fail to expand our modern service and emerging industry businesses effectively or otherwise as expected, in particular, those to be conducted on a BT or other similar basis or involving finance leasing, or fail to achieve the anticipated results, our business, results of operations and financial condition may be materially and adversely affected.

***If we fail to accurately estimate the overall risks or costs under the contracts with our customers, or the time needed to complete the relevant projects under such contracts, we may experience cost overruns, schedule delays, lower profitability or even losses on projects under such contracts when we execute such contracts.***

We currently generate, and expect to continue to generate, a substantial portion of our revenue from the contracts with our customers which require us to complete a project for a pre-agreed price with a stipulated delivery schedule.

Our estimates of the costs for completing a project are subject to a number of assumptions, including future economic conditions, cost and availability of labor and raw materials, facility utilization rates, and construction and technical standards to be applied to the project. However, these assumptions may prove to be inaccurate. Price fluctuations in raw materials, delays caused by inclement weather, shortage of labor, technical issues as well as other variations and risks inherent in our performance of contracts, may cause our actual costs to differ from our original estimates. Cost overruns can result in a lower-than-expected profit on a project.

Similarly, we may be unable to deliver products or complete projects in accordance with the schedule set forth in the relevant contracts. The manufacture and sales of our rolling stock products involve procurement of components and parts, assembly of components, and, in some cases, transportation of finished products to our customers. Our projects and our manufacture and sales of products can be delayed for a number of reasons, including those relating to market conditions, policies, laws and regulations of the PRC and other relevant jurisdictions, availability of funding, transportation, disputes with business partners, technology and raw materials suppliers, employees, local governments and communities, natural disasters, power and other energy supplies, and availability of technical or human resources.

We cannot guarantee that we will not encounter cost overruns or delays in our current and future delivery of products and completion of projects. If such cost overruns or delays occur, our costs could exceed our budget, and our profits on the relevant contracts may be adversely affected.

***We may experience delays or defaults in accounts receivables by our customers, which may adversely affect our cash flow and working capital, financial condition and results of operations.***

For our products sold to overseas customers, we usually require our customers to pay us an advance equal to 10% to 40% of the total contract value upfront upon confirmation of their orders and we receive the remaining payment upon delivery of our products. For our rail vehicle products, CRC and its affiliated enterprises are generally not required to make any prepayment to us and non-CRC customers of our rail vehicle products typically make prepayments of 50% or 60% of the total contract price with the remaining price to be paid upon our delivery of products. For our credit policies in respect of other products, see "Business—Sales and Marketing—Credit Policy and Collection" and "Business—Sales and Marketing—Overseas Sales".

We bear the risk that customers may delay or even be unable to make payment as scheduled. As at 31 December 2011, 2012 and 2013, the carrying amounts of trade and bills receivables were RMB16,737.9 million, RMB22,715.0 million and RMB31,922.6 million, respectively. The increase in our trade and bills receivables from 31 December 2012 to 31 December 2013 was primarily due to the increase in the number of purchase orders that we delivered in the fourth quarter of 2013 as scheduled. In addition, our trade receivable turnover days increased from 58 days for the year ended 31 December 2011 to 80 days for the year ended 31 December 2012 and further to 106 days for the year ended 31 December 2013. For details, see "Financial Information—Net Current Assets and Liabilities—Trade and Bills Receivables." Delays in receiving payments or non-payment by our customers may put pressure on our cash flow position and our ability to meet our working capital requirements. Furthermore, defaults in payments to us on projects for which we have already incurred significant costs and expenses can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available to fund other projects. As at 31 December 2011, 2012 and 2013, our provision for impairment of trade and bills receivables was RMB314.5 million, RMB446.8 million and RMB1,095.2 million, respectively, representing 1.8%, 1.9% and 3.3% of our trade and bills receivables before impairment, respectively. However, we cannot assure you that such provision may be sufficient in the future. We cannot assure you that payments from customers will be made in a timely manner, or at all, or that delays or defaults in payments will not affect our financial condition and results of operations.

***We are exposed to risks associated with entering into contracts with PRC local governments and their affiliated entities, and our performance may be significantly affected by government spending on urban rapid transit and other related projects.***

Our customers include certain PRC local governments and their affiliated entities, which are primarily relating to our project management contracting services for urban rapid transit and other related projects and our supply of rapid transit vehicles and components to rapid transit operators or project companies in China. To the extent these urban rapid transit or other related projects or procurement of rapid transit vehicles and components are funded by the PRC local governments, they are subject to delays or changes as a result of the changes in the PRC local governments' budgets or for other policy considerations. The PRC local governments' spending on urban rapid transit and other related projects and procurement of rapid transit vehicles and components has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in China's economy and changes in the PRC local governments' policies.

In addition, disputes with governmental entities could potentially lead to contract termination if unresolved or may take a considerably longer period of time to resolve, and payments from the PRC local governments and their affiliated entities may be delayed as a result. They may also from time to time require us to change our service methods, equipment or other performance terms or direct us to reconfigure our services or purchase specific equipment for the relevant projects in connection with our urban rail and other related projects or undertake additional obligations or change other contractual terms, thereby subjecting us to additional costs. Changes in governmental budgets and policies relating to our projects could also result in delays in project completion, adverse changes to such projects or a withholding of, or delay in, payments to us. Government agencies generally exercise significant discretion in the performance of their contracts with us. If a governmental entity or its affiliated entities terminate or fail to renew a contract with us, our backlog could be reduced, our investment plan may be hampered and our business and financial performance may be materially and adversely affected as a result.

***Our backlog may not be indicative of our future results of operations.***

Backlog represents our estimate of the contract value of work that remains to be completed as at a certain date. The contract value of a project represents the amount that we expect to receive under terms of the contract, assuming the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles and may not be indicative of future operating results. For further details, see "Business—Backlog and Inventories." As at 31 December 2013, our aggregate backlog was approximately RMB81.8 billion. However, this figure is based on the assumption that our relevant contracts will be performed in full in accordance with their terms. The termination or modification of any one or more major contracts may have a substantial and immediate effect on our backlog. During the Track Record Period, we did not experience any incident where the material contract amounts reported in our backlog did not result in actual revenue and profits. However, we cannot guarantee that the amount estimated in our backlog will be realized in full, in a timely manner, or at all, or that, even if they are realized, such backlog will result in profits as expected. As a result, you should not rely on our backlog information presented in this prospectus as an indicator of our future earnings.

