OVERVIEW

We are the largest rolling stock manufacturer and solutions provider in the world in terms of revenue from sales of new rolling stock in 2012, according to SCI Verkehr. During the Track Record Period, we derived most of our revenue from China, representing the largest rolling stock market in the world since 2010 according to SCI Verkehr. We offer a full range of rolling stock products and services, which is supported by our strong technological research and development capabilities, extensive sales and service network and world-leading manufacturing capabilities. According to SCI Verkehr, we were the world's largest manufacturer of electric locomotives and metro cars, as well as the world's second largest and China's largest manufacturer of freight wagons, in terms of aggregate number of units delivered between 2008 and 2012 in each such product category. With our comprehensive product portfolio, we provide systematic solutions to our clients in the global rolling stock industry. We were the largest rolling stock manufacturer in China in terms of revenue in 2012. According to CRC, we won the bids for 66.0%, 53.2% and 47.8% of the total number of MUs with a maximum operating speed over 300 km/h (inclusive), locomotives and freight wagons that CRC purchased in 2013, respectively, making us CRC's largest bid winner among all the bidders in each such product category in terms of number of units. As at 31 December 2013, of all the urban rapid transit lines in operation in China, comprising 87 urban rapid transit lines in 19 cities in China, our rapid transit vehicles operated on 48 urban rapid transit lines in 13 cities, representing a leading market share in China. We have world-class manufacturing equipment and cutting-edge production process, advanced quality control system and a wide range of safe and reliable products. We were awarded the highest quality prize in China in 2013, namely National Quality Award (全國質量獎) granted by the China Quality Association (中國質量協會), making us the only manufacturer to receive this award in the PRC rolling stock industry.

We focus primarily on the manufacturing and refurbishment of rolling stock, including high-speed MUs, locomotives, passenger coaches, freight wagons, rapid transit vehicles, railway engineering machinery and equipment and core system and components of rolling stock. To capitalize on our strong research and development capability in relation to rolling stock products and components, our long-term relationship with the relevant raw material suppliers in China and our understanding of the railway and urban rapid transit transportation markets in China, we are also engaged in the manufacturing of mechanical and electric products, clean energy, energy conservation and environmental protection equipment, trading of raw materials, finance leasing of rolling stock and machines and equipment, and project management contracting service for urban rail and other related projects with the aim of providing future cities with systematic solutions. We operate the following four key businesses:

- **Manufacturing and Refurbishment of Rolling Stock Products.** We devote significant resources on this core business to develop, manufacture, sell and refurbish a comprehensive range of rolling stock products, primarily including:
  - *High-speed MUs.* According to SCI Verkehr, we were the largest manufacturer of MUs with a maximum operating speed over 300 km/h (inclusive) in the world in terms of aggregate number of units delivered in 2011 and 2012, accounting for a market share of 29.7% during the same period. According to CRC, we won the bids for 66.0% of the total number of MUs with a maximum operating speed over 300 km/h (inclusive) that CRC purchased in 2013, representing the largest market share in China for the same period. We offer high-speed MUs with maximum operating speeds ranging from 200 km/h to 380 km/h. We have a world-class research and development platform and world-leading

manufacturing and refurbishment facilities for high-speed MUs. Our CRH3 recorded the highest speed of 394.3 km/h in China in 2008 and won the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2012. As at the Latest Practicable Date, we were the only manufacturer in China which was able to mass produce high-speed MUs that were capable of operating at high latitudes and low winter temperatures.

– *Locomotives*. According to SCI Verkehr, we were the largest manufacturer of electric locomotives in the world, in terms of aggregate number of units delivered between 2008 and 2012, accounting for a market share of 30.6% during the same period. According to CRC, we won the bids for 53.2% of the total number of locomotives that CRC purchased in 2013, representing the largest market share in China for the same period. We have a complete product portfolio of locomotives, including DC and AC electric locomotives and diesel locomotives, with electric locomotives covering 4,800 kW to 10,000 kW and diesel locomotives covering 1,000 hp to 6,000 hp. We have a world-class research and development platform and world-leading manufacturing and refurbishment facilities for locomotives. Our HXD3 six-axle 7,200 kW AC electric locomotive won the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2010, representing the highest award in China's history of development of AC locomotives. Our HXD3 series six-axle 7,200 kW AC electric locomotive was the most commonly-used AC electric locomotive in China as at the Latest Practicable Date.

– *Passenger coaches*. We possess core technologies for the development and production of high-end passenger coaches. We develop, manufacture and refurbish passenger coach products with world-leading technologies. The "25" series passenger coaches developed by us are the main passenger coaches used on China's passenger lines. We have a complete product portfolio of passenger coaches meeting various demands of customers for passenger coaches with speeds under 200 km/h.

– *Freight wagons*. According to SCI Verkehr, we were the world's second largest and China's largest manufacturer of freight wagons, in terms of aggregate number of units delivered between 2008 and 2012, accounting for a market share of 8.1% during the same period. According to CRC, we won the bids for 47.8% of the total number of freight wagons that CRC purchased in 2013, representing the largest market share in China for the same period. We offer freight wagons that accommodate all railway transportation needs, including heavy-hauling freight transportation, with our world-leading research and development, manufacturing and refurbishment capabilities. C70 universal open-top wagon, P70 box wagon and GQ70 tank wagon that are developed and manufactured by us are the main models used for railway freight transportation in China. We have also designed and developed C80 series open-top wagons, which have become the main type of freight wagons for coal transportation on the Daqin Line, the most advanced freight line in China. Our heavy-hauling freight wagons exported to Australia with 37.5-tonne axle load and 137.5-tonne maximum carrying load have the lightest dead weight with the highest carrying load in the world. We won the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2008 as a primary participant for the project "Whole Set of Heavy-hauling Technology and Its Application on the Daqin Line" (大秦鐵路重載運輸成套技術與應用).

- *Rapid transit vehicles*. According to SCI Verkehr, we were the largest manufacturer of metro cars, a major type of rapid transit vehicles, in the world, in terms of aggregate number of units delivered between 2008 and 2012, accounting for a market share of 22.4% during the same period. We offer metro cars, light rail cars, inter-city railcars and trams that accommodate various urban rapid transit transportation needs with the support of our world-class research and development platform and world-leading manufacturing and refurbishment capabilities. As at 31 December 2013, of all the urban rapid transit lines in operation in China, comprising 87 urban rapid transit lines in 19 cities in China, our rapid transit vehicles were operated on 48 urban rapid transit lines in 13 cities, representing a leading market share in China. Our rapid transit vehicles have also been sold to, and operated in, Hong Kong, Saudi Arabia, Brazil, Argentina, Thailand, Ghana and Bangladesh.
- *Railway engineering machinery and equipment and core system and components of rolling stock*. We are China's leading manufacturer of catenary multi-purpose comprehensive working cars and manufacture railway cranes, trackbound maintenance machines, rail grinding trains, ballast shoulder cleaning machines, catenary multi-purpose comprehensive working cars and diesel engines for locomotive. We are one of China's major manufacturers of large railway maintenance machinery. We manufacture core systems and key components for our rolling stock products, including traction systems products, network control systems, brake systems, gear transmission systems, heat transfer and cooling systems, high-voltage electric turbochargers, high-powered semiconductor devices and tight-lock couplers.

- **Manufacturing of Mechanical and Electric Products.** By leveraging our experience and technologies related to core system and components of rolling stock, we manufacture mechanical and electric products for use in non-railway industries, which mainly include motors and gearboxes for oil drilling machinery, mining machinery and metallurgical machinery, springs and air springs. In addition, we have successfully designed, developed and manufactured high-powered IGBT module with advanced technologies that were independently developed by us.
- **Modern Service Business**. Our modern service business mainly includes trading of raw materials, finance leasing of rolling stock and machines and equipment and project management contracting services for urban rail and other related projects.
- **Emerging Industry Business**. To capitalize on our strong research and development capability and core technologies in relation to rolling stock products and components, we also produce wind power generation equipment, electric buses, clean energy, energy conservation and environmental protection equipment through our subsidiaries. Our emerging industry business also includes enterprise resource planning services and other information technology services.

The following table sets forth the revenue generated from each of our businesses and their respective percentages of our total revenue for the years indicated:

	Year ended 31 December					
	2011		2012		2013	
	Amount (RMB million)	% of Total (%)	Amount (RMB million)	% of Total (%)	Amount (RMB million)	% of Total (%)
Manufacturing and refurbishment of rolling stock products	70,417.9	79.3	66,466.3	72.4	68,003.9	70.3
Manufacturing of mechanical and electric products	1,314.5	1.5	2,251.9	2.5	1,793.5	1.9
Modern service business	14,915.0	16.8	20,241.2	22.0	22,806.2	23.5
Emerging industry business	2,163.4	2.4	2,838.8	3.1	4,152.5	4.3
Total	**88,810.8**	**100.0**	**91,798.2**	**100.0**	**96,756.1**	**100.0**

We possess world-leading research and development capabilities and core innovative technologies for the manufacturing of rolling stock products. We dedicate significant resources to enhance our research and development capabilities to introduce innovative and advanced technologies and products for our rail-related and other businesses. As at the Latest Practicable Date, we had four national level research and development institutes, eight national level enterprise technical centers, and 27 provincial level research and development institutes. Since 2008, our research and development capability has been recognized with one Grand Prize (國家科學技術進步獎特等獎) and four First Prizes of National Technology Progress Awards (國家科學技術進步獎一等獎). As a leading rolling stock company in the PRC, we played a leading role, during the Track Record Period, in the formulation and revision of 29 national standards and 159 industrial standards of rolling stock, and also participated in the formulation and revision of various national and industrial standards of other industries, such as electricity, electrical engineering, oil and materials. As at the Latest Practicable Date, we had 3,352 registered patents and 1,061 pending patent applications in China. As at the Latest Practicable Date, we also had 37 registered patents and 67 pending patent applications overseas.

We market and sell our rolling stock products globally under our "CNR" and "中國北車" brands, which are among the most recognized and internationally well-known brands. We currently export our products to over 80 countries and regions in Oceania, Southeast Asia, Latin America, Central Asia, South Asia, the Middle East, Africa, Europe and North America. 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 sell our products in the PRC domestic market directly through the sales team in our operating subsidiaries, without engaging distributors or sales agents. We sell and export products to international markets through direct sales and third-party exporting agents.

For the years ended 31 December 2011, 2012 and 2013, our revenue amounted to RMB88,810.8 million, RMB91,798.2 million and RMB96,756.1 million, respectively, and our profit during the same periods amounted to RMB3,144.6 million, RMB3,584.3 million and RMB4,226.0 million, respectively.

OUR COMPETITIVE STRENGTHS

As the largest rolling stock manufacturer in the world, we hold a leading position in the market, and have a complete product portfolio, a strong technological research and development and product development capability, an extensive sales network and a complete set of customer services, as well as leading manufacturing and refurbishment processes and advanced quality management systems, to provide our customers with systematic solutions.

Leading player in the global rolling stock market and well-positioned to take advantage of growth opportunities in both the PRC and overseas markets

Our leadership in the global rolling stock market allows us to take advantage of growth opportunities in both the global and China's rapidly growing rolling stock markets. According to SCI Verkehr, we were the largest rolling stock manufacturer in the world in terms of revenue from sales of new rolling stock in 2012.

