
INDUSTRY OVERVIEW

We have extracted and derived the information and statistics in the section below and other sections of this prospectus, in part, from various official government publications. In addition, we paid SCI Verkehr, which is an independent consulting firm, to permit us disclose in this prospectus certain data in its database (the “**SCI Database**”), the preparation of which was not specifically requested by us for the purposes of our Global Offering. Information from the SCI Database appears in this section and other sections of this prospectus. We believe that the sources of this information are appropriate sources and 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 Sponsors, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Such information may not be consistent with other information compiled within or outside the PRC.

OVERVIEW OF THE GLOBAL RAIL AND ROLLING STOCK INDUSTRY

Global Rail Industry

The global rail industry has recovered since 2009. Benefiting from the economic stimulus package and increased rail investment, the global rail market value, representing the value of products and services created at the time of operation and delivery of rail infrastructure, rolling stock and system technology, is expected to have a steady growth with a CAGR of 2.7% from 2012 to 2016, given the ongoing urbanization, ambitious climate goals, the continuous rise in demand for resources and increasing global trade. For instance, in April 2013, Transnet SOC Ltd in South Africa announced its plan to purchase 599 units of electric locomotives and 465 units of diesel locomotives. As at the Latest Practicable Date, this was the single largest purchase of locomotives in South Africa.

The global rail industry is still relatively concentrated, with the top five countries occupying approximately 50% of the global rail market in terms of market value in 2012. China’s rail market has experienced rapid expansion recently due to the heavy fixed assets investment in the rail industry committed by the Chinese government for the past few years. According to SCI Verkehr, China was the world’s largest rail market in 2012.

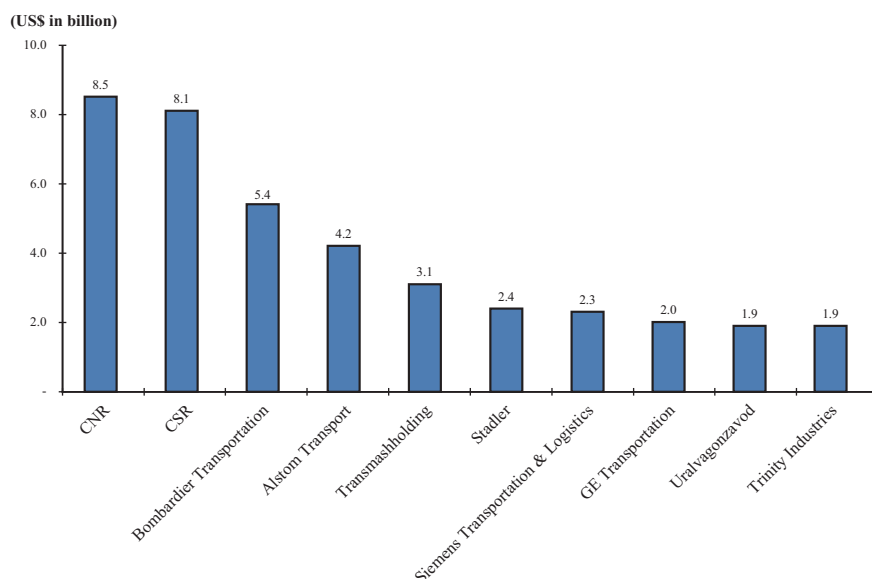
Global Rolling Stock Industry

According to SCI Verkehr, the market value of the global rolling stock industry, which includes both manufacturing and refurbishment of rolling stock products, has increased by a CAGR of 5.7% from US\$83.8 billion in 2006 to US\$116.5 billion in 2012. It is expected that the market value of the global rolling stock industry will continue to grow at a CAGR of 2.6% from 2012 to 2016, reaching US\$129.2 billion in 2016. The global rolling stock market is dominated by the top ten countries, which collectively accounted for approximately 68.9% of the market value of the global rolling stock industry in 2012. According to SCI Verkehr, China has become the world’s largest rolling stock market since 2010 and is expected to remain the largest rolling stock market in the world through 2016.

China’s huge investment in the rolling stock industry in recent years has brought Chinese rolling stock manufacturers to the top manufacturers in the world. CNR is the largest rolling stock manufacturer and solutions provider in the world in terms of the sales revenue of new rolling stock in

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2011. The following chart sets forth the top ten rolling stock manufacturers in the world in terms of sales revenue of new rolling stock in 2012.