***Our levels of indebtedness and interest payment obligations, net current liability position and negative cash flow in operating activities may adversely affect our business.***

Historically, we relied upon both short term borrowings and proceeds from issuing bonds to fund certain portions of our capital expenditures and operations, and we expect to continue to do so in the future. As at 31 December 2013, our total borrowings amounted to approximately RMB22,024.4 million and our ratio of total borrowings to total assets was 18.3%. For further details, see "Financial Information—Indebtedness."

We recorded net current liabilities of RMB2,946.5 million, RMB972.6 million and RMB3,274.2 million as at 31 December 2011, 2012 and 2013, respectively. Our net current liabilities were mainly due to trade payables and interest-bearing debts including short term bank borrowings and bonds. For the year ended 31 December 2011, we had negative cash flow in operating activities of RMB2,517.2 million. For details of our net current liabilities and negative cash flow in operating activities during the Track Record Period, see "Financial Information—Liquidity and Capital Resources—Working Capital" and "Financial Information—Liquidity and Capital Resources—Cash Flows".

We may seek additional bank loans to finance our planned capital expenditures and future projects. During the Track Record Period and up to the Latest Practicable Date, we did not experience any liquidity issues in the ordinary course of our business. However, there can be no assurance that we will be able to raise the necessary funds by borrowing from financial institutions and issuing bonds to investors to finance our business, operations and capital expenditures. The level of our indebtedness and the amount of our interest payments could limit our ability to obtain the necessary additional financing or obtain favorable terms for the financing to fund future capital expenditures and working capital. A shortage of such funds could restrict our ability to prepare for growth through organic development or acquisition, or to react to changing market conditions or to implement our strategies. Such limitations on our debt financing could reduce our competitiveness and increase our exposure and sensitivity to adverse economic and industry conditions, which could have an adverse effect on our financial condition and results of operations. Moreover, we may not have sufficient funds to pay off our borrowings upon maturity, and we may not be able to refinance or restructure such borrowings on terms satisfactory to us.

For the years ended 31 December 2011, 2012 and 2013, we paid interest in the amount of RMB843.4 million, RMB1,196.8 million and RMB1,195.0 million, respectively, on our borrowings. Our interest payments may reduce our amount of funds available for working capital, capital expenditures, acquisitions and other business purposes. Our results of operations may also be materially and adversely affected by increases in interest rates. If we are unable to service our debt, such inability could result in an event of default which, if not cured or waived, could have an adverse effect on our business, financial condition and results of operations.

***Any loss of or significant reduction in the preferential tax treatment and government grant we currently enjoy in China or our non-compliance with the relevant PRC tax laws and regulations may negatively affect our financial condition.***

We have benefited from tax incentives and have also received government grants. As at 31 December 2013, 23 of our subsidiaries were recognized as high and new technology enterprises by the PRC government, which entitled each of them to a reduced income tax rate of 15% (compared to the standard income tax rate of 25%). In addition, eight of our subsidiaries were granted a preferential tax status in accordance with China's western region development policies as at 31 December 2013. Our effective income tax rates for the years ended 31 December 2011, 2012 and 2013 were 14.0%, 14.4% and 17.1%, respectively. The qualification as a high and new technology enterprise is subject to annual evaluation and a two-year review by the relevant authorities in China. In order to maintain such qualifications and the preferential tax rates, our subsidiaries shall submit a review application to the relevant Science and Technology Commission agencies. We plan to apply for the extension of this preferential tax treatment before expiration. We do not believe there is any legal impediment for us to extend such qualifications. However, we cannot assure you that our subsidiaries that are currently qualified as high and new technology enterprises will continue to qualify for such status in the future. If our subsidiaries fail to maintain their high and new technology enterprise qualifications or renew these qualifications when the relevant term expires, their applicable income tax rates would increase to 25%, which could have a material adverse effect on our financial condition and results of operations. Moreover, the PRC government could eliminate any of these preferential tax treatments before their scheduled expiration.

In addition, for the years ended 31 December 2011, 2012 and 2013, we received government grants of RMB1,183.9 million, RMB897.4 million and RMB624.1 million, respectively, which included government support for research and development, compensation for demolition and tax rebate. The amounts of and conditions attached to such grants were determined at the sole discretion of the relevant governmental authorities. We cannot assure you that we will be eligible to continue to receive such government grants or that the amount of any such grants will not be reduced in the future, and even if we continue to be eligible to receive such grants, we cannot guarantee that any conditions attached to the grants will be as favorable to us as they have historically been.

Expiration or elimination of, or other adverse changes to, any of these tax incentives, or reduction or discontinuation of these government grants could adversely affect our financial condition and results of operations. In addition, the PRC government from time to time adjusts or changes its policies on value-added tax, business tax and other taxes. Such adjustments or changes, together with any uncertainty resulting therefrom, could have an adverse effect on our business, financial condition and results of operations.

Furthermore, we are subject to periodic examinations on our fulfillment of tax obligation under the PRC tax laws and regulations by PRC tax authorities. Although in the past we have acted in compliance with requirements under the relevant PRC tax laws and regulations in all material aspects and established effective internal control measures in relation to accounting regularities, we cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or actions that could adversely affect our business, financial condition and results of operations as well as our reputation.