High-speed MUs. We have strong research and development capability and world-leading manufacturing and refurbishment facilities for high-speed MUs. According to SCI Verkehr, we were the largest manufacturer of MUs with a maximum operating speed over 300 km/h (inclusive) in the world in terms of aggregate number of units delivered in 2011 and 2012, accounting for a market share of 29.7% during the same period. According to CRC, we won the bids for 66.0% of the total number of MUs with a maximum operating speed over 300 km/h (inclusive) that CRC purchased in 2013, representing the largest market share in China for the same period. Our high-speed MUs operate on all of China's major high-speed railway lines. For example, all the high-speed MUs currently running on the Beijing-Tianjin inter-city railway, the first 300 km/h high-speed railway in China which commenced operation in 2008, are the CRH3 MUs manufactured by us. In addition, as at 31 December 2012, high-speed MUs manufactured by us accounted for approximately 68.0% of the MUs running on the Beijing-Shanghai high-speed railway. As at the Latest Practicable Date, we were the only manufacturer in China who is able to mass produce high-speed MUs that are capable of operating at high latitudes and low winter temperatures. The Harbin-Dalian high-speed railway, China's first alpine high-speed railway operating at high latitudes and low winter temperatures, has relied exclusively on our CRH380B MUs.

Locomotives. We have strong research and development capability and world-leading and China's largest manufacturing and refurbishment facilities for locomotives. According to SCI Verkehr, we were the largest manufacturer of electric locomotives in the world, in terms of aggregate number of units delivered between 2008 and 2012, accounting for a market share of 30.6% during the same period. According to CRC, we won the bids for 53.2% of the total number of locomotives that CRC purchased in 2013, representing the largest market share in China for the same period. Our HXD3 series six-axle 7,200 kW high-powered electric locomotive was the most commonly-used AC locomotive in China as at the Latest Practicable Date. Our HXD2 series eight-axle 10,000 kW high-powered electric locomotive is one of the main types of locomotives used on the Daqin Line for coal transportation, which is the most advanced freight line in China. Our HXN3 6,000 hp AC diesel locomotive adopting world-leading technologies is able to operate under severe conditions, such as high latitudes and low winter temperatures.

Passenger coaches. We have strong research and development capability and world-leading manufacturing and refurbishment facilities for passenger coaches. We develop and manufacture

passenger coaches meeting the needs of our customers around the world, such as our double-deck stainless steel passenger coaches exported to Australia. The "25" series passenger coaches developed by us are the main passenger coaches used on China's passenger lines.

Freight wagons. We have strong research and development capability and world-leading manufacturing and refurbishment facilities for freight wagons, and we are the industry leader in the formulation of technology standards for major railway freight wagons in China. According to SCI Verkehr, we were the world's second largest and China's largest manufacturer of freight wagons, in terms of aggregate number of units delivered between 2008 and 2012, accounting for a market share of 8.1% during the same period. According to CRC, we won the bids for 47.8% of the total number of freight wagons that CRC purchased in 2013, representing the largest market share in China for the same period. C70 open-top wagons, P70 box wagons and GQ70 tank wagons developed and manufactured by us are the main types of freight wagons used for railway transportation in China. We have also designed and developed C80 series open-top wagons, which have become the main type of freight wagons for coal transportation on the Daqin Line, the most advanced freight line in China. As at the Latest Practicable Date, we have exported more than 10,000 freight wagons to Australia.

Rapid transit vehicles. We have strong research and development capability and world-leading manufacturing facilities for rapid transit vehicles. With extensive regional coverage, our rapid transit vehicle products are able to meet different geographical and environmental requirements. According to SCI Verkehr, we were the largest manufacturer of metro cars, a major type of rapid transit vehicles, in the world, in terms of aggregate number of units delivered between 2008 and 2012, accounting for a market share of 22.4% during the same period. As at 31 December 2013, of all the urban rapid transit lines in operation in China, comprising 87 urban rapid transit lines in 19 cities in China, our rapid transit vehicles operated on 48 urban rapid transit lines in 13 cities, representing a leading market share in China. In addition, we have exported rapid transit vehicles to a number of overseas countries and regions which have high standards for quality of rapid transit vehicles or operating conditions, including Hong Kong and Saudi Arabia. Our rapid transit vehicles have served the 2008 Beijing Olympic Games, the 2010 Shanghai World Expo, the 2010 Guangzhou Asian Games and the 2011 Shenzhen Universiade and are expected to serve the 2014 World Cup and the 2016 Olympic Games in Brazil.

Railway engineering machinery and equipment. As an important supplier of railway engineering machinery and equipment in China, we have the capability to research and develop, manufacture and refurbish large railway maintenance machinery, railway cranes, railway engineering work vehicles and diesel engines for locomotive. We are one of China's major manufacturers of large railway maintenance machinery and China's leading manufacturer of catenary multi-purpose comprehensive working cars.

Core system and components of rolling stock, mechanical and electric products and other products. We independently develop the core systems of rolling stock, including traction system, network system and braking system. We have a leading position in the PRC domestic market for railway traction system and have leading facilities in China for the design and manufacturing of electric transmission device for locomotives and MUs. In addition, we are the first manufacturer in China to package IGBT modules of 6,500V.

Complete rolling stock product portfolio and thriving new businesses

We have a complete portfolio of rolling stock products and associated repair and service capacity to support such products. As a result, we are able to meet our customers' diverse demands for manufacturing and refurbishment of rolling stock products in different track gauges and forms of power supply and provide comprehensive services:

High-speed MUs. We have a complete product portfolio of MUs, including power-centralized and power-decentralized diesel MUs and electric high-speed MUs. We offer high-speed MUs with maximum operating speeds ranging from 200 km/h to 380 km/h. Currently, our main high-speed MUs consist of CRH5 and CRH3A MUs with a maximum operating speed over 200 km/h (inclusive), and CRH3, CRH380CL, CRH380B, CRH380BL and CRH380B alpine MUs with a maximum operating speed over 300 km/h (inclusive).

Locomotives. We have a complete product portfolio of locomotives, including DC and AC electric locomotives and diesel locomotives, with electric locomotives covering 4,800 kW to 10,000 kW and diesel locomotives covering 1,000 hp to 6,000 hp; and our locomotives are used for passenger and freight transport, train dispatching and traction for mining vehicles. Our locomotives with distinct advantages include the HXD2 and HXD3 series six-axle 7,200 kW high-powered electric locomotives, HXD2 series eight-axle 10,000 kW high-powered electric locomotives and HXN3 series 6,000 hp high-powered diesel locomotives.

Passenger coaches. We have a complete product portfolio of passenger coaches, including a series of 25G, 25K and 25T products with a maximum operating speed under 200 km/h, which include seating coaches, berth sleeping cars, dining cars, power generation cars and double-deck railway passenger coaches.

Freight wagons. We offer a complete range of freight wagon products, including open-top wagons, box wagons, flat wagons, tank wagons, hopper wagons, other special purpose rapid freight and other special purpose wagons, such as clamping cars and drop well-hole cars, wagons with axle loads of 23 tonnes, 27 tonnes and 30 tonnes or above, carrying loads of 70 tonnes, 80 tonnes and 100 tonnes and maximum operating speed under 160 km/h. We have also developed, designed and exported advanced freight wagon products to Oceania, Europe and other regions.

Rapid transit vehicles. We offer various types of rapid transit vehicles suitable for metro, light rail, inter-city, mono-rail, tram and maglev transport systems. Our rapid transit vehicles are suitable for a broad range of geographic regions, including frigid, temperate and tropical zones. In addition, we are capable of manufacturing rapid transit vehicles of different car body size operating under different geographic conditions, using different traction method or made of different car body material. Our rapid transit vehicles are able to meet different demands of our domestic and overseas urban rapid transit customers.

Railway engineering machinery and equipment. Our railway engineering machinery and equipment consist of a wide variety of products, including railway cranes, trackbound maintenance machines, rail grinding trains, ballast shoulder cleaning machines, catenary multi-purpose comprehensive working cars, diesel engines for locomotive and other products. We also manufacture inspection cars for high-speed railway.

Core system and components of rolling stock, mechanical and electric products and other products. We manufacture core systems and key components for our rolling stock products, including traction systems, network control systems, brake systems, gear transmission systems, heat transfer and cooling systems, high-voltage electric turbochargers, high-powered semiconductor devices, air springs and tight-lock couplers. We also offer similar products for non-rail industries.

By leveraging our technological advantages in the rolling stock industry, we are also entering emerging industries, such as clean energy, energy conservation and environmental protection and information technology industries. Driven by our concept of "fully establishing a first-class enterprise in the world with international competitiveness focusing on rolling stock and providing future cities with systematic solutions" and relying upon our strong market position and advantages in customer resources in rolling stock industry, we are well positioned to seize the opportunity to develop wind power equipment, energy conservation and environmental protection equipment, electric buses, modern information technology and other emerging businesses and engage in financial service, modern logistics, information services and other modern services, so as to create and benefit from synergy between our various business segments.

Strong technological research and development and product development capability

We have a world-leading rolling stock research and development platform, which is supported by our four national level research and development institutes (國家級研發機構), eight national level enterprise technical centers (國家級企業技術中心), 27 provincial level research and development institutes (省級研發機構), two overseas research and development centers (海外研發中心), seven special technology research and development centers (專項技術研發中心), five post-doctoral workstations (博士後工作站) and four academician workstations (院士專家工作站).

We have a complete technological research and development and innovation system, ranging from embedded underlying software technologies to application-level control software technologies, from basic technologies and general technologies of the industry to research and development and manufacturing technologies, and from system integration technologies to product engineering technologies. Our product technological research and development platform covers the whole product chain from chips to boards, from components to parts, and from systems to complete units and vehicles. We have also established cooperative relationships with research institutes in the PRC and overseas, such as Beijing Jiaotong University* (北京交通大學), Dalian Jiaotong University* (大連交通大學), Czech Technical University in Prague and University of Michigan.

As at 31 December 2013, our strong professional and technical team consisted of 26 chief experts, 103 senior experts, 856 experts, more than 190 experts receiving special subsidies from the State Council, 471 professor-level senior engineers and other senior professional title holders, 3,440 senior engineers and sub-senior professional title holders and more than 20,700 technical and management personnel of other professional levels.

Due to our strong research and development capability, we are leading the transformation of the PRC rolling stock industry from "Made in China" to "Created by China". During the Track Record Period, we played a leading role in the formulation and revision of 29 national standards and 159 industry standards of the rolling stock in China, as well as various national and industrial standards of other industries such as electricity, electrical engineering, oil and materials. As at the Latest Practicable Date, we had 3,352 registered patents and 1,061 pending patent applications in the PRC. We also had 37 registered patents and 67 pending patent applications overseas. Since 2008, we have been awarded one Grand Prize (國家科學技術進步獎特等獎) and four First Prizes of National Technology Progress Awards (國家科學技術進步獎一等獎). Our subsidiaries have been granted various awards and honors. For

example, CNR Changchun was recognized as one of the first Technology Innovation Model Enterprise (技術創新示範企業) by the MIIT, making us the first rolling stock manufacturer to receive such honor. Our three subsidiaries were recognized as "Technical Innovative Enterprises" (創新型企業) by the Ministry of Science and Technology, SASAC and All China Association of Trade Unions.