Source: SCI Verkehr

OVERVIEW OF THE PRC RAIL AND ROLLING STOCK INDUSTRY

Drivers for the PRC rail and rolling stock industry

Continuing economic growth

According to IMF, China's real GDP grew at a CAGR of 10.1% from 2006 to 2012. According to the target set out in the 12th Five-Year Plan, the PRC government expects to achieve an annual real GDP CAGR of 7.0% between 2011 and 2015. Disposable income for urban residents and gross income for rural residents are expected to grow at a CAGR of 7.0% during the same period. Continuous GDP and income growth for residents will drive the growth of demand for rail transport.

Government plans

The PRC government has invested approximately RMB4.7 trillion in the rail industry in the past decade. The PRC government will continue to invest in the rail industry as part of its economic plan. According to the State Council Executive Meeting Summary on 24 July 2013, the total fixed assets investment in the rail industry by the PRC government will be over RMB3.3 trillion during the 12th Five-Year Plan period, approximately RMB1.1 trillion more than the investment of RMB2.2 trillion planned in the 11th Five-Year Plan. According to the State Council Executive Meeting held on 2 April 2014, new rail lines of more than 6,600 km are expected to be put into operation in China in 2014, with nearly 80% of the investments at the national level in the central and western China. Meanwhile, at the State Council Executive Meeting, a number of policies and measures regarding continuous reforms of investments and financing in the rail industry and financing and implementation of construction funding are determined. These policies and measures primarily include: (i) to establish a rail development fund to attract capital and expand capital sources for rail construction and the annual scale of the rail development fund is expected to reach RMB200.0 billion to RMB300.0 billion; (ii) to issue rail construction bonds in innovative types and methods and it is expected that rail bonds of

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RMB150.0 billion will be issued to the public in China in 2014 and preferential income tax policies may apply to income from investments in rail bonds; (iii) to direct financial institutions such as banks to actively support rail construction; (iv) to provide subsidies out of the budget of the PRC central government for public and policy-related transportations undertaken by railways; and (v) to strengthen coordination to ensure a smooth execution of projects under construction and full construction of approved projects.

Continuous urbanization

China has undergone rapid urbanization in the past three decades but its urbanization rate of resident population, being only 53.7%, still lags behind the average urbanization rate of resident population of developed countries, such as the U.S., Canada, Germany, the United Kingdom and France, representing a relatively considerable growth potential. The National New Urbanization Plan (2014-2020) (《國家新型城鎮化規劃》(2014-2020)) issued by the State Council in March 2014 emphasized the importance of comprehensive transport network to support and lead urbanization. Pursuant to such document, by 2020, the ordinary rail network is expected to cover cities each with a population of more than 0.2 million, while the rapid rail network is expected to cover cities each with a population of more than 0.5 million. Continuous urbanization in China is expected to result in large-scale movements in population and resources, and the strengthening of the supporting function of comprehensive transport network will further stimulate the demand for public transportation systems such as railway systems.

Constraints of energy and environment

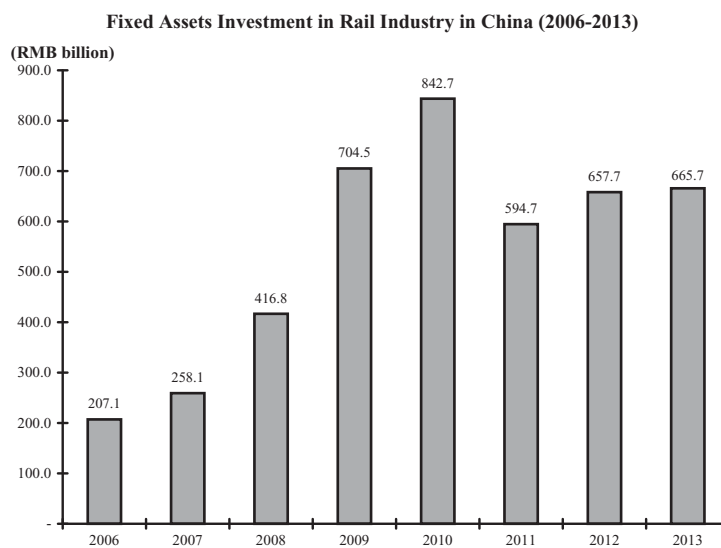
The rise in oil prices and the increasing enforcement of the policies implemented by the PRC government relating to energy conservation, emissions reduction and environmental protection will benefit the development of the rail transportation. Compared to other means, rail transportation is still one of the most energy-efficient and environmentally-friendly means of transportation in China and the world.