***We are subject to risks associated with our international businesses and operations.***

We derived a portion of our revenue from international sales. We currently export our products to over 80 countries and regions outside of the PRC, and our exports of products are subject to changes in economic and political conditions that are beyond our control. We have after-sales service companies and liaison offices in places such as Brazil and Australia. For the years ended 31 December 2011, 2012 and 2013, our revenue generated from overseas sales amounted to RMB6,271.5 million, RMB9,630.5 million and RMB7,576.2 million, respectively, representing 7.1%, 10.5% and 7.8% of our revenue for the same periods, respectively. We expect that a portion of our revenue and profits will continue to be derived from our sales of products in overseas markets in the foreseeable future, as a result of which we are exposed to various risks associated with conducting business in foreign countries and regions, including:

- compliance with foreign laws, regulatory requirements and local industry standards, in particular, those related to the sale of rolling stock products;
- exposure to litigation risks outside China;
- political and economic instabilities;
- high entry barriers in certain developed foreign markets;
- foreign exchange rate exposure;
- unfamiliarity with local operating and market conditions;
- cultural and language difficulties;
- trade restrictions, technology barriers, protectionism and economic sanctions;
- competitions from other international large-scale rolling stock manufacturing companies;
- local practices on contract bidding and payments;
- difficulties with staffing and managing overseas operations after localization, including managing an increasing number of employees on a global scale and applying with various labor regulatory requirements of different jurisdictions;
- stringent environment, safety and labor standards; and
- managing relationships with and collecting payments from foreign customers.

Any of the foregoing and related risks and uncertainties could adversely affect our international operations and result in reduced revenue from our international operations and sales, which in turn could adversely affect our financial condition and results of operations.

***We could be adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the U.S. government, the UNSC, the E.U. and other relevant sanctions authorities.***

The U.S. and other jurisdictions, including the E.U., Australia and the U.N., have comprehensive or broad economic sanctions targeting certain countries, including Cuba, Sudan, Iran, Syria, Myanmar, Iraq, Liberia, Zimbabwe and North Korea (collectively, the "**Sanctioned Countries**"). For details of the relevant sanctions laws, see "Regulations—Descriptions of Sanctions Laws". During the Track Record Period, we had certain operations in certain of the Sanctioned Countries, including Iran, Cuba, Sudan, Myanmar, Iraq, Liberia and Zimbabwe, and our revenue derived therefrom in aggregate accounted for approximately 2.12%, 1.00% and 0.58%, respectively, of our revenue for the years ended 31 December 2011, 2012 and 2013. In 2004, our subsidiary, CNR Changchun formed a joint venture, Tehran Wagon Manufacturing Co. ("**TWM**"), with other parties in Tehran, Iran, to engage in the manufacture of car bodies for passenger coaches and assembly of passenger coaches and metro cars and related services. We, through CNR Changchun, hold a 20% equity interest in TWM. We are not involved in the operation of TWM and we do not have any control of the decision making process of TWM. In addition, CNR Changchun has a representative office in

Iran. We also entered into contracts to export some of our products to Iran and other Sanctioned Countries. For details of the business operations in the Sanctioned Countries, see "Business—Operations in the Sanctioned Countries". In relation to those contracts, we have not been notified that any sanctions will be imposed on us. Except for a government owned railway entity in Sudan that is on the SDN list maintained by the OFAC, none of the counterparties of these contracts or the parties to the joint venture in Iran are specifically identified on the OFAC list of Specially Designated Nationals and Blocked Entities ("**SDN**") or other restricted parties lists maintained by the U.S., the E.U., Australia and the U.N. In addition, the export activities under these contracts and activities of CNR Changchun as a joint venture partner in TWM and activities related to passenger coaches and rapid transit vehicles through CNR Changchun's representative office in Iran do not involve industries or sectors that are currently subject to sector-specific U.S., the E.U., Australia or the U.N. sanctions.

We undertake to the Hong Kong Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Hong Kong Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Country or any other government, individual or entity sanctioned by the U.S., the E.U., Australia, the U.N. or Hong Kong, including, without limitation, any government, individual or entity that is the subject of any OFAC sanctions. We also undertake to the Hong Kong Stock Exchange that we will not enter into sanctionable transactions that would expose us or the Relevant Persons to risks of being sanctioned. If we breach any of these undertakings to the Hong Kong Stock Exchange after the Listing, it is possible that the Hong Kong Stock Exchange may delist our H Shares. In order to ensure our compliance with these undertakings to the Hong Kong Stock Exchange, we will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. For details of our internal control procedures, see "Business—Operations in the Sanctioned Countries—Our Undertakings and Internal Control Procedures".

As a company incorporated and based in China, we will comply with all PRC laws and applicable laws in the jurisdictions where we have operations. We will also seek to avoid our transactions in relation to the Sanctioned Countries to be subject to sanctions under the laws of the U.S., the E.U., Australia, the U.N. or Hong Kong. However, to the extent such sanctions are imposed on our Company, our business and Shareholders' interests could be impacted.

We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the E.U., Australia, the U.N. and other applicable jurisdictions with respect to any current or future activities by us or our affiliates in the Sanctioned Countries. We have no present intention to undertake any future business that would cause us, the Hong Kong Stock Exchange, HKSCC, HKSCC Nominees, or our Shareholders or investors to violate or become a target of sanctions laws of the U.S., the E.U., Australia, the U.N. or Hong Kong. However, we can provide no assurances that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the U.S. authorities or the authorities of any other government that do not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the government of the U.S., the E.U., the UNSC or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Company. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. Over the past few years, the U.S. and the E.U. have significantly increased the scope of their Iran sanctions, many of which now have direct extraterritorial effect. Although we believe that our business operations currently do not involve industries or sectors that are subject to extraterritorial Iran sanctions, there is a possibility that the U.S. government, the E.U. or other jurisdictions may introduce more severe sanctions in relation to Iran should the current on-going negotiation efforts with the government of Iran on nuclear issues fail, in which case, the current sanctions laws and regulations may be expanded to cover industries or sectors that we are involved in. In such case, our business and Shareholders' interests could be impacted. In addition, certain U.S. state and local governments and universities have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain Sanctioned Countries. As a result, concern about potential legal or reputational risk associated with our historical and on-going operations in the Sanctioned Countries could also reduce the marketability of the Offer Shares to particular investors, which could affect the price of our Offer Shares and Shareholders' interests in us, despite our commitment not to direct the proceeds from the Global Offering to dealings with sanctioned parties. In addition, international financial sanctions in effect against Iran may adversely affect our ability to receive payment for export made to Iran. Before investing in our Shares, you should consider if such investment would expose you to any of the U.S., the E.U. or other sanctions law risk arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

***We are subject to litigation risks.***

In our ordinary course of business, we may be involved in litigations with our customers or suppliers from time to time. Claims may be brought against us for alleged defective or incomplete work, liabilities for defective products, delayed delivery of goods and services, personal injuries and deaths, breaches of warranty, delayed payments to our suppliers, labor disputes or late completion of projects or other contracts. If we were found to be liable on any of the claims, we would have to incur additional costs. Both claims brought against us and by us, if not resolved through negotiation, may be subject to lengthy and expensive litigation or arbitration proceedings. Charges associated with claims brought against us and write-downs associated with claims brought by us could have a material adverse impact on our financial condition, results of operations and cash flow. Moreover, legal proceedings resulting in judgments or findings against us may harm our reputation and damage our prospects for future contract awards.