We have significant competitive strengths in the research and development of each of the following rolling stock products:

- *High-speed MUs.* We have one national engineering laboratory and one national engineering technology research center with respect to the research and development of high-speed MU technologies. We have a world-class research and development platform for high-speed MUs with a maximum operating speed over 200 km/h (inclusive) and the related intellectual property rights have been independently developed and owned by us. Our CRH3 recorded the highest speed of 394.3 km/h in China in 2008, and won the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2012. Our CRH380BL MUs recorded the world's then highest experimental speed of 487.3 km/h on railway lines in operation in 2011. Our world-leading CRH380B alpine MUs have successfully operated on Harbin-Dalian high-speed railway, and such MUs have the highest speed in the world operating at high latitudes and winter temperatures as low as -40°C.
- *Locomotives.* We have world-class electric locomotive and diesel locomotive products and technology platforms. Our HXD3 6-axle 7,200 kW high powered AC electric locomotive won the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2010, representing the highest award received in China's history for the development of AC locomotives.
- *Passenger coaches.* We have a strong technological research and development platform for the development and production of high-end passenger coaches. We develop and manufacture a full range of passenger coach products with speeds under 200 km/h, meeting the needs of customers around the world.
- *Freight wagons.* We have the only national engineering technology research center for heavy-hauling or rapid freight wagon in China and a world-leading freight wagon fatigue and vibration testbed which is the only one in China. We have developed over 80% of the railway freight wagon models in China and have played a key role in the upgrading of China's railway freight wagons. We developed a number of heavy-hauling and special purpose freight wagon products. We have commenced production of C80E open-top wagons with 27-tonne axle load and 80-tonne carrying load, C96 with 30-tonne axle load and 96-tonne carrying load, and KM98 with 30-tonne axle load and 98-tonne carrying load, in anticipation of further upgrades to China's railway freight wagons. We possess advanced technologies for the manufacturing of 160-200 km/h rapid freight wagons so as to satisfy the future demand for rapid railway freight transportation by our customers. We won the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2008 as a primary participant for the project "Whole Set of Heavy-hauling Technology and Its Application on the Daqin Line" (大秦鐵路重載運輸成套技術與應用). Both our DQ45 clamping car and D45 drop well-hole car have the largest carrying load in China. Our heavy-hauling freight wagons exported to Australia with 37.5-tonne axle load and 137.5-tonne maximum carrying load have the lightest dead weight with the highest carrying load in the world.

- *Rapid transit vehicles.* We have a world-class research and development platform for the manufacture of types A, B and C metro cars and light rail cars and trams. Our research and development of mid-/low-speed maglev trains has been selected into the National Science and Technology Support Program (國家科技支撐計劃) in China. The 100% low-floor light rail cars independently developed by us is currently in operation. We have successfully developed China's first alpine rapid transit vehicle running on Harbin subway, the design of which has been granted an IF Design Award of Germany.
- *Railway engineering machinery and equipment.* We have a specialized railway engineering machinery research and development center and have a world-class technology platform in China for large railway maintenance machinery. We manufacture rail grinding trains, trackbound maintenance machines, ballast shoulder cleaning machines and catenary multi-purpose operation cars with world-leading technologies.
- *Core system and components of rolling stock, mechanical and electric products and other products.* We have a National Key Laboratory (國家重點實驗室) for the traction drive and control of MUs and locomotives. Our independently developed traction and network control system, "CNR Core", has been widely applied to our AC electric locomotives. We are also able to meet the highest international standards for IGBT module development. We have a first-class locomotive diesel engine development platform meeting the various needs of our customers. We also have research and development capability for key systems and components such as brake systems, tight-lock couplers, heat transfer and cooling systems.

Extensive sales network and the ability to provide value-added services for our customers

We have an extensive sales network. Our domestic sales network for rolling stock covers the national railway market in China (including CRC and its affiliated enterprises), rapid transit operators and rapid transit vehicles and component purchasers and large-scale industrial/mining and oil enterprises. Our non-rolling-stock market customers include logistic transportation companies, oil drilling companies, ports and large industrial/mining enterprises, wind turbine manufacturers and power companies. We also have an extensive international sales network, and currently export our products to over 80 countries and regions in Oceania, Southeast Asia, Latin America, Central Asia, South Asia, the Middle East, Africa, Europe and North America.

We provide our customers with a complete set of services, recommend appropriate products to our customers and offer training in connection with technical information and guidance, and operation and repair of our products. We offer product warranties to our customers and we have a large after-sale service team providing prompt support to our customers. In addition, in order to provide customers with complete services, we visit our customers on a regular basis to discuss performance and quality of our products and obtain first-hand feedback to measure customer satisfaction of our products and services. We have established an extensive after-sales service network consisting of after-sales service stations in various cities in China as well as 16 overseas after-sales service stations in countries such as Australia and Brazil, to provide on-site technical support service for our products.

We have developed a diversified business model which is focused on a combination of project financing, contracting and leasing together with our product sales to generate maximum value for our customers. As a result of our full-range of customer services and established corporate philosophy of creating maximum value for our customers, we have established strong market awareness and reputation for our "CNR" and "中國北車" brands, which provides us with a strong base to further expand our sales network and customer base.

World first-class production equipment and cutting-edge production process, advanced quality control system and provision of safe and reliable products

We own world first-class manufacturing, testing and trial equipment and leading production process and strive to attain efficient production in all respects. By using specific production models for different types of products, we are able to satisfy the various demands of users while increasing production efficiency.

We have an advanced quality control system covering our entire production process, from product research and development, procurement of raw materials and manufacturing, to product testing and after-sales support. Our subsidiaries have adopted a number of strict quality control standards such as ISO 9000, and our subsidiary CNR Qiqihar was awarded the highest quality prize in China in 2013, namely National Quality Award (全國質量獎) granted by the China Quality Association (中國質量協會), making us the only manufacturer to receive this award in the PRC rolling stock industry. We have a quality management team consisting of more than 3,000 quality management personnel who are responsible for quality control over our products and services.

Benefiting from our advanced production equipment, production process and quality control system, we are able to provide our customers with safe and reliable products.

Excellent management team, team of experienced professionals and well-developed corporate governance

We have a senior management team with significant experience and proven track record in the rolling stock industry. On average, the members of our senior management team each have worked in the rolling stock industry for more than 20 years, with specialized experience in management, production, finance or engineering. Certain senior executives of our Company are members of committees of China's major industry associations. With industry-leading foresight and strategic vision, our senior management team is able to identify market opportunities and continuously strengthen our leading position in the rolling stock industry so as to achieve sustainable high growth and create significant returns for our Shareholders. Our senior executives have extensive overseas business experience, which facilitates our implementation of an internationalization strategy.

In addition to our senior management team, we have a large team of management, technical and operational professionals and well-trained workforce. We have industry-leading talents with respect to research and development, production, quality control and after-sales service. With their extensive experience and expertise, our technical workers are among the most experienced and skillful workers in the rolling stock industry. As the largest rolling stock manufacturer in the world, we are well-positioned to attract industry professionals. We place great emphasis to recruit, train and retain talented professionals, which we believe is crucial to support our future development.

We also have established a modern corporate governance structure and have continuously improved such corporate governance structure since our listing of A Shares on the Shanghai Stock Exchange in 2009. Furthermore, we have established sound corporate governance measures in accordance with the Hong Kong Listing Rules. We have also adopted a stock option incentive program for our directors, senior management, key technicians and other key employees.

OUR BUSINESS STRATEGIES

We will continue to focus on our rolling stock business in order to consolidate our leading position in the global rolling stock industry and become a world-class enterprise with international competitiveness. At the same time, we will leverage our industry leading position to provide future cities with systematic solutions. To achieve these goals, we plan to implement the following business strategies:

Further consolidate our leading position in the global rolling stock industry, provide our customers with solutions covering the whole industry chain, and endeavor to lead future development of the rolling stock industry

As the rolling stock business is our core business, we intend to capitalize on the opportunities arising from the future development of the global rolling stock industry and the strategic restructuring of China's economy, by further developing and expanding our core rolling stock business. We also plan to further consolidate our leading position in the global rolling stock market through continuous innovations in respect of our technology, business model and management as well as market expansion.

In order to become a leading international rolling stock manufacturer and service provider, we plan to, with the aim of serving the global market, improve the structure of our complete portfolio of train and vehicle unit products, and continue to focus on developing our overhaul business, systems and components manufacturing, and other value-added services, so as to transform ourselves from an equipment manufacturer to a comprehensive rail transport service provider. By closely keeping our pace with changes in market demand and reforms in China's railway regime, we intend to build a locomotive product portfolio that meets market demands, and at the same time proactively adapt ourselves to changes in the railway market and bidding-based product procurement, and take appropriate measures tailored for each product category to ensure we continue to hold a leading share in the domestic markets of high-speed MUs, high-powered locomotives, heavy-hauling and rapid freight wagons, rapid transit vehicles and other major products. We also intend to strengthen strategic cooperation with our customers, build a marketing management system and service network commensurate with the structure of the rolling stock market, and continue to develop products and services that create value for global users. We will actively develop rolling stock products that cater to specified demands of clients in both domestic and foreign markets and optimize the layout of our rolling stock business to meet our customers' diversified demands with respect to project development and financing methods. By undertaking project management contracting services for urban rail and other related projects, we intend to boost our equipment sales, further increase our share of the PRC and global rolling stock markets, provide our customers with systematic solutions for rolling stock products, and create maximum value for our customers.

Expedite our development of emerging industry business to further diversify our business portfolio and provide future cities with systematic solutions

We intend to continue to diversify our business portfolio and develop strategic emerging industry businesses by capitalizing on the opportunities arising from the urbanization trend in China with a view to providing future cities with systematic solutions.

By leveraging our success in the rolling stock industry and China's efforts to foster and develop strategic emerging industries, we intend to develop other businesses relating to high-end non-rail equipment, new-energy equipment, new materials, energy conservation and environmental protection

products, electric buses and next-generation information technologies, in order to develop our strategic emerging business into one of our core businesses in the future.

We also endeavor to integrate our production and service resources to support our engagement in the high-end service markets. We intend to expedite our development of modern service business with a focus on logistics, finance and technology. In addition, we intend to devote significant efforts to strengthen our finance leasing business and increase the operational scale of such business while enhancing our risk management at the same time. Furthermore, we plan to integrate our internal financial resources, strengthen our centralized fund management, and actively explore opportunities to provide other financial services to our customers. We also plan to integrate our research and development resources and capitalize on our advanced technologies to further broaden our business activities in the field of technology services.

Expand international customer base to achieve a global footprint and further strengthen allocation of resources worldwide to develop our international business

Through our ongoing promotion of brand value to enhance our competitive strengths, we intend to further increase our overseas market share to become a world-class multinational company with leading technologies and proprietary brands.

We intend to actively explore the global market by providing our rapid transit vehicle, passenger coach and freight wagon products to the global market, marketing our diesel locomotive products mainly in the regions where we are well positioned to capture the growth opportunities in such regions, promoting our electric locomotives and high-speed MUs to win target projects, and further increasing our export of rolling stock components and mechanical and electric products. We intend to further broaden our customer base in Oceania, South America, the Commonwealth of Independent States, South Asia, the Middle East and Africa, enhance our share in overseas markets where we are well positioned to take advantage of growth opportunities through localization, and continue to explore new markets worldwide.