China's Rail Industry

The rail fixed asset investment increased from RMB207.1 billion in 2006 to RMB665.7 billion in 2013, representing a CAGR of 18.2%. Under the 12th Five-Year Plan, the PRC government plans to increase overall investment in rail fixed assets to RMB3.3 trillion, RMB1.1 trillion more than the investment of RMB2.2 trillion planned during the 11th Five-Year Plan. Total rail fixed asset investment consists of rail construction investment, innovation and refurbishment investment and rolling stocks investment. Rail infrastructure construction investment includes new rail construction and rail lines transformation. Replacement and refurbishment investment includes rail maintenance and refurbishment of rolling stock (excluding rapid transit vehicles). Rolling stock investment includes purchase of new rolling stock (excluding rapid transit vehicles). According to the report at the annual rail industry work meeting in January 2014, the national investments in rail fixed assets are expected to amount to approximately RMB700.0 billion in 2014, and the length of new rail lines put into operation is expected to reach 6,600 km in 2014, representing an increase of 1,014 km as compared with 2013. In accordance with the decisions and plans announced at the State Council Executive Meeting held on 2 April 2014, starting from 9 April 2014, CRC increased its rail investment targets set at the beginning of 2014, among which (i) the number of new projects increased from 44 to 48; (ii) the investments in fixed assets of the rail industry increased from RMB700.0 billion to RMB720.0 billion; (iii) the length

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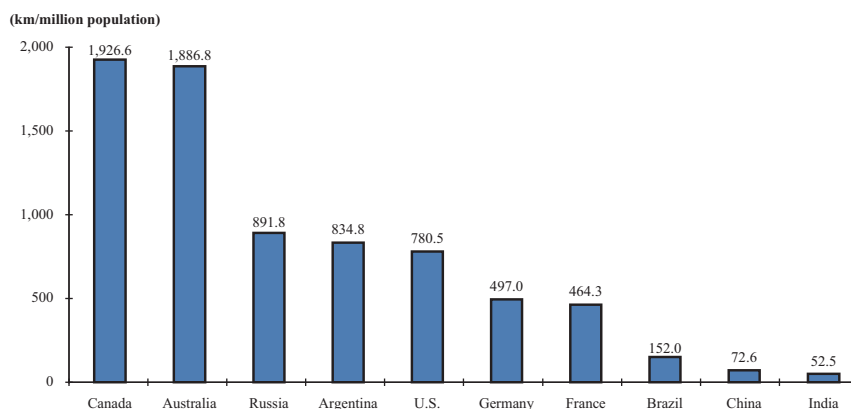
of new rail lines put into operation increased from 6,600 km to over 7,000 km; and (iv) 10 out of 33 projects under preliminary work are expected to obtain their feasibility study approvals in 2014. According to CRC's meeting on 30 April 2014 in connection with the arrangement of railway construction development plan for 2014, the national investments in the rail industry were further increased to over RMB800.0 billion, the number of new projects increased further from 48 to 64 and national investments in rolling stock purchasing increased from RMB120.0 billion to over RMB143.0 billion. In addition, CRC published 17 public bidding announcements at the end of April 2014, which cover the procurement of rolling stock and equipment and refurbishment of rolling stock. The rolling stock products procured in the public bidding announcements include passenger coaches, freight wagons and electric locomotives, and public bidding for high-speed MUs are expected to be announced soon. Meanwhile, CRC announced that all purchasing funds have been in place. The chart below sets forth the fixed assets investment in the rail industry made in China from 2006 to 2013.



Sources: CEIC, National Railway Administration

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As a result of the continuous increase in new rail construction investment, China's rail network, by aggregate operational length, has become the second longest in the world since 2010. At the end of 2013, the total length of rail in China has exceeded 100,000 km, accounting for approximately 6% of the total length of rail in the world. China also owns the world longest high-speed rail network, which has expanded to 11,028km by the end of 2013. However, China's length of rail per million population is still low compared to industrialized countries. China has a much lower degree of length of rail per million population as compared to major markets in the world such as Canada, Australia and the U.S. The following chart sets out the per million population rail length of the top ten countries in terms of total rail length in 2012 (including China):