***We may not be able to detect and prevent fraud or other misconduct which may be committed by our employees or third parties.***

Fraud and other misconduct which may be committed by our employees or third parties can be difficult to prevent or deter despite our internal control and corporate governance practices. Such illegal actions could subject us to financial losses and harm our business and operations. In addition to potential financial losses, improper acts of our employees or third parties could subject us to third-party claims and regulatory investigations. Any fraud or other misconduct committed by our employees or third parties could have an adverse effect on our reputation, business, financial condition and results of operations.

***Insurance coverage for our business, products and properties may not be sufficient.***

We purchase and maintain insurance policies in accordance with the needs of our business. However, we cannot guarantee that our insurance policies will provide adequate coverage should we face extraordinary occurrences that result in losses. We do not carry any insurance for business interruption or loss of profit arising from accidents at any of our manufacturing facilities or other disruptions of our operations such as demonstrations and protests by residents living in close proximity to our facilities. In addition, unless otherwise required by our customers, we do not carry product liability insurance for any of our products. We may not obtain certain insurance coverage or may experience difficulties in obtaining the insurance coverage we need, which could negatively affect our business, financial condition and results of operations.

Accidents or natural disasters may also result in significant property damage, disruption of our operations and personal injuries or fatalities, and our insurance coverage may be inadequate to cover such losses. In the event of an uninsured loss or a loss in excess of our insured limits, we could suffer damage to our reputation and/or lose all or a portion of our production capacity as well as future revenues expected to be generated by the relevant facilities. Any material loss not covered by our insurance could adversely affect our business, financial condition and results of operations.

***We are subject to environmental regulations and may be exposed to potential costs for environmental compliance. Our failure to comply with environmental regulations may subject us to penalties.***

Our operations are subject to environmental laws and regulations relating to, among others, gas and water emissions, hazardous substances and waste management. We must obtain clearances and authorizations from governmental authorities for the treatment and disposal of any discharge. In addition, the construction and operation of our production facilities may have an impact on the environment. We cannot assure you that our facilities and equipment will maintain a condition that continuously meets at all times all the standards under applicable environmental laws and regulations. Any violation of these laws and regulations may result in substantial fines, revocations of operating permits, shutdown of our facilities and obligations to take corrective measures. For instance, in December 2012, our subsidiary CNR Beijing Feb. 7th was found by the relevant local governmental authority for discharging waste exceeding the limits and was imposed a fine of RMB0.02 million. The waste discharging issue has been duly corrected as at the Latest Practicable Date. See "Business—Environmental Protection" for further details.

Moreover, the PRC government may take steps towards the adoption of more stringent environmental regulations. Due to the possibility of unanticipated regulatory or other developments, the amount and timing of environmental expenditures may vary substantially from those originally anticipated. If there is any change in the environmental regulations, we may need to incur substantial capital expenditures to comply with environmental protection laws and regulations, including the costs of installing, replacing or upgrading our equipment related to pollution control and the costs of operational changes to limit any adverse impact of our operations on the environment.

Any limitations or costs incurred as a result of our non-compliance with environmental laws and regulations may have an adverse effect on our business, financial condition and results of operations.

***Our operations require certain permits, licenses, approvals and certificates, the revocation, cancellation or non-renewal of which could significantly hinder our business and operations, and we are subject to periodic inspections, examinations, inquiries and audits by regulatory authorities.***

We are required to obtain and maintain valid permits, licenses, certificates and approvals from various governmental authorities or institutions under relevant laws and regulations for some of our businesses, including without limitation, our manufacturing and refurbishment operations of high-speed MUs, locomotives, passenger coaches, freight wagons and rapid transit vehicles, and our finance leasing business. We must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain our permits, licenses, approvals and certificates. For our licenses and permits, see "Business—Licenses and Permits". If we fail to comply with any of the regulations or satisfy any of the conditions required for the maintenance of our permits, licenses, approvals and certificates, our permits, licenses, approvals and certificates could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely impact our business, financial condition and results of operations.

In order to ensure our compliance with the restrictions and conditions required for maintaining our permits, licenses, approvals and certificates, the PRC governmental authorities at various levels conduct routine or special inspections, examinations, inquires and audits on us. We may be subject to suspension or revocation of the relevant permits, licenses, approvals or certificates, or fines or other penalties due to any non-compliance identified as a result of such inspections, examinations, inquiries and audits. During the Track Record Period and up to the Latest Practicable Date, we did not experience any revocation or cancellation of our permits, licenses, approvals and certificates. We cannot assure you that we will be able to maintain or renew our existing permits, licenses, approvals and certificates or obtain future permits, licenses, approvals and certificates required for our continued operation on a timely basis or at all. In the event that we fail to comply with applicable laws and regulations or fail to maintain, renew or obtain the necessary permits, licenses, approvals or certificates, our qualification to conduct our various businesses may be adversely impacted.