Depending on the development needs of our overseas business, we intend to focus on obtaining core technologies and recruiting highly qualified talents, and establish research and development, manufacturing, supply and refurbish bases abroad through mergers, acquisitions and investments to improve our global allocation of resources, optimize our business portfolio, be in closer proximity to our customers, further broaden our international sales network, and enhance our ability to provide our global customers with localized services. We intend to expand our product-related service and technology exports. For example, by leveraging our product sales, we plan to enhance our technology exports, optimize our use of capital and provide finance leasing, product life-cycle services in respect of our rolling stock products and other forms of services. Through our localization in overseas markets and strategic global presence, we intend to expand our international offering of products and services in order to transform ourselves from a product manufacturer into a comprehensive product, technology and service provider.

Further enhance our competitive strengths and sustain our future development through technological research and development, enhanced corporate governance and adoption of an innovative business model

We intend to further enhance our core competitiveness through research and development of a number of key products and technologies that are important to the future development of the rolling stock industry.

With respect to rolling stock, we intend to further improve our internationally advanced three-tier technology platform focusing on complete vehicle units, systems and components to ensure a vertically integrated independent development capability. We intend to further develop new, high quality locomotives, passenger coaches, freight wagons, rapid transit vehicles and advanced railway engineering machines and equipment to develop a diversified product portfolio with a full series of proprietary and world-leading rolling stock products. By leveraging our independent research and development capability, we continue to develop and own a full range of key technologies relating to diesel engine for locomotive, traction conversion, network control, braking, running and driving systems of rolling stock products.

We also intend to accelerate our research and development of non-rolling stock products and integrate our existing resources to build up our innovation capability and technological advantages in businesses relating to construction machinery, wind power equipment, electric buses, energy conservation, environmental protection and information technology.

In addition, we intend to continue monitoring the development trends in the PRC and global rolling stock industry and relevant emerging industries. We also intend to further strengthen the application and development of new technologies, materials and products in anticipation of potential growth opportunities in the global rolling stock industry, consolidate our advantages in products and technologies, and promote our long-term development through research and development and innovation.

We also intend to further enhance our corporate governance with a focus on cost control to further improve our profitability. We intend to reduce our procurement costs through the introduction of an online procurement platform. In addition, we intend to continue optimizing our financial management to support our production plan on a timely basis and allocate our financial resources among our various business segments effectively. We also plan to further strengthen our internal control system for risk control purposes.

Furthermore, we intend to further optimize our product offering and upgrade our services to respond to the changes resulting from ongoing reforms to China's railway system and competition in the global rolling stock market. By leveraging our leading position in the rolling stock industry, we intend to provide future cities with systematic solutions by developing innovative products and services, which we believe will also enhance sales of our existing major rolling stock products.

We believe that ongoing innovation in our technology, operation and management will help us maintain our core competitiveness and sustain our future development.

Achieve advantages in human resources and further enhance our profitability and core competitiveness by implementing a talent-based development strategy

We believe talented professionals are crucial to our success. To establish an international professional team for a world-class enterprise, we intend to implement a talent-based development strategy to support our optimization of business portfolio and expansion of international customer base in order to further enhance our profitability and competitiveness.

We intend to further improve our talent selection process, enhance our incentive programs for talented professionals, and actively promote public selection and competition for job opportunities to attract and allocate talented professionals throughout our Group. By leveraging our key businesses, key

projects and key technologies, we intend to attach particular importance to the selection and cultivation of talents that may lead our business and actively build a talent pool. We intend to further promote the professionalization, specialization and internationalization of our operational and management professionals to ensure that they are familiar with international industry standards, have a global vision and develop sound professional skills, by offering them opportunities to participate in management-related practice, study and training. We intend to further strengthen our development of work forces and carry out multi-level and multi-channel training to increase the overall quality of our work forces, consolidate our advantages in human resources and support our future development.

OUR PRODUCTS AND SERVICES

During the Track Record Period, we have generated our revenue primarily from development, manufacturing and sales of the following products and rendering of services:

Business	Type	Specific Product/Service	Major Operating Subsidiaries
Manufacturing and Refurbishment of Rolling Stock Products	High-speed MUs	MUs with maximum operating speeds over 200 km/h (inclusive) and over 300 km/h (inclusive)	CNR Changchun and CNR Tangshan
	Locomotives	DC and AC electric and diesel locomotives for passenger and freight transport	CNR Dalian, CNR Beijing Feb. 7th, CNR Datong, CNR Taiyuan(1) and CNR Lanzhou(1)
	Passenger coaches	seating coaches, berth sleeping cars, dining cars, power generation cars and double-deck passenger coaches	CNR Changchun(2), CNR Tangshan(2), CNR Changchun Equipment(1) and CNR Xi'an(1)
	Freight wagons	open top wagons, box wagons, flat wagons, tank wagons, hopper wagons and other special purpose wagons	CNR Qiqihar, CNR Taiyuan, CNR Xi'an, CNR Shenyang, CNR Jinan(2) and CNR Harbin
	Rapid transit vehicles	metro cars, light rail cars, inter-city railcars and trams	CNR Changchun, CNR Changchun Equipment, CNR Dalian, CNR Tangshan and CNR Guifa
	Railway engineering machinery and equipment and core systems and components of rolling stock	railway cranes, trackbound maintenance machines, rail grinding trains, ballast shoulder cleaning machines and catenary multi-purpose comprehensive working car, diesel engine for locomotive, traction systems, network control systems, brake systems, gear transmission systems, heat transfer and cooling systems, high-voltage electric turbochargers, high-powered semiconductor devices and tight-lock couplers	CNR Qiqihar, CNR Beijing Feb. 7th, CNR Taiyuan, Yongji Xinshisu, CNR Lanzhou, CNR Changchun Equipment, CNR Tianjin, CNR Beijing Nankou, CNR Dalian Institute and CNR Qingdao Sifang

Business	Type	Specific Product/Service	Major Operating Subsidiaries
Manufacturing of Mechanical and Electric Products	Motors, gearboxes and other mechanical and electric equipment	motors and gearboxes for oil drilling machinery, mining machinery, metallurgical machinery, springs and air springs	Yongji Xinshisu, CNR Beijing Nankou, CNR Tianjin and CNR Qingdao Sifang
	Electrical and electronic equipment	IGBT modules, converters and inverters, air compressors and other power/electric products	Yongji Xinshisu, CNR Beijing Nankou and CNR Qingdao Sifang
Modern Service Business	Trading	trading of raw materials, including steel, coal, ore and chemical products	CNR Logistics and CNR CR
	Project management contracting services	project management contracting services for urban rail and other related projects	CNR Construction and Engineering
	Finance leasing	finance leasing of rolling stock and machines and equipment	CNR Leasing
Emerging Industry Business	Clean energy	wind power generation equipment	Yongji Xinshisu, CNR Jinan, CNR Beijing Nankou and CNR Lanzhou
	Energy conservation and environmental protection equipment and systems	electric buses, sewage/waste recycle and disposal systems and associated solutions	CNR Jinan, CNR Changchun and CNR Datong
	Enterprise resource planning service and other information technology services	enterprises resource planning service and systematic solution, energy management service, testing and verification service for software, and system solution and service for equipment asset management	CNR Yingtai

Notes:
(1) Refurbishment only.
(2) Manufacturing only.

Manufacturing and Refurbishment of Rolling Stock Products

We develop, manufacture and refurbish a comprehensive range of rolling stock products, including high-speed MUs, locomotives, passenger coaches, freight wagons, rapid transit vehicles, railway engineering machinery and equipment and core systems and components of rolling stock. The following table sets forth the total units sold and refurbished for each of our major rolling stock product lines in the years indicated:

		Year ended 31 December		
	Unit	2011	2012	2013
High-speed MUs				
Manufacturing	Unit	1,160	936	936
Refurbishment	Unit	456	592	1,008
Locomotives				
Manufacturing	Unit	1,089	840	634
Refurbishment	Unit	634	1,048	1,074
Passenger coaches				
Manufacturing	Unit	1,030	1,580	1,732
Refurbishment	Unit	1,749	1,706	2,182
Freight wagons				
Manufacturing	Unit	28,180	27,466	25,111
Refurbishment	Unit	27,894	26,941	23,867
Rapid transit vehicles				
Manufacturing	Unit	1,255	1,546	1,106

High-speed MUs

High-speed MUs are used for high-speed passenger transportation. According to SCI Verkehr, we were the largest manufacturer of MUs with a maximum operating speed over 300 km/h (inclusive) in the world in terms of aggregate number of units delivered in 2011 and 2012, accounting for a market share of 29.7% during the same period. According to CRC, we won the bids for 66.0% of the total number of MUs with a maximum operating speed over 300 km/h (inclusive) that CRC purchased in 2013, representing the largest market share in China for the same period. We offer high-speed MUs with maximum operating speeds ranging from 200 km/h to 380 km/h.

We own world-leading facilities for the manufacturing of high-speed MUs and possess world-class key technologies for the research, development and manufacturing of high-speed MUs. We have primarily developed our high-speed MUs through our self-developed technologies based on a combination of our research and development activities and advanced technologies from overseas countries that we have digested, absorbed, studied and analyzed. When we commenced our development of high-speed MUs in 1993, we formulated a primary set of technical standards for manufacturing of MUs at the early development stage, which provides a solid base for our further development of high-speed MU related technologies. After that, we devoted significant resources to digest, absorb, study and analyze advanced technologies relating to high-speed MUs from overseas countries by leveraging our research capabilities and maintaining cooperative relationship with industry experts worldwide. We have established our world-leading platforms to develop high-speed MUs with maximum operating speeds over 200 km/h (inclusive) and over 300 km/h (inclusive), respectively, and developed a series of high-speed MUs with maximum operating speeds between 200 km/h and 380 km/h. We have further achieved our own innovation of our key proprietary technologies for manufacturing of high-speed MUs with continuous efforts to upgrade and enhance such technologies so as to respond to industry trend and market needs on a timely basis. Based on these efforts, we have developed world-leading complete units of high-speed MUs by ourselves and obtained

our own intellectual property rights with respect to the relevant technologies, and did not enter into collaboration or licensing arrangements with third parties to design and develop such high-speed MUs.

For the years ended 31 December 2011, 2012 and 2013, we sold 1,160, 936 and 936 high-speed MUs, respectively, and refurbished 456, 592 and 1,008 high-speed MUs, respectively.

The following table sets forth the major types and details of our high-speed MUs:

	Type	Our Products	Product Description
	MUs over 200 km/h (inclusive)	CRH5, CRH3A	MUs with a maximum operating speed over 200 km/h (inclusive)
	MUs over 300 km/h (inclusive)	CRH3, CRH380CL, CRH380B, CRH380BL	MUs with a maximum operating speed over 300 km/h (inclusive)

We have achieved significant success in our high-speed MU business in recent years. Our major achievements include:

- Our CRH380BL recorded the world's then highest experimental speed of 487.3 km/h on railway lines in operation in 2011.
- Our CRH3 recorded the highest speed of 394.3 km/h in China in 2008 and won the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2012.
- All the high-speed MUs currently running on the Beijing-Tianjin inter-city railway, the first 300 km/h high-speed railway in China which commenced operation in 2008, are our CRH3 MUs.
- As at the Latest Practicable Date, we were the only manufacturer in China which was able to mass produce high-speed MUs that were capable of operating at high latitudes and low winter temperatures. The Harbin-Dalian high-speed railway, China's first alpine high-speed railway operating at high latitudes and low winter temperatures, has relied exclusively on our CRH380B MUs.
- As at 31 December 2012, high-speed MUs manufactured by us accounted for approximately 68.0% of the high-speed MUs running on the Beijing-Shanghai high-speed railway, one of the major railway lines in China.