Sources: *SCI Verkehr, World Bank*

According to the current 12th Five-Year Plan, China plans to increase total rail length to over 123,000 km by 2015, including 19,000 km of high speed rail lines and 50,000 km rail lines built in western China. According to the 12th Five-Year Plan, China aims to build a rail network with double-tracking rate of 50% and electrification rate of 60% by 2015. Along with the increase in the length of rail track in operation, rail freight tonne-kilometers and passenger-kilometers in China have also steadily increased and are expected to increase continuously during the 12th Five-Year Plan. The following table illustrates the growth trend of the rail length (including high-speed rail length), double-tracking rate, electrification rate, passenger and freight turnover according to the 12th Five-Year Plan.

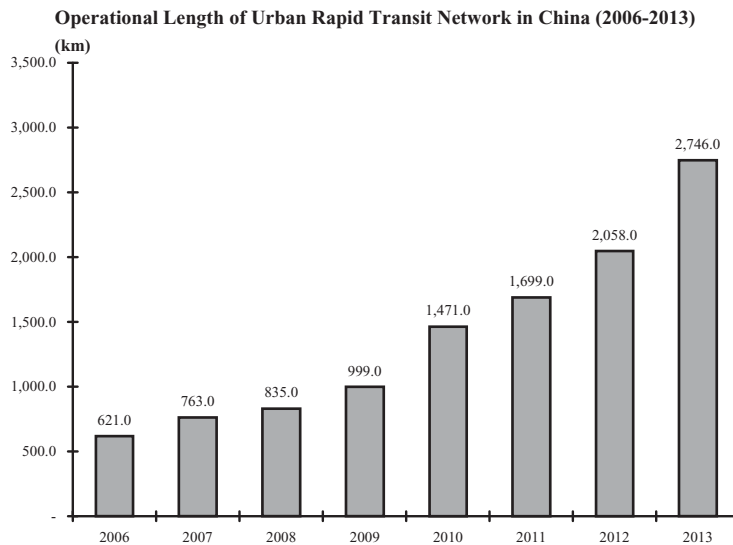
	2013	2015E	CAGR (%)
Railway operational length (km)	103,000	123,000	9.3
High-speed rail (km)	11,028	19,000	31.3
Double-tracking rate (%)	47	50	—
Electrification rate (%)	54	60	—
Passenger turnover (billion people/km)	1,060	1,600	22.9
Freight turnover (billion tonnes/km)	2,903	4,290	21.6

Sources: *National Bureau of Statistics, 12th Five-Year Plan*

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Urban Rapid Transit Market in China

Urban rapid transit in China encompasses a broad range of urban and suburban passenger urban rapid transit systems including metro, light rail, tram and maglev. The urban rapid transit system in China is believed to have enormous potential for expansion considering China's large, densely populated cities. The Chinese government has invested significantly in the urban rapid transit system since 2006. In the 11th Five-Year Plan (2006-2010), the total investment in urban rapid transit segment amounted to approximately RMB500 billion. Under the 12th Five-Year Plan, the Chinese government plans to invest RMB1,200 billion in the urban rapid transit segment, which is more than double the amount of investment planned under the 11th Five-Year Plan. The total length of urban rapid transit systems in China has grown from 621 km in 2006 to 2,746 km in 2013. According to the China Association of Metros, the total length of urban rail tracks completed in China is expected to exceed 3,100 km by the end of 2014 and such number is expected to reach 7,000 km in 2020. According to China Urban Rapid Transit Annual Report (2013), at the end of 2013, the NDRC and its provincial counterparts have approved the plans of urban rapid transit system in 36 cities with a total length of approximately 5,790 km. According to the statistics analysis report issued by China Association of Urban Rapid Transit, all 36 cities, which have obtained the approval for the urban rapid transit construction and planning, will commence the construction of urban rapid transit system within 2014, thereby creating new market demand for rolling stock. The increase in operational length of urban rapid transit network will drive the demand for rapid transit vehicles and equipment in China. The following chart sets forth the growth in operational length of urban rapid transit network in China from 2006 to 2013.