***We may not be able to adequately protect our intellectual property rights, which could reduce our competiveness, and may face claims for improperly using intellectual property owned by others or otherwise infringing their rights in intellectual property, which could damage our reputation or adversely affect our financial condition and profitability.***

We rely on a combination of patents, trademark registrations, non-competition and trade secret laws and confidentiality agreements with our employees to protect our intellectual property rights. As at the Latest Practicable Date, we had 173 registered trademarks, 3,352 registered patents, and 1,061 pending patents applications in the PRC. We also had 236 registered trademarks in the U.S., Australia, Canada, Japan, Brazil and the E.U., and had 37 registered patents and 67 pending patents applications overseas. Further, we own other intellectual properties such as non-registered trade secrets, and proprietary technologies, procedures and processes. See "Business—Intellectual Properties" in this prospectus for further details. We cannot assure you that the measures that we have taken will be sufficient to prevent any misappropriation of our intellectual property or that our competitors will not independently develop, or obtain through licensing, alternative technologies that are substantially equivalent or superior to ours. Furthermore, we cannot assure that all our registration applications will be successful, or our registered intellectual property rights will not be subject to any objection. In the event that the steps we have taken and the protection afforded by law do not adequately safeguard our intellectual property rights, or we are not able to register or defend our intellectual property rights, or our competitors may exploit our intellectual property in the manufacture and sale of competing products in the markets we operate, which could materially and adversely affect our business.

We could also face claims by others that we are improperly using intellectual property owned by them or otherwise infringing their rights in intellectual property. Irrespective of the validity or the successful assertion of such claims, we could incur costs in either defending or settling any intellectual property disputes alleging infringement. Adverse rulings in any litigation or proceeding could result in the loss of our proprietary rights and subject us to significant liabilities or even business disruption. Any potential intellectual property litigation against us could also force us to, among other things, cease selling the challenged products, develop non-infringing alternatives or obtain licenses from owner of the infringed intellectual property. We may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could damage our reputation and affect our financial condition and profitability.

***Loss of our directors, senior management executives, senior technicians and employees with expertise could adversely affect our business and prospects.***

The growth of our business operations depends on the continuous service of our directors and senior management executives. Their relevant details are set out in "Directors, Supervisors and Senior Management" of this prospectus. We will require an increasing number of experienced and competent senior management executives in the future to implement our growth plans. If one or more of our directors and senior management executives were unable or unwilling to continue in their present positions, we might not be able to replace them easily, or at all, and our business, financial condition and results of operations may be materially and adversely affected.

Our future success also depends, to a significant extent, on, among other things, our ability to attract and retain a large number of qualified, highly skilled and experienced research and development personnel, designers, engineers as well as other skilled employees with industry related experience and expertise. Our research and development team with expertise in rolling stock products and related components is critical to our technology development. Our senior technicians and quality control team are also essential to ensure sufficient supply and high quality of our products. Our ability to attract and retain key personnel is a critical aspect of our competitiveness. However, competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating expenses and in turn materially and adversely affect our financial condition and results of operations.

***The interest of our largest Shareholder may differ from those of other Shareholders, which may adversely affect our business and financial condition.***

Upon completion of the Global Offering, our largest shareholder, CNRG, will directly and indirectly hold 55.28% of our Company's issued share capital, assuming the Over-allotment Option is not exercised. As the Controlling Shareholder and pursuant to our Company's Articles of Association, it will be able to influence our significant operational and financial decisions (including dividend plans and investment decisions) that require a vote by our Shareholders. In addition, CNRG will be able to influence the composition of our Board of Directors, will have the power to indirectly influence the selection of our senior management and will have influence over the management of our Company through its representatives on our Board of Directors. It is possible that differences in opinion may arise between CNRG and our remaining Shareholders from time to time. We cannot guarantee that the influence CNRG has on our Company is in the best interests of our remaining Shareholders.

***Our operations are subject to operational hazards, adverse weather conditions, natural disasters and occupational hazards.***

Some of our manufacturing facilities, raw materials and certain finished products may be potentially destructive and dangerous under uncontrollable or catastrophic circumstances, including operational hazards, fires and explosions as well as adverse weather conditions and natural disasters such as snowstorms, typhoons, landslides floods, earthquakes and major equipment failures, for which we cannot obtain insurance at a reasonable cost, or at all, or have enough insurance coverage. Our operations are also subject to a number of operational risks, some of which may be beyond our control. These operational risks include unexpected machinery maintenance and critical equipment failures, which may occur from time to time to machinery and equipment that are essential to our operations. Should we experience machinery and equipment damage or failure and if we are unable to make the necessary repairs or replacements in a timely manner, our operations may be temporarily disrupted or suspended, which would lead to an increase in our labor costs or result in property damage, or affect our results of operation.

In addition, we may incur significant losses or costs relating to the transportation of our rolling stock products by ocean-going vessels. These vessels and their shipments are subject to risks relating to maritime operations, including capsizing, grounding, collision and loss or damage from severe weather or storms. Due to the potentially destructive and dangerous nature of cargo shipped on ocean-going vessels, maritime transportation may result in catastrophic incidents, including fires, explosions and severe pollution. Such events may result in severe damage and injury to property, the environment and human beings, which may in turn materially adversely affect our financial condition and results of operations. In addition, late delivery of our products resulting from such event may subject us to damages if we did not carry insurance for such late delivery.

Moreover, we operate in an industry that involves occupational hazards. We may experience difficulties in operations as a result of factors including, but not limited to, adverse weather conditions, and failure of employees to follow proper safety procedures when using large-scale machinery. During the Track Record Period, we experienced two work-related fatalities, both of which were caused by the relevant employees' improper operation of machinery equipment in violation of our safety procedures. For further details of these incidents, see "Business—Occupational Health and Safety".

***We have not obtained valid title certificates for some of the properties and land that we own and occupy.***

For some of the properties we occupy in the PRC, we, or our landlords, have not yet obtained sufficient title certificates that allow us to freely use or transfer the properties that we occupy or lease. For example, with respect to our owned buildings, as at the Latest Practicable Date, we had 191 buildings with an aggregate gross floor area of approximately 275,230 sq.m., for which we have not yet obtained proper building ownership certificates. These properties are used for industrial purposes. We are also in the process of applying for the land use right certificates for 12 parcels of land with an aggregate site area of approximately 2,728,784 sq.m. See "Business—Properties" for more information. We cannot predict how our rights as owner, lessee or occupier of these properties and our business operations and financial condition may be materially and adversely affected as a result of the absence of legal title to these properties or rights to lease these properties. We cannot assure you that ownership disputes or claims will not occur or that third parties will not assert any claims against us for compensation in respect of any illegal and/or unauthorized use of their land.