Sales of our high-speed MU products amounted to RMB24,954.4 million, RMB22,129.6 million and RMB23,858.3 million, representing 28.1%, 24.1% and 24.7% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively.

Locomotives

According to SCI Verkehr, we were the largest manufacturer of electric locomotives in the world, in terms of aggregate number of units delivered between 2008 and 2012, accounting for a

market share of 30.6% during the same period. According to CRC, we won the bids for 53.2% of the total number of locomotives that CRC purchased in 2013, representing the largest market share in China for the same period. We have a world-class research and development platform and world-leading manufacturing facilities for locomotives. We manufacture both DC and AC electric locomotives and diesel locomotives with electric locomotives covering 4,800 kW to 10,000 kW and diesel locomotives covering 1,000 hp to 6,000 hp, which include heavy-hauling freight locomotives and locomotives used for fast passenger service as well as locomotives for train dispatch and for traction of mining vehicles. In addition, we also provide refurbishment, upgrading and maintenance services for such locomotives. We own and operate a number of facilities in China for the manufacturing, refurbishment, upgrade and maintenance of various types of locomotives. Our subsidiary CNR Dalian is China's largest manufacturing facility for locomotives in terms of the total number of locomotives delivered in 2012. We own and operate China's largest refurbishment facility for electric locomotives, CNR Taiyuan, in terms of refurbished electric locomotives delivered in 2012.

For the years ended 31 December 2011, 2012 and 2013, we sold 1,089, 840 and 634 locomotives, respectively, and refurbished 634, 1,048 and 1,074 locomotives, respectively.

The following table sets forth the details of our major locomotive products:

	Type	Our Products	Product Description
	DC electric locomotive	SS3, SS3B, SS4, SS7, SS7B, SS7C, SS7D, SS7E, SS6B, SS4G	Heavy-hauling freight and fast passenger service
	AC electric locomotive	SSJ3, HXD2, HXD3, HXD2B, HXD2C, HXD3B, HXD3C	Heavy-hauling freight and fast passenger service
	DC diesel locomotive	DF4B, DF4C, DF4D, DF7, DF8, DF10, GKD5, CKD7, GK1E	Heavy-hauling freight, fast passenger service, train dispatch, and traction of mining vehicles
	AC diesel locomotive	DF4DJ, DF7J, CKD8E, HXN3, HXN3B	Heavy-hauling freight and fast passenger service, train dispatch, and traction of mining vehicles

We have achieved significant success in our locomotive business in recent years. Our major achievements include:

- Our HXD3 series six-axle 7,200 kW high-powered AC electric locomotive was awarded the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2010, representing the highest award in China's history of development of AC locomotives.
- Our HXD3 series six-axle 7,200 kW high-powered AC electric locomotive is the main locomotive which promoted China's speed upgrade for freight lines in 2007. It was the most commonly-used AC electric locomotive in China as at the Latest Practicable Date.

- Our HXD2 series eight-axle 10,000 kW high-powered AC electric locomotive is one of the main locomotives on the Daqin Line, which is the most advanced coal freight line in China suitable for 20,000-tonne grade coal transporting trains.
- Our HXN3 6,000 hp AC diesel locomotive adopting world-leading technologies is able to operate under severe conditions, such as high latitudes and low winter temperatures.

We have also worked with the PRC government and the relevant authorities to set industry standards in the PRC domestic diesel and electric locomotive markets.

Sales of our locomotive products amounted to RMB19,862.2 million, RMB16,023.7 million and RMB15,774.1 million, representing 22.4%, 17.5% and 16.3% of our revenue, for the years ended 31 December 2011, 2012 and 2013, respectively.

Passenger coaches

Our passenger coach products comprise rail vehicles that are mainly used for passenger transportation purposes, including seating coaches, berth sleeping cars, dining cars, power generation cars and double-deck passenger coaches. We possess core technologies for the production of high-end passenger coaches and develop and manufacture passenger coach products with world-leading technologies. The "25" series passenger coaches developed by us are the main passenger coaches used in China's passenger lines. We have a complete product portfolio of passenger coaches, including a series of 25G, 25K and 25T products with a maximum operating speed under 200 km/h meeting various demands of customers for passenger coaches with speeds under 200 km/h. We own and operate a number of facilities in China for the manufacturing, refurbishment, upgrade and maintenance of various types of passenger coaches.

For the years ended 31 December 2011, 2012 and 2013, we sold 1,030, 1,580 and 1,732 passenger coaches, respectively, and refurbished 1,749, 1,706 and 2,182 passenger coaches, respectively.

The following table sets forth the major types and details of our passenger coach products:

	Type	Our Products	Product Description
	Seating coaches (semi-cushioned and cushioned)	YZ25B, YZ25G, YZ25K, YZ25T, SRZ25B, RZ25Z, RZ25K, RZ25T	Cars that are equipped with seats
	Berth sleeping cars (semi-cushioned and cushioned)	YW25B, YW25G, YW25K, YW25T, RW25B, RW25G, RW25K, RW19T, RW25T	Cars that are equipped with sleeping facilities
	Dining cars	CA25B, CA25G, CA25K, CA25T	Cars that are equipped with a kitchen, dining room and storage room, on which dining services are provided to passengers

	Type	Our Products	Product Description
	Power generation cars	KD25G, KD25K	Cars that are equipped with power generating equipment driven by motor engines
	Double-deck passenger coaches	SYZ25B, SYZ25Z, SYW25B, SYW25Z	Cars that are equipped with two decks of passenger rooms

Sales of our passenger coach products amounted to RMB4,076.6 million, RMB5,471.5 million and RMB7,996.3 million, representing 4.6%, 6.0% and 8.3% of our revenue, for the years ended 31 December 2011, 2012 and 2013, respectively.

Freight wagons

According to SCI Verkehr, we were the world's second largest and China's largest manufacturer of freight wagons, in terms of aggregate number of units delivered between 2008 and 2012, accounting for a market share of 8.1% during the same period. According to CRC, we won the bids for 47.3% of the total number of freight wagons that CRC purchased in 2013, representing the largest market share in China for the same period. We offer complete types of freight wagon products with wide uses. Our freight wagon products mainly consist of open top wagons, box wagons, flat wagons, tank wagons, hopper wagons and other special purpose wagons. We manufacture freight wagons to transport a wide range of products, including coal, steel, timber, general merchandise, cargo containers, fuels, chemicals, ores and liquefied gas. We offer freight wagons that accommodate all railway transportation needs with world-leading research and development and manufacturing capabilities. We own and operate CNR Qiqihar, one of the world's leading facilities for the manufacturing of freight wagons. C70 universal open-top wagon, P70 box wagon and GQ70 tank wagon developed and manufactured by us are the main models used for railway freight transportation in China. We own and operate a number of facilities in China where we refurbish, upgrade and maintain various types of freight wagons. We are the industry leader in the formulation of technology standards for major railway freight wagons in China.

For the years ended 31 December 2011, 2012 and 2013, we sold 28,180, 27,466 and 25,111 freight wagons, respectively, and refurbished 27,894, 26,941 and 23,867 freight wagons, respectively.

The following table sets forth the major types and details of our freight wagon products:

	Type	Our Products	Product Description
	Open-top wagons	C70, C70A, C70E, C80, C80B, C100, C100A	To transport coal, ores, construction materials, machines and equipment, steel, wood and other materials
	Box wagons	P70, P65, P64GK	To transport cased or bagged goods that must be protected from sunlight, rain and/or loss

	Type	Our Products	Product Description
	Flat wagons	X2K, X2H, X3K, X4K, X6K, X70, NX70, NX70A	To transport cargo containers, machines, timber, steel
	Tank wagons	GQ70, GN70, GJ70, GS70, GHA70, GH70B, GHA70A, GQ70A, GN70A, GF70, GL70	To transport light oil, viscous oil, food oil, liquefied gas, goods in powder form and other chemical goods
	Hopper wagons	KM70, KZ70, L70	To transport bulk cargo such as coal, ores and grains, and are suitable for pneumatic loading and unloading
	Other special purpose wagons	SQ6, DL1, D15, D22A, D30A, D32, D35, D38, D45, DQ45, D70, T6DK, W5K, W6, W6S	To transport special goods such as cars, pre-cast beams, oversized cargos and goods requiring heat insulation

We have achieved significant success in our freight wagon business in recent years. Our major achievements include:

- We won the First Prize of National Technology Progress Award (國家科學技術進步獎一等獎) in 2008 as a primary participant for the project "Whole Set of Heavy-hauling Technology and Its Application on the Daqin Line" (大秦鐵路重載運輸成套技術與應用).
- 70-tonne open-top wagon, box wagon and tank wagon developed and manufactured by us are the main models used for railway freight transportation in China.
- We have designed and developed C80B series stainless steel coal open-top wagon, which have become the main type of freight wagons for coal transportation on the Daqin Line, the most advanced freight line in China.
- Our DQ45 clamping car is the clamping car with largest load in China and our D45 drop well-hole car has the largest load in China.
- Our heavy-hauling freight wagons exported to Australia with 37.5-tonne axle load and 137.5-tonne maximum carrying load have the lightest dead weight with the highest carrying load in the world.

Sales of our freight wagon products amounted to RMB14,098.5 million, RMB14,493.0 million and RMB13,298.3 million, representing 15.9%, 15.8% and 13.7% of our revenue, for the years ended 31 December 2011, 2012 and 2013, respectively.

Rapid transit vehicles

According to SCI Verkehr, we were the largest manufacturer of metro cars, a major type of rapid transit vehicles, in the world in terms of aggregate number of units delivered from 2008 to 2012, accounting for a market share of 22.4% during the same period. We offer complete types of rapid transit vehicle products and offer more than 200 sub-divided types of metro cars, light rail cars, inter-city railcars and trams that accommodate various urban rapid transit transportation needs with strong research and development and manufacturing capabilities. We also have the capability to develop and manufacture maglev cars. In addition, we provide MUs, including EMUs and DMUs, with speeds ranging from 70 km/h to 140 km/h. Our EMUs have adopted advanced safety, AC transmission, power control, train monitoring and passenger information systems.

For the years ended 31 December 2011, 2012 and 2013, we sold 1,255, 1,546 and 1,106 rapid transit vehicles, respectively.

The following table sets forth the major types and details of our rapid transit vehicles:

	Type	Our Products	Product Description
	Metro cars (Linear motor cars)	Model L metro cars	The linear motor car is superior in terms of its low noise emission, high climbing capacity and low maintenance costs.
	Metro cars (Non-linear motor cars)	Model A, B and C metro cars	The non-linear motor car has higher operating speeds, higher passenger capacities, higher levels of efficiency and lower levels of energy consumption and pollution.
	Light rail cars	DK32 cars, FG cars, model B aluminum alloy cars, low-floor cars, straddle-type monorail cars	Light rail cars are specially designed for surface level transportation within metro areas.
	Inter-city railcars	DLK cars, Rio EMU, TSK DMU	Inter-city railcars are designed for surface transportation between nearby cities.
	Trams	70% and 100% low-floor tram	Trams are designed for urban surface transportation.