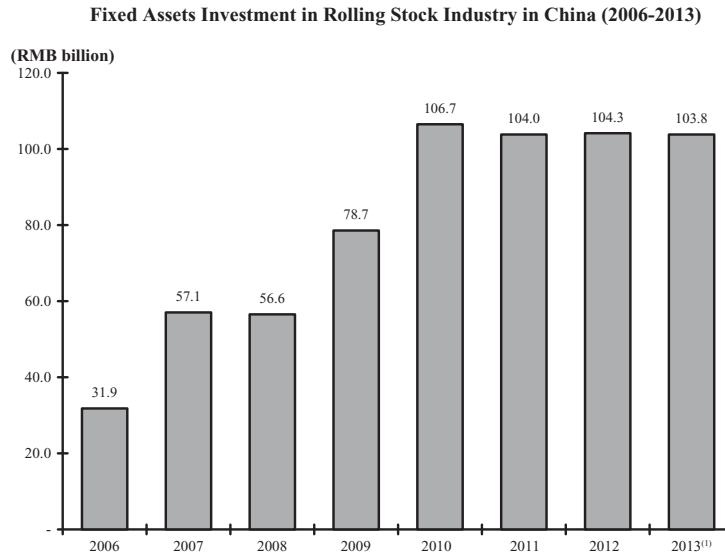


Sources: National Bureau of Statistics, China Association of Metros

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China's Rolling Stock Industry

The investment in purchase of new rolling stock (excluding rapid transit vehicles) in China increased from RMB31.9 billion in 2006 to RMB103.8 billion in 2013, representing a CAGR of 18.3%. According to CRC, the investment in purchase of new rolling stock is expected to be over RMB143.0 billion in 2014. The chart below sets forth the growth of investment in purchase of new rolling stock (excluding rapid transit vehicles) from 2006 to 2013.



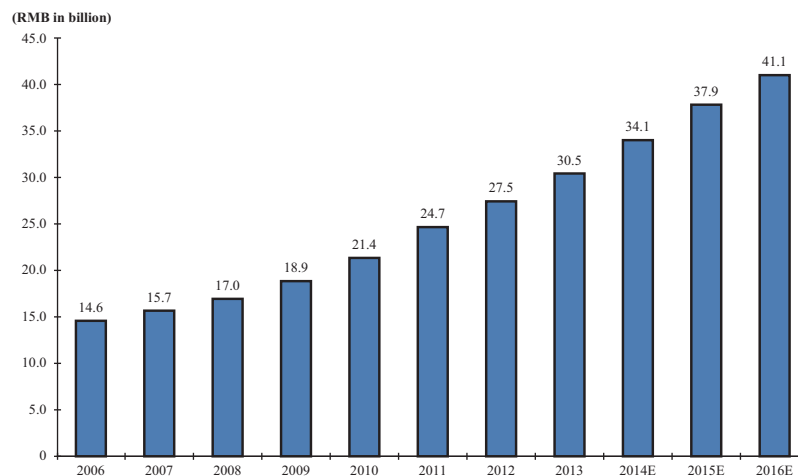
Sources: CEIC, National Railway Administration

Note:

(1) In respect of the purchase of rolling stock, including the purchase amount from CRC only

According to SCI Verkehr, China rolling stock's refurbishment market grew from RMB14.6 billion in 2006 to RMB27.5 billion in 2012 with a CAGR of 11.2%.

With its domestic market becoming more mature, China's rolling stock refurbishment market is expected to grow with a CAGR of 10.5% from 2012 to 2016. The chart below sets forth the rolling stock refurbishment market value in China from 2006 to 2016.



Source: SCI Verkehr

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Since the incorporation of CRC in March 2013, it has launched two rounds of public bidding, which covered most of the rolling stock procurement made by the PRC railway network in 2013. The first round of bidding started in August 2013, including 726 units of passenger coaches, 28,900 units of freight wagons, 795 units of locomotives, 91 sets of 250 km/h MUs, 42 sets of 350 km/h MUs and 26 sets of 350 km/h MUs suitable for high latitudes and low winter temperatures. The second round of bidding in October 2013 included 500 units of passenger coaches, 1,000 units of freight wagons, 186 units of locomotives, 88 sets of 250 km/h MUs and 226 sets of 350 km/h MUs.

China's rolling stock industry is dominated by CNR and CSR. For competition on China's rolling stock market, including a brief qualitative and quantitative analysis on the level of competition, see "Business—Competition" and "Business—Overview".

Raw materials for rolling stock products in China include, among other things, steel, aluminum and copper. For information about the price range and average purchase price of our major raw materials of our representative subsidiaries, see "Business—Raw Materials, Components and Suppliers".