## RISKS RELATING TO OUR INDUSTRY

***The cyclical nature of our industry may expose us to fluctuations of our financial condition and results of operations.***

We operate in a cyclical industry that is sensitive to general economic conditions in China and aboard. Rapid growth in China's economy and urban population could lead to an increased demand for railway and rapid transit transportation, which could in turn foster demand for the manufacture and refurbishment of rolling stock products. Changes in market supply and demand could also have a substantial effect on our product prices, business, revenue and financial condition. Macroeconomic conditions, cyclical trends in end-user markets, supply and demand imbalances, policies of the PRC government and other factors beyond our control, including export policies, value-added tax and export taxes could have a major impact on our market share, and the demand for and prices of our products. Increased demand for rolling stock, particularly rapid transit vehicles, higher capacity utilization and increased operating margins may result in a larger amount of new investments and increased production in the overall industry until supply exceeds demand, which is subsequently followed by periods of declining prices and declining utilization rates of capacity, and the cycle repeats. Any of these cyclical factors may adversely impact our business, financial condition and results of operations and prospects.

We have successfully expanded our sales into the international market, particularly, in recent years, to some developed countries. The overall global economic slowdown and financial crisis may result in a decreased demand for our manufacturing and refurbishment of rolling stock products in the international market. Moreover, the slowdown of global market and economic conditions may negatively impact the ability of our international customers to obtain financing, which may lead to their unwillingness to purchase our products. Therefore, the general demand of our products and their selling price would decline. Any adverse changes in the global market and economic conditions and any slowdown or recession of the global economy could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***The rolling stock industry in the PRC is continuously evolving and has uncertainties, and any negative development in the PRC rolling stock industry may have an adverse effect on our business operations.***

The rolling stock industry in the PRC has been continuously evolving in recent years, and may continue to evolve in the future, which is driven by a number of factors such as the reforms initiated by the PRC government, the urbanization trend in China and the macroeconomic policies and conditions in China and other countries. In particular, the PRC government's administration of the PRC rolling stock industry is still in a transition period following the establishment of CRC and NRA to separate the regulatory functions of the government authorities from the management of operating enterprises in this industry, and the PRC government may still exert significant influence on the development of this industry by implementing industry policies and other economic measures. In recent years, there have been a number of publicized cases involving corruption or other misconduct by senior government officials in the PRC rolling stock industry. Such negative publicity may lead to a slowdown of the overall development and negative reputation of the PRC rolling stock industry. During the Track Record Period, the publicized cases involving corruption or other misconduct of senior government officials in the PRC rolling stock industry did not have any material adverse effect on our business operations, nor were we aware of any corruption or other material misconduct of our employees. However, bribery and other misconduct by employees may be difficult to detect and deter. Although we have established an anti-corruption internal control system, we may not be able to detect or deter corruption or other misconduct of our employees on a timely basis, or at all, and any failure to do so could subject us to litigation or harm our reputation. In addition, the precautions we take to detect and prevent these activities may not be effective in all cases. We cannot assure you that there will be no future negative publicity in the PRC rolling stock industry, or any employee misconduct, whether involving past acts that have been undetected or future acts, will not have a material adverse on our business, results of operations and financial condition.

***Increased competition from foreign and PRC domestic competitors within the PRC rolling stock industry could negatively impact our market share in such industry.***

Although we are currently one of only two leading rolling stock manufacturers in China, we face intense competition due to the limited number of domestic customers in the long term. If the relevant authorities change the industry entry barriers and regulations for the rolling stock industry, we may face even more intense competition from current players and new entrants in the rolling stock industry. Moreover, we may also encounter intensified competition from domestic competitors in the rapid transit vehicle manufacturing and maintenance sector. We cannot assure that we will continue to maintain our leading position in the PRC rolling stock industry.

In addition, in recent years, the PRC government has continued to implement certain policies to allow foreign players to enter the PRC rolling stock industry. For example, foreign-invested companies are encouraged to participate in railway transportation equipment projects by way of consortiums with PRC domestic players. These foreign companies may merge or form joint ventures with our PRC domestic competitors or with other foreign competitors, which could potentially decrease our PRC domestic market share and/or reduce our profitability.

***We may be adversely affected by competition from other modes of transportation in China.***

The five main transportation modes for passenger and freight transportation in China are aviation, railway, road, waterway and pipeline. In China, passengers mainly rely on railway and road networks to travel; freight is transported mostly on railway, road and waterway networks; and liquids and gases are usually delivered through pipelines. In the event that changes occur to passenger and freight transportation traffic patterns that lead to reduced overall volumes on railways, our business, financial condition and results of operations could be adversely affected. In addition, the demand for our rolling stock products may be reduced if there are unexpected events, such as terrorist attacks, environmental and other safety concerns, which would result in the decreased use of railway or rapid transit systems.

## RISKS RELATING TO THE PRC

***Economic, political and social conditions in the PRC, as well as government policies, could affect our business, financial condition, results of operations and prospects.***

Substantially all of our business and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects are affected by the economic, political and legal developments in the PRC. In particular, the PRC government continues to exercise significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in reforming the economy. These economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall economy of the PRC, but may have an adverse effect on us.

China has been one of the world's fastest growing economies as measured by GDP in recent years. However, China may not be able to sustain such a growth rate. In an effort to continue the growth of the Chinese economy, the PRC government has implemented and may continue to implement various monetary and other economic measures to expand investments in infrastructure projects, increase liquidity in the credit markets and encourage employment. However, there is no assurance that such monetary and economic measures will succeed. If the Chinese economy experiences a slowdown or even a recession, we may experience a delay or reduction in, or cancellation of, projects available to us and demand for the services and products we provide in our various business segments may grow at a lower-than-expected rate or otherwise decrease. Furthermore, we cannot assure you that we are able to make timely adjustments to our business and operational strategies so as to capture and benefit from the potential business opportunities presented to us as a result of the changes in the economic and other policies of the PRC government. Also, the PRC Government will continue to make adjustments to its economic policy objectives and measures in the future, which may include or result in a significant reduction in its budget for investments in infrastructure and other projects. This could have an adverse effect on our business and operations. Moreover, unfavorable financing and other economic conditions for the industries that we serve could negatively impact our customers and their ability or willingness to fund capital expenditures in the future or pay for past services.