We have achieved significant success in our rapid transit vehicle business in recent years. Our major achievements include:

- As at 31 December 2013, of all the urban rapid transit lines in operation in China, comprising 87 urban rapid transit lines in 19 cities in China, our rapid transit vehicles operated on 48 urban rapid transit lines in 13 cities, representing a leading market share in China.
- We have successfully developed China's first alpine rapid transit vehicle for Harbin subway, the design of which has been granted an IF Design Award of Germany.
- Our rapid transit vehicles have been sold to and operated in Hong Kong, Saudi Arabia, Brazil, Argentina, Thailand, Ghana and Bangladesh.
- Our rapid transit vehicle products have served the 2008 Beijing Olympic Games, the 2010 Shanghai World Expo, the 2010 Guangzhou Asian Games and the 2011 Shenzhen Universiade.
- In October 2012, Rio de Janeiro suburban rail operator SuperVia selected us as the winning bidder for a US$320.1 million contract to supply 60 EMUs, which will be used to serve the 2014 World Cup and the 2016 Olympic Games.

Sales of our rapid transit vehicle products amounted to RMB6,370.4 million, RMB8,096.6 million and RMB5,851.3 million for the years ended 31 December 2011, 2012 and 2013, respectively, representing 7.2%, 8.8% and 6.0% of our revenue for the same periods, respectively.

Railway engineering machinery and equipment and core system and components of rolling stock

As a major supplier of large-scale railway engineering machinery and equipment in the PRC domestic market, we manufacture railway cranes, trackbound maintenance machines, rail grinding trains, ballast shoulder cleaning machines, catenary multi-purpose comprehensive working cars and diesel engines for locomotive. We are one of China's major manufacturers of large railway maintenance machinery and China's leading manufacturer of catenary multi-purpose comprehensive working cars.

We also produce components for our MUs, locomotives, passenger coaches and rapid transit vehicles. Such components include diesel engines, electric/traction motors and alternators, converters, network control products, traction and control integration products, passenger-related information technology products, high-powered semi-conductor devices, air compressors, turbochargers, heat transfer and cooling systems, water pumps, oil pumps, bogies, air springs, tight-lock couplers, draft gears and brake equipment. We have developed proprietary key systems for our rolling stock products, namely traction systems, control systems and network systems, which greatly improve our capabilities of producing our own supplies and core competitiveness. Our independently developed traction and network control system, "CNR Core", have been widely applied to our AC electric locomotives. Most of the core system and components of rolling stock we manufacture are for our internal use or as spare parts for our rolling stock products. We believe our ability to develop and manufacture components for our rolling stock products is crucial to ensure that our production is conducted in a cost-effective manner and under strict quality control. We generate revenue from our sales of core system and components of rolling stock to third-party rolling stock manufacturers.

For the years ended 31 December 2011, 2012 and 2013, sales of our railway engineering machinery and equipment and core system and components of rolling stock amounted to RMB1,055.8

million, RMB251.9 million and RMB1,225.6 million, respectively, representing 1.1%, 0.2% and 1.3% of our revenue for the same periods, respectively.

Manufacturing of Mechanical and Electric Products

Leveraging our experience and technologies related to the manufacturing of the mechanical and electric products such as rolling stock components, we are able to offer our third-party clients similar mechanical and electric products used for non-rail industries such as oil drilling, mining machinery and electric components, including IGBT modules, and customize such mechanical and electric products according to technical specifications provided by customers.

Our DC and AC motors cover power classes ranging from 200 kW to 1,600 kW. We have achieved a leading position in the market of oil drilling motors in China in terms of the aggregate number of units sold in 2013. As at 31 December 2013, our drilling motors have been equipped in the 1,000-meter to 12,000-meter oil rigs running in large oil fields in China, such as Daqing, Shengli, Liaohe, Huabei, Xinjiang and Changqing, and some overseas oil fields in Russia and Venezuela.

We are the first manufacturer in China to package IGBT modules of 6,500V. IGBT is a new generation of semi-conductor core component that is widely used in smart grid, electric vehicles, clean energy power generation and industrial control. We have successfully designed, developed and manufactured high-powered IGBT modules with voltage ranging from 1,200V to 6,500V and current ranging from 75A to 3,600A with advanced technologies.

For the years ended 31 December 2011, 2012 and 2013, our revenue for sales of our mechanical and electric products to customers was RMB1,314.5 million, RMB2,251.9 million and RMB1,793.5 million, respectively, representing 1.5%, 2.5% and 1.9% of our revenue for the same periods, respectively.

Modern Service Business

Our modern service business mainly includes trading of raw materials, project management contracting services for urban rail and other related projects and finance leasing of rolling stock and machinery and equipment.

For the years ended 31 December 2011, 2012 and 2013, our modern services business generated revenue of RMB14,915.0 million, RMB20,241.2 million and RMB22,806.2 million, respectively, accounting for 16.8%, 22.0% and 23.5% of our revenue for the same periods, respectively.

Trading of raw materials

We are engaged in the trading of raw materials through CNR Logistics, CNR CR and other operating subsidiaries. During the Track Record Period, we traded more than 80 types of raw materials under different categories and specifications. In particular, by leveraging our access to, and bargaining power vis-a-vis, major steel companies and other raw material suppliers in China, we purchase steel, coal, ore and chemical products from third-party vendors not only to satisfy our internal needs but also to sell these products to third-party customers for trading purposes. Our operating subsidiaries also sell scrap materials generated from their production processes to third parties.

We compete with other competitors by leveraging our supplier network and our competitive price through bulk purchase volumes. We have established long-term relationships with major steel suppliers in the PRC, including Hebei Jingye Iron and Steel Co., Ltd.* (河北敬業鋼鐵有限公司), Anshan Iron and Steel (Group) Co., Ltd.* (鞍山鋼鐵集團公司), Baosteel Group Corporation* (寶鋼集團有限公司),

Taiyuan Iron and Steel Group Co., Ltd.* (太原鋼鐵（集團）有限公司) and Wuhan Iron and Steel (Group) Co., Ltd.* (武漢鋼鐵（集團）有限公司), from which we are able to procure steel at favorable prices. The customers of our raw material trading business primarily comprise third-party PRC steel trading companies, heavy machinery companies and chemical companies. After we receive purchase orders from our customers, we will obtain a price quote from our suppliers. To minimize our inventory and increase our profits, we generally set our sale price of raw materials based on market prices and our procurement costs, and will only enter into direct sales and purchase agreements with customers if we are able to generate a profit. Given we typically earn profit based on such model and do not have intention to proactively procure and retain raw materials for trading purposes for a prolonged period, we are normally able to pass the risk of price fluctuation in raw materials traded by us on to our customers. We generally require payment of the full price or most of the price before delivery. We typically are not responsible for delivery of the raw materials to our customers. Our sales price generally includes transportation costs and the raw materials are usually delivered by the suppliers directly to our customers or our customers fetch the raw materials on their own.

For the years ended 31 December 2011, 2012 and 2013, our gross profit generated from trading of raw materials was RMB425.0 million, RMB402.7 million and RMB439.0 million, respectively, accounting for less than 5% of our total gross profit during the same periods. Taking into consideration the insignificant contribution of trading of raw materials to our gross profit, as well as our capability to pass the risk of price fluctuation in raw materials traded by us on to our customers, we believe fluctuation in the prices of raw materials traded by us has not had, and will not have, any material impact on our results of operations and financial condition.

Project management contracting service for urban rail and other related projects

By leveraging our technology advancement and experiences in the rolling stock industry and in-depth understanding of China's urban transportation, we are engaged in project management contracting service for urban rail and other related projects through our subsidiary CNR Construction and Engineering. Such project management contracting service generally involves our undertaking all or part of the procurement, construction and trial operations of an urban rail and other related project on a turnkey basis. We are generally responsible to the project owner for the quality, timely progress and costs of the construction of the project. Our major customers for project management contracting service are expected to be business entities set up and managed by local governments for the urban rail and other related projects. During the Track Record Period and up to the Latest Practicable Date, we did not experience any default or delay in payment from the local governments or their affiliated entities which had a material adverse effect on our business, results of operations and financial condition.

We may undertake urban rail and other related projects by way of build-transfer, or BT, through which we undertake the financing of construction expenditures and transfer the project back to our customer upon its completion and inspection for acceptance. We may from time to time form a consortium with other qualified partners to bid for projects that involve sub-projects requiring specific qualifications. After consulting with our PRC legal adviser, Jingtian & Gongcheng, our Directors believe that, in accordance with the PRC Bidding Law, such bidding arrangement through consortium is in compliance with the relevant requirements under PRC Bidding Law. For a typical BT project, the construction is usually made according to customers' requests and the contractors, such as us, are required to provide financing, fully or partially, for the project. Upon completion of a typical BT project, the customers for such BT project will purchase from the contractors the completed project after its inspection and acceptance with installments of payments pursuant to the mutual agreement.

As at the Latest Practicable Date, we had two urban rail projects, which were undertaken on a BT basis. On 17 February 2012, we formed a consortium with other third-party partners and such consortium undertook an urban rail project in Hunnan New District of Shenyang, Liaoning Province on a BT basis ("**Hunnan Project**") after going through a bidding process, which is the first modern tram project in China. The Hunnan Project includes four lines of 60 kilometers, one rolling stock depot, one parking lot and two comprehensive transportation hubs. We were responsible for the financing, management and construction of the Hunnan Project. Shenyang Hunnan Modern Transportation Co, Ltd.*(瀋陽渾南現代交通有限公司) ("**Hunnan Transportation**"), the project company established by the local government of Dongling District of Shenyang, Liaoning Province, agreed to purchase the Hunnan Project in three years from the completion of the Hunnan Project with a consideration of no less than RMB4,820 million, through three installment payments due in July 2014, July 2015 and July 2016, respectively. We have completed the main construction work of the Hunnan Project on 15 August 2013 in order to serve the 12th China National Games. We intend to securitize our right to the consideration of RMB4,820 million through China Merchants Securities Co., Ltd., of which, subject to the approval of the relevant authorities, RMB4,206 million senior securities will be issued to the public and RMB126 million junior securities will be bought by our subsidiary CNR Construction and Engineering. To facilitate such securitization project, CNR Construction and Engineering entered into an entrustment loan agreement with Hunnan Transportation pursuant to which CNR Construction and Engineering will provide a loan up to RMB1,850 million to Hunnan Transportation for a period of three years. As at the Latest Practicable Date, such securitization arrangement was still subject to approval by the relevant authorities. Assuming approved, we expect to receive RMB4,206 million, representing a large majority portion of the total consideration of RMB4,820 million, within a short period of time after the senior securities under the securitization arrangement are issued. Such securitization arrangement, we believe, will help us convert a large majority of such long-term receivables into cash in a more effective way to further improve our liquidity and cash flow, reduce our finance costs and enhance our operational efficiency. We will also evaluate the benefits arising from such securitization arrangement from time to time, taking into consideration the original schedule with respect to the repayment of the consideration of RMB4,820 million, so as to decide whether and how to proceed with such securitization arrangement. As at the Latest Practicable Date, we were not informed by Hunnan Transportation, nor were we aware of any events or circumstances that would make us reasonably believe, that we will be unable to recover the consideration payable to us by Hunnan Transportation in connection with the Hunnan Project in any material respect. In addition, according to a confirmation letter issued by Hunnan Transportation and the local government of Dongling District of Shenyang, Liaoning Province in November 2013 and a resolution passed by the Standing Committee of the People's Congress of Dongling District of Shenyang, Liaoning Province in November 2013, the consideration of RMB4,820 million payable to us in connection with the Hunnan Project has been included in the annual budgets of Dongling District from 2014 to 2016. As such, we believe that in the event such securitization arrangement is not approved by the relevant authorities or if we decide not to proceed with such arrangement, there is no material recoverability risk with respect to our collection of the consideration of RMB4,820 million. As at 31 December 2013, we recorded trade and construction contract of receivables of RMB4,964.5 million, of which RMB2,523.7 million was recognized as long-term receivables and the remaining RMB2,440.8 million was recognized as current portion of long-term receivables. Whether a portion or all of these long-term receivables will be derecognized from our statement of financial position is subject to the terms and conditions of the transaction documents under the securitization arrangements to be further finalized and agreed upon among the relevant parties.