High-speed MUs

According to National Railway Administration, China has the largest high-speed rail network in the world in terms of total length, which amounts to 11,028 km in 2013, approximately 50% of total length of high-speed rail network in the world. China also has the largest high-speed rail network under construction in the world, which amounts to 12,000 km, approximately 2.5 times the high-speed rail network under construction in other countries. The number of sets of high-speed MUs operated in China increased from 176 in 2008 to 1,308 in 2013 with a CAGR of 49.4% during the same period. According to the 12th Five-Year Plan, 1,200 to 1,400 sets of high-speed MUs are expected to be put into operation by the end of 2015. The formation of high-speed rail network in China will further increase the demand for high-speed MUs and the increase in the ownership of high-speed MUs will drive the demand for corresponding refurbishment services.

Locomotives

At the end of 2013, the total number of locomotives in China increased by 23.3% from 16,904 units in 2006 to 20,835 units in 2013.

With the development of and increase in electrified railways, the number of electric locomotives superseded the number of diesel locomotives in China for the first time in 2012. It is expected that high-powered heavy haul locomotives and locomotives for rapid transportation would grow relatively fast. Given the current total number of locomotives in China, especially the increasing number of the high-powered locomotives, it is expected that demand for the refurbishment of locomotives will continue to grow in the future.

Passenger coaches

In order to keep pace with China's economic development and the increasing demands of passengers for higher levels of comfort as well as better service quality, CRC has increased its purchases of new passenger coaches, including premium passenger coaches. The number of passenger coaches in China increased from 40,945 units in 2006 to 58,820 units in 2013.

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In addition, the increase in speed of the CR network is expected to stimulate the demand for higher speed passenger coaches. The increasing number of passenger coaches on the PRC railway network is also expected to lead to increased demand for related refurbishment services.

Freight wagons

Attributable to China's strong economic growth and the transformation of the economic structure, demand for railway freight transportation and heavy-hauling freight wagons has significantly increased along with the expansion of the logistics industry. The number of freight wagons in China increased from 558,483 units in 2006 to 688,042 units in 2013. During the past decade, with the development in freight hauling capacity technologies, the maximum hauling capacity of freight wagons has increased from 60 tonnes to 80 tonnes or above per unit. The freight wagons with hauling capacity above 70 tonnes increased from 34,530 units in 2006 to 228,161 units in 2012 with a CAGR of 37% during the same period.

We expect that there will be increasing demand for heavy-hauling freight wagons with higher axle load and higher speed freight wagons in the market.

In addition, the increase in the number of freight wagons on the PRC railway network is also expected to lead to increased demand for related refurbishment services.

Rapid transit vehicles

NDRC has provided clear instructions and orders towards the development of urban rapid transit system. In 2013, 20 cities in China launched 34 tender offers with a total number of 3,982 units of rapid transit vehicles tendered, the highest number in China's history. At the end of 2013, together with its provincial counterparts, NDRC has approved the urban rapid transit routes of approximately 5,790 km in 36 cities in China. The number of rapid transit vehicles is expected to increase along with the extension of the urban rapid transit routes.

Market price trend of major raw materials

The major raw materials used in the rolling stock industry are aluminum and steel. The chart below sets forth historical daily spot price of aluminum and 20 mm steel plate in China in 2011, 2012 and 2013.



Source: www.wind.com.cn



Source: www.mysteel.com

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Source of Information

SCI Verkehr is an independent consulting firm specialized on traffic economy and traffic engineering with its activities concentrating on enterprises of the traffic and rail industries. Our Directors and the Joint Sponsors have exercised reasonable care in selecting and identifying the source of market data, in compiling, extracting and reproducing such information, and in ensuring that there is no material omission of the information. We paid approximately Euro6,000 to SCI Verkehr for permitting us to disclose in this prospectus certain data in the SCI Database, the preparation of which was not separately commissioned by us for the purposes of our Global Offering. This prospectus contains information extracted from the SCI Database in sections such as “Industry Overview” and “Business”.

The information, including certain forward-looking information derived or sourced from the SCI Database and contained herein, has been obtained from sources believed by SCI Verkehr to be reliable, but there can be no assurance as to the accuracy or completeness of such information.

Other sources were generated from analysis of data prepared by various PRC government authorities and industry associations, such as the National Bureau of Statistics of the PRC and China Association of Metros (an organization under the direct supervision of the NDRC).

Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date on which we obtained the data from SCI Verkehr.