***The PRC's legal system is still evolving, there exist uncertainties as to the interpretation and enforcement of PRC laws, and PRC laws are different from those of common law countries.***

Our Company is incorporated under the laws of the PRC and most of our activities are conducted in the PRC, hence our business operations are regulated primarily by PRC laws and regulations. PRC laws and regulations are based on written statutes, and past court judgments may be cited only for reference. Since 1979, the PRC government has been committed to developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing economic matters, such as in foreign investment, company organization and management, business, tax and trade. However, as these laws and regulations are still evolving, and because of the limited number and non-binding nature of published cases, there exist uncertainties about their interpretation and enforcement.

In addition, the PRC Company Law is different in certain important respects from company laws in common law countries or territories such as Hong Kong and the United States, particularly with regard to investor protection, including areas such as derivative actions by shareholders and other measures protecting non-controlling shareholders, restrictions on directors, disclosure obligations, variations of class rights, procedures at general meetings and payments of dividends. Protection for investors under the PRC Company Law is increased, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the Hong Kong Listing Rules with a view to reducing the scope of differences between the company laws of Hong Kong and the PRC. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying to be listed in Hong Kong. The Articles of Association have incorporated the provisions in the Mandatory Provisions and the Hong Kong Listing Rules. Despite the incorporation of those provisions, there is no assurance that you will enjoy an equal level of protection that you may be entitled to when investing in companies incorporated in common-law jurisdictions.

***Government control over the conversion of foreign exchange may affect our results of operations and financial condition, value of the investment in shares and our ability to pay dividends.***

The Renminbi is not currently a freely convertible currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. As our operations are primarily conducted in the PRC and substantially all of our revenue is denominated in RMB, fluctuations in the RMB exchange rate against other currencies did not have a material impact on our results of operations during the Track Record Period. However, as we expand our international customer base, our overseas income and expenditures may increase, so we anticipate our exposure to fluctuations in foreign exchange will increase. Pursuant to existing foreign exchange regulations in the PRC, we are allowed to carry out current account foreign exchange transactions (including dividend payouts) without submitting the certifying documents of such transactions to SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account purposes, including direct overseas investment and various international loans, may require the prior approval or registration with SAFE. If we fail to obtain SAFE's approval to convert RMB into foreign currencies for such purposes, our capital expenditure plans, business operations and subsequently our results of operations and financial condition could be materially and adversely affected.

***We face foreign exchange and conversion risks, and fluctuation in the value of the RMB may have a material and adverse effect on our business and your investment.***

The exchange rate between the RMB and the U.S. dollar and other currencies may fluctuate from time to time and be affected by, among other things, changes in China's political and economic environment. Presently, the RMB is no longer only pegged to the U.S. dollar, but is subject to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. We cannot predict how the RMB will fluctuate in the future. We face foreign exchange and conversion risks primarily through sales and procurement that are denominated in currencies other than the RMB. If the exchange rate of the RMB against other related foreign currencies were to appreciate, our export prices would increase, and the competitiveness of our products in comparison with products manufactured in other countries would decrease. On the other hand, if the exchange rate of the RMB against other related currencies were to depreciate, the price of our imported parts and components when converted into RMB would increase, which may have a material and adverse effect on us. Moreover, we will need to convert part of the proceeds denominated in foreign currencies from the Global Offering into RMB. The fluctuation in the exchange rate between the RMB and Hong Kong dollar and other currencies may have a material and adverse effect on our business, results of operations and financial condition, and thus your investment.

***It may be difficult to enforce judgments rendered by courts other than PRC courts against us or the Directors, Supervisors or senior management residing in China.***

Except for Mr. Sun Patrick (辛定華), all of our Directors, Supervisors and senior management members reside within the PRC, and substantially all of our assets and the assets of our Directors, Supervisors and senior management members are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the

United States, the United Kingdom, Japan and many other countries. As such, it may not be possible for investors to serve summons upon us or those persons in the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts. In addition, recognition and enforcement in the PRC of judgments of a court of any other jurisdiction in relation to any matter not subject to a binding arbitration provision may not be possible.

The Articles of Association and the Hong Kong Listing Rules provide that disputes or claims for rights between holders of the H Shares and us, our Directors, Supervisors, senior management or holders of the A Shares, arising out of the rights and obligations provided in the Articles of Association, the PRC Company Law and the related laws and regulations and in relation to affairs of our Company, are to be resolved through arbitration in Hong Kong or the PRC, rather than by a court of law, except for disputes associated with the definition of shareholders or register of shareholders. Under the current arrangements for reciprocal enforcement of arbitral awards between the PRC and Hong Kong, awards made by PRC arbitral authorities, which are recognized under the Arbitration Ordinance of Hong Kong, can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC.