Following a competitive bidding process, on 21 March 2014, we entered into an agreement with Chongqing Railway Transportation (Group) Co., Ltd.* (重慶市軌道交通(集團)有限公司) ("**Chongqing Railway**") with respect to the construction of the first phase of line 4 of the rapid transit lines in Chongqing on a BT basis ("**Chongqing Project**"). The Chongqing Project involves the construction of: (i) a railway network with a total rail length of 17.58 kilometers, of which 12.44 kilometers and 5.14 kilometers will be underground and above ground, respectively; and (ii) nine railway stations, of which six will also serve as interchange stations to other lines. We are responsible for the financing, management and construction of the Chongqing Project, and Chongqing Railway agreed to purchase the Chongqing Project in three years upon completion of such project (which is scheduled to take place in December 2017) at a consideration of RMB7,898.6 million (subject to audit by the government audit department).

In addition to the Hunnan Project and the Chongqing Project, we may continue to undertake a portion of our urban rail and other related projects on a BT or other similar basis. The risks associated with BT projects include, among others, the risk that our customers may delay, or even be unable to make, payment upon completion of the projects. For risks associated with our development of modern service business, in particular any business to be conducted on a BT or other similar basis, see "Risk Factors—Risks Relating to Our Business Operations—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."

To mitigate these risks, we have implemented, and intend to continue to implement, comprehensive internal control measures in relation to our undertaking of urban rail and other related projects. We carefully select local government customers and their affiliated entities based on the GDP, the financial condition and budget of the local governments in recent years, their overall track record, reputation, project size and their ability to pay us on a timely basis. We also take into account the technical requirements, specifications, duration, contract terms, special requirements of the project, risks of the project and our technology capability and capital and other resources to estimate the construction costs and profits, and may consult experts from time to time. Any BT or other similar projects are subject to our internal reporting and approval process. Once we start a BT project, we monitor our cost carefully and compare the actual cost against our budget on a regular basis to ensure we have sufficient funds to execute our BT and other similar projects and to identify operational risks we may face. We also place a strict control over any material change of design during our construction process and conduct internal and external audits for cost control and risk management purposes.

Finance leasing

Our finance leasing business is primarily focused on finance leasing of rolling stock and machines and equipment with the aim of promoting our sales of rolling stock products. We are engaged in this business through our subsidiary CNR Leasing, which has obtained all the necessary licenses from MOFCOM for this business.

We provide our customers with equipment-based finance leasing, which comprise direct finance leasing and sale-leaseback transactions. We fund our finance leasing transactions primarily through bank loans. A typical direct finance leasing transaction usually involves our purchasing of equipment designated by a customer from a third party and leasing such equipment to the customer to receive leasing payment in return. We also provide sale-leaseback service to our customers, where a customer sells its equipment to us and we lease such equipment back to such customer to receive leasing payment in return. For both direct finance leasing and sale-leaseback service, the ownership of the relevant equipment will generally be transferred from us to the customer upon expiration of the

lease term. The term of our finance leasing typically ranges from three to five years. The customers of our finance leasing business primarily comprise third-party companies in the chemical, manufacturing, transportation, mining, power and heating, cement, clean energy and urban construction industries.

For our finance leasing business, we are exposed to business risks including default risks. For risks associated with our finance leasing business, see "Risk Factors—Risks Relating to Our Business Operations—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." To mitigate our risks relating to finance leasing business, we have implemented, and will continue to implement, a number of internal control measures. For example, we perform credit evaluations on all of our finance leasing customers on an individual basis. These evaluations focus on each customer's background and financial strengths, past payment history and current ability to pay, and take into account information specific to each customer as well as the economic environment and the industry in which such customer operates. According to credit evaluation, collaterals such as properties, machineries or third-party guarantees are generally required to be provided by our customers. Before we enter into finance leasing with potential customers, we require them to provide their constitutional documents, financial reports and other documents that we deem necessary for review, and conduct due diligence with respect to the credibility, financial condition, results of operations, shareholding structure, management, beneficial owners, development plan and the industry in which the potential customers operate. In addition, we constantly update our risk management policies based on stringent risk management principles, performance of our underlying business, applicable laws and regulations, and prevailing market conditions. We will continue to strictly implement our risk management policies and measures, including pre-lease investigation, lease approval procedures, lease payment collection and management.

Emerging Industry Business

To capitalize on our strong research and development capability and core technologies in relation to rolling stock, we are also entering emerging industries, such as clean energy, energy conservation and environmental protection and information technology industries. With respect to clean energy, we have the mass production capacity for wind turbines and some key components, such as wind power generators and gearboxes. With respect to energy conservation and environmental protection, we manufacture electric buses and sewage/waste recycle and disposal equipment and systems. With respect to information technology service, we provide enterprise resource planning services and other information technology services to third-party customers.

We develop and manufacture double-fed water cooling and air-air cooling asynchronous wind generators ranging from 600 kW to 5,000 kW, in order to capture the market demand from China's wind power equipment manufacturing industry. We have achieved a leading position in the market of wind power generators in China. In 2012, we sold 1,512 wind power generators, representing 18.1% of the total installed capacity of the wind power generators sold in China during the same year. We also take lead in the formulation of national standards for wind power generators and possess leading technology in China for the development of wind power generators.

Our enterprise resource planning service and other information technology services primarily include enterprises resource planning service and systematic solution, energy management service, testing and verification service, and systematic solution and service for software equipment asset management. We conduct our information technology service business through our subsidiary, CNR Yingtai, which operates the National Enterprise Information Application Software Engineering

Technology Research Center (國家企業信息化應用支撐軟件工程技術研究中心), a leading information technology research center in China.

For the years ended 31 December 2011, 2012 and 2013, our emerging industry business generated revenue of RMB2,163.4 million, RMB2,838.8 million and RMB4,152.5 million, respectively, accounting for 2.4%, 3.1% and 4.3% of our revenue for the same periods, respectively.

OUR PRODUCTION FACILITIES

All of our manufacturing and refurbishment processes for our products are conducted in our own production facilities. As at the Latest Practicable Date, we had an aggregate of 48 production facilities located in 24 cities in China.

The following table sets forth the main business of our production facilities as at Latest Practicable Date:

Direct Subsidiaries[1]	Location of Production Facilities	Main Business
● New CNR Qiqihar	Qiqihar	Manufacturing and refurbishment of freight wagons and railway cranes
	Qiqihar	Manufacturing and refurbishment of freight wagons
	Harbin	Manufacturing and refurbishment of freight wagons
	Mudanjiang	Manufacturing of components for freight wagons
	Dalian	Manufacturing and export of freight wagons
● CNR Changchun	Changchun	Manufacturing and export of high-speed MUs, rapid transit vehicles and passenger coaches
	Changchun	Refurbishment of passenger coaches; and manufacturing of rolling stock components
	Chongqing	Manufacturing and refurbishment of rapid transit vehicles
	Wuhan	Refurbishment of rapid transit vehicles
● CNR Shenyang	Shenyang	Manufacturing and refurbishment of freight wagons
	Shenyang	Manufacturing and refurbishment of brake systems
● CNR Dalian	Dalian	Manufacturing and refurbishment of electric locomotives, diesel engines and components for locomotives
	Dalian	Manufacturing of rapid transit vehicles
	Zhuhai	Development, manufacturing and refurbishment of tram cars
● CNR Tangshan	Tangshan	Manufacturing and refurbishment of high-speed MUs and rapid transit vehicles
	Quanzhou	Refurbishment of rapid transit vehicles
	Tianjin	Refurbishment of rapid transit vehicles

Direct Subsidiaries[1]	Location of Production Facilities	Main Business
● CNR Tianjin	Tianjin	Manufacturing of components for locomotives
● CNR Beijing Feb. 7th	Beijing	Manufacturing and refurbishment of diesel and electric locomotives and railway maintenance machines
● CNR Beijing Nankou	Beijing	Development and manufacturing of key components for rolling stock products
● CNR Taiyuan	Taiyuan	Refurbishment of electric locomotives; manufacturing and refurbishment of freight wagons; and manufacturing of railway engineering machines
● CNR Datong	Datong	Manufacturing and refurbishment of electric locomotives and components for locomotives
	Datong	Manufacturing of electric and mechanical products
	Datong	Manufacturing of wheels
	Datong	Manufacturing of non-standard wheels
	Beijing	Manufacturing of high-voltage electrics
● Yongji Xinshisu	Yongji	Manufacturing of rolling stock key systems and components, wind power generators, drilling motors, electric and mechanical products
	Xi'an	Manufacturing of IGBT and other high-voltage electrics
	Xi'an	Manufacturing of wind power generators
	Xi'an	Manufacturing of oil drilling and wind power generators
● CNR Jinan	Jinan	Manufacturing of freight wagons and key components
	Jinan	Assembly of wind turbines and manufacturing of parts of wind turbines
	Jinan	Manufacturing of steel structure and parts of wind turbines
	Jinan	Manufacturing of waste gas and sewage recycle systems
● CNR Xi'an	Xi'an	Manufacturing and refurbishment of freight wagons; refurbishment of passenger coaches; and manufacturing of rolling stock components
● CNR Lanzhou	Lanzhou	Refurbishment of diesel and electric locomotives
	Hami	Manufacturing of wind turbine towers
	Yumen	Manufacturing of wind turbine towers
● CNR Dalian Institute	Dalian	Manufacturing of components for rolling stock products and electric and mechanical products
	Dalian	Manufacturing of heat transfer systems

Direct Subsidiaries[1]	Location of Production Facilities	Main Business
	Dalian	Manufacturing of turbo-supercharger for diesel engines
	Dalian	Refurbishment of air compressors and turbo-superchargers for diesel engines
	Lanzhou	Refurbishment of air compressors and turbo-supercharger for diesel engines
	Luoyang	Refurbishment of air compressors and turbo-supercharger for diesel engines
• CNR Qingdao Sifang	Qingdao	Manufacturing of electric systems for rolling stock products
	Qingdao	Manufacturing of components for rolling stock products
• CNR Dalian Electric Traction	Dalian	Development, manufacturing and refurbishment of electric tractions and control systems
• Shanghai Guifa	Shanghai	Manufacturing and refurbishment of rapid transit vehicles

Note:
(1) The production facilities owned and operated by companies controlled by each of our direct subsidiaries are listed as production facilities of such direct subsidiary.