***Foreign individual holders of our H Shares may become subject to PRC income tax and the PRC tax obligations of foreign enterprises that are holders of our H Shares remain uncertain.***

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H Shares. Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China's Individual Income Tax Law. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations. Generally, a tax rate of 10% shall apply to the dividends paid by our Company to foreign individuals without application to the applicable treaties. When a tax rate of 10% is not applicable, the withholding company shall (i) return the excessive tax amount if the applicable tax rate is lower than 10%, (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in China, or have establishments or premises in China but their income is not related to such establishments or premises, under China's EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders which are Overseas Non-resident Enterprises issued by the State Administration of Taxation, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

As China's EIT Law came into effect on 1 January 2008 and its implementation rules are relatively new, there remains significant uncertainty as to their interpretation and application by China's tax authorities, including the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends to non-PRC resident individual holders of H Shares and on gains realized on the sale or other disposition of H Shares. China's tax laws, rules and regulations may also change. If there is any change to applicable tax laws and interpretation or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

***Payment of dividends is subject to restrictions under PRC law.***

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

## RISKS RELATING TO THE GLOBAL OFFERING

***Characteristics of the A share and H share markets may differ.***

Our A Shares have been listed and traded on the Shanghai Stock Exchange since 29 December 2009. Following the Global Offering, our A Shares will continue to be traded on the Shanghai Stock Exchange, and our H Shares will be traded on the Hong Kong Stock Exchange. Without approval from the relevant regulatory authorities, our A Shares and H Shares are neither interchangeable nor fungible, and there is no trading or settlement between the A share and the H share markets. See the subsection headed "—The conversion of A Shares to H Shares and transferred to NSSF could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future" for further details. The A share and H share markets have different trading characteristics, including trading volume and liquidity, and investor bases including different levels of participation of retail and institutional investors. As a result of these differences, the trading prices of our A Shares and H Shares may not be the same. Moreover, fluctuations in our A Share price may affect our H Share price and vice versa. Because of the different characteristics of the A share and H share markets, the historical prices of our A Shares may not be indicative of the performance of our H Shares. Furthermore, on 10 April 2014, CSRC and SFC approved, in principle, the development of a pilot program ("**Shanghai-Hong Kong Stock Interconnection**") for establishing mutual stock access between Mainland China and Hong Kong. Upon the approval of the implementation of such plan, eligible investors in China and Hong Kong are approved to trade eligible securities listed on the other markets through local securities firms or brokers in a limited amount by Shanghai Stock Exchange and Hong Kong Stock Exchange. We are not sure to what extent the implementation of the pilot program of Shanghai-Hong Kong Stock Interconnection may impact the trading prices of our A Shares and H Shares. You should therefore not place undue reliance on the historical performance of our A Shares when evaluating an investment in our H Shares.

***The conversion of A Shares to H Shares and transferred to NSSF could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future.***

Conversion of a substantial number of our A Shares to H Shares, or market anticipation that such conversion may occur, could materially and adversely affect the price of our H Shares. Assuming the Over-allotment Option is not exercised, 182,120,000 A Shares will be converted into H Shares and transferred to the NSSF in connection with the Global Offering. The NSSF has not entered into any lock up agreement with us or the Underwriters and would be free to sell the H Shares any time after the Global Offering. This may materially and adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a time and at a price favorable to us.

***As the Offer Price of our H Shares is higher than the net tangible asset value per share, you will experience immediate dilution.***

The Offer Price of our H Shares is higher than the net tangible asset value per share of the outstanding Shares issued to our existing Shareholders. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in the net tangible asset value to HK$4.34 per Share (assuming an Offer Price of HK$5.60 per H Share, being the mid-point of our indicative Offer Price range, and assuming the Over-allotment Option is not exercised), and the pro forma adjusted consolidated net tangible asset value per share of the Shares held by our existing Shareholders will increase. If, in order to expand our business in the future, we issue additional H Shares at a price below the net tangible asset value per share, the net tangible asset value per share of our H Shares held by the buyers of our H Shares may be diluted. As at the Latest Practicable Date, the share price of our A Shares was RMB4.49 per A Share.

***The sales or potential sales of substantial amounts of our H Shares in the public market (including any future offering) may affect the prevailing market price of our H Shares and our ability to raise capital in the future, and future additional issuance of securities may dilute your shareholdings.***

The sales of substantial amounts of our H Shares or other securities related to our H Shares in the public market, or the issuance of new H Shares or other securities, or the market anticipation that such sales or issuance may occur, may cause fluctuations in the market price of our H Shares, and may materially and adversely affect our ability to raise capital at a time and at a price as we see fit in the future. Furthermore, if we issue additional securities in future offerings, the shareholdings of the Shareholders may be diluted.

***There will be a time gap of several business days between pricing and trading of our H Shares offered under the Global Offering.***

The Offer Price of our H Shares sold to the public under the Global Offering will be determined on the Price Determination Date. However, trading of our H Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several business days after the Price Determination Date. As a result, investors of our H shares may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares may be subject to the risk that our H Share trading price could fall before trading begins as a result of adverse market conditions or other unfavorable circumstances that may arise during the period between the Price Determination Date and the date on which the dealing begins.

***There has been no prior public market for our H Shares, and the liquidity, market price and trading volume of the H Shares may be volatile.***

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price range for our H Shares was the result of negotiations among us and the Joint Global Coordinators, and such Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to the Hong Kong Stock Exchange for the listing of, and the permission to deal in, our H Shares. However, there is no assurance that the Global Offering will result in the development of an active and liquid public trading market for our H Shares. The market price, liquidity and trading volume of our H Shares may be volatile. Factors such as the following may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of additional H Shares by us or other Shareholders; and
- fluctuation in the price and trading volumes of our A Shares on the Shanghai Stock Exchange.

In addition, H shares of other PRC issuers listed on the Hong Kong Stock Exchange have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in price not directly related to our performance.

***There can be no assurance if and when we will pay dividends in the future; dividends declared in the past may not be indicative of our dividend policy in the future.***

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association, the PRC Company Law and any other applicable PRC law and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See "Financial Information—Dividend Policy" for more details of our dividend policy. In addition, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

***We cannot guarantee the accuracy of official government facts, forecasts and other statistics with respect to China, the Chinese economy and China's rolling stock industry contained in this prospectus.***

Official government facts, forecasts and other statistics in this prospectus relating to China, the Chinese economy and China's rolling stock industry have been derived from official government publications. We believe that the sources of such information are appropriate sources, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official government facts, forecasts or statistics.

***You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industries and the Global Offering.***

There has been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and/or media regarding us, our business, our industries and the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our H Shares. None of us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters or any other person involved in the Global Offering have authorized the disclosure of any such information in the press or media and none of these parties accept any responsibility for the accuracy or completeness of the information contained in such press articles and/or other media or the fairness or appropriateness of any forecasts, views or opinions expressed by the press and/or other media regarding our H Shares, the Global Offering, our business, our industries or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.