The following table sets forth information on the utilization rates as well as the actual and planned production volume of our facilities for our major product lines as at the dates indicated:

		At 31 December 2011			At 31 December 2012			At 31 December 2013		
		Utilization %	Actual Production	Production Capacity[1]	Utilization %	Actual Production	Production Capacity[1]	Utilization %	Actual Production	Production Capacity[1]
High-speed MUs	Manufacturing units	82.8	1,272	1,536	56.3	1,136	2,016	59.5[2]	1,200	2,016
	Refurbishment units	158.3	456	288	72.9	560	768	94.4[3]	1,088	1,152
Locomotives	Manufacturing units	136.5	1,133	830	93.5	776	830	78.6[4]	652	830
	Refurbishment units	74.5	641	860	116.4	1,001	860	128.7[5]	1,107	860
Passenger coaches	Manufacturing units	113.9	975	2,000[6]	173.0	1,384	800	183.5[7]	1,468	800
	Refurbishment units	67.5	1,688	2,500	71.2	1,781	2,500	87.5[8]	2,118	2,500
Freight wagons	Manufacturing units	114.2	29,687	26,000	93.7	26,248	28,000	90.0[9]	25,222	28,000
	Refurbishment units	80.4	25,714	32,000	83.5	26,708	32,000	73.0[10]	23,387	32,000
Rapid transit vehicles	Manufacturing units	113.9	1,302	2,000[6]	79.9	1,519	1,900	65.0[11]	1,236	1,900

Notes:
(1) Production capacity is designed production capacity which is a conservative estimate and assumes a production line operates for 250 days a year and eight hours a day. Actual production may exceed production capacity due to measures including (i) increasing the efficiency and skill level of our workers; (ii) optimizing the production layout and improving efficiency of production steps; and (iii) arranging additional shifts of workers during peak production time. Notwithstanding that our actual production capacity may exceed our designed capacity, during the Track Record Period, we did not experience any accident or production safety issues at our production bases that had a material adverse effect on our financial condition, results of operations, reputation, business activities or future prospects.
(2) The decrease in general in the utilization rate for our high-speed MUs production capacity from 2011 to 2013 was mainly due to CRC's delay of its procurement of high-speed MUs in 2013 to August 2013 due to its reorganization and undertaking of railway operation business and assets from the MOR. The slight increase from 2012 to 2013 was mainly due to the increased order of high-speed MUs from CRC in the second half of 2013.

(3) The decrease in the utilization rate for our high-speed MUs refurbishment capacity from 2011 to 2012 and the increase in the same from 2012 to 2013 were mainly in line with the number of high-speed MUs manufactured by us in 2010 and 2011 which gradually reached their maintenance point for refurbishment after two years' operation.

(4) The decrease in the utilization rate for our locomotive production capacity from 2011 to 2013 was mainly due to (i) CRC's delay of its procurement of locomotives in 2013 to August 2013 due to its reorganization and undertaking of railway operation business and assets from the MOR; and (ii) less procurement of locomotives by CRC during the relevant period.

(5) The increase in the utilization rate for our locomotive refurbishment capacity from 2011 to 2013 was mainly due to the fact that the locomotives we manufactured in 2010 and 2011 reached its maintenance point for refurbishment after two years' operation.

(6) The production capacity for our passenger coach and rapid transit vehicle products in 2011 was the combined production capacity for both passenger coach and rapid transit vehicle products as they were manufactured by the same production lines in 2011. The utilization rate for each of our passenger coach and rapid transit vehicle products = combined actual production volume of both passenger coach and rapid transit vehicle products / combined capacity of both passenger coach and rapid transit vehicle products x 100%. In 2012 and 2013, our passenger coach and rapid transit vehicle products were manufactured by different production lines.

(7) The increase in the utilization rate for our passenger coach production capacity was mainly due to the increase in CRC's order of an increasing number of passenger coaches from 2011 to 2013.

(8) The increase in the utilization rate for our passenger coach refurbishment capacity was mainly due to an increasing number of passenger coaches subject to refurbishment and upgrade as a result of the increasing requirement for installation of environment protection equipment on passenger coaches in China.

(9) The decrease in the utilization rate for our freight wagon production capacity from 2011 to 2013 was mainly due to CRC's delay of its procurement of freight wagons in 2013 to August 2013 due to its reorganization and spin-off from the MOR.

(10) The decrease in the utilization rate for our freight wagon refurbishment capacity from 2011 to 2013 was mainly due to the fact that there were less freight wagons in the region where our facilities locate that could be sent for refurbishment.

(11) The decrease in the utilization rate for our rapid transit vehicle production capacity during the Track Record Period was primarily due to the decrease in delivered rapid transit vehicles on the market in 2013 as a result of less bidding for rapid transit vehicles in 2011, the delivery of which usually is scheduled in a two-year period.

In line with our business development strategy, we intend to expand our operations in various businesses, including our rolling stock business, modern service business and emerging industry business, to further strengthen our established leading market position, particularly focusing on geographic markets and products series where we have an edge over our competitors. In addition, we intend to further enhance our research and development capability through upgrading our research and development facilities and equipment. For further details, see "—Our Business Strategies", "Financial Information —Liquidity and Capital Resources—Capital Expenditures" and "Future Plans and Use of Proceeds."

EQUIPMENT AND MANUFACTURING AND REFURBISHMENT PROCESSES

Equipment

We own advanced manufacturing, testing and trial equipment and we adopt leading production process and promote efficient production in all operational aspects. As at 31 December 2013, we had 51,470 sets of equipment in aggregate, the details of which are set forth below:

Category	Sets
Metal cutting equipment (金屬切割)	4,614
Forging equipment (鍛壓)	1,541
Power equipment (動力)	3,059
Electrical equipment (電器)	16,817
Lifting and transport equipment (起重運輸)	8,991
Work furnace metal processing equipment (工作爐金屬處理)	1,096
Woodworking and casting equipment (木工鑄造)	567
Testing detection and verification equipment (試驗檢測和驗證)	2,960
Engineering machinery (工程機械)	1,274
Other equipment	10,551
Total	**51,470**

The table below sets forth our top ten production equipment in our major manufacturing facilities by net value as at 31 December 2013:

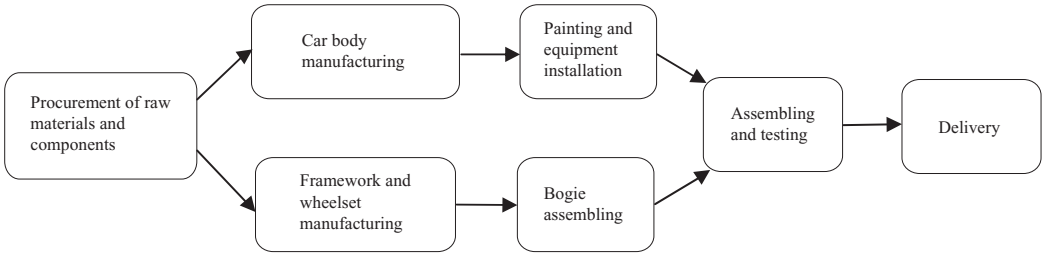
No.	Equipment Name	Quantity (Unit)	Purchase Date	Net Value (RMB'000)	Owner	Remaining Life (Month)
1	Welding robot	1	1 January 2008	44,746	CNR Dalian	57
2	Welding robot	1	1 January 2008	36,697	CNR Dalian	57
3	Freight wagon fatigue and vibration testbed	1	31 December 2012	34,613	CNR Qiqihar	84
4	Double linkage bending machine	1	1 September 2007	29,293	CNR Dalian	45
5	Testing system for wind power gearbox	1	29 June 2013	28,970	CNR Beijing Nankou	165
6	Car body spot welding robot	1	22 August 2011	25,769	CNR Changchun	77
7	Gantry machining center	1	22 August 2011	25,368	CNR Changchun	89
8	Welding robot	1	1 December 2008	24,478	CNR Dalian	57
9	Moving crossbeam gantry machining center	1	30 June 2011	21,324	CNR Changchun	87
10	Horizontal milling machining center	1	23 January 2013	20,390	CNR Changchun	87

Our key production machinery and equipment generally have useful lives of approximately ten years. Based on our experience, such useful lives may be extended with appropriate repair and maintenance. We have implemented a number of rules, procedures and guidelines for the operation, management and maintenance of our equipment. The assets department at each of our operating subsidiaries is responsible for conducting maintenance on our equipment. It carries out regular inspections to assess their conditions. In addition, our operational staff are responsible for undertaking inspections on an as-needed basis during our ordinary course of operations, and reporting any issues identified to the relevant assets department, which will order repairs and services where necessary.

During the Track Record Period, we did not experience any unexpected material stoppage of operations as a result of failure of our equipment.

Rolling Stock Manufacturing Process

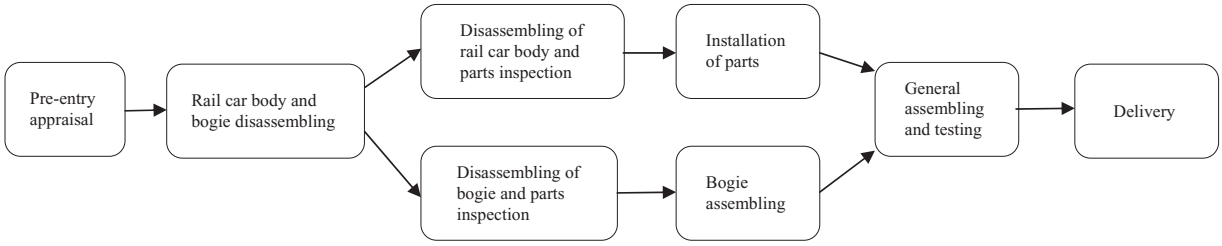
We offer our customers systematic solutions for rolling stock products, including high-speed MUs, locomotives, passenger coaches, freight wagons, rapid transit vehicles and key components used in rolling stock products, such as bogies, traction motors and on-board electric control systems. The manufacturing of rolling stock products essentially involve production and procurement of raw materials, key components and modules, assembly of components, testing and delivery. The following flow chart summarizes the manufacturing processes for our rolling stock products:



Step	Specific Work	Approximate Time Required
Procurement of raw materials and components	Preparation of raw materials and components such as steel, bogies, traction motors and control systems for MUs and locomotives	A few days to two months, depending on the components required
Car body manufacturing	Cutting, stamping and wielding of raw materials; assembly of underframe, driver's room, side walls and ceiling	One day to 90 days, depending on the type of rolling stock products
Painting and equipment installation	Blasting and painting of the car body; installation of components and electric equipment on the car body	One day to 90 days, depending on the type of rolling stock products
Framework and wheelset manufacturing	Cutting, shaping and wielding of semi-finished products for manufacturing of bogie, axles and wheels; flaw detection and testing	One day to 90 days, depending on the type of rolling stock products
Bogie assembling	Assembling of axles, wheels and other components to the bogie	One to seven days, depending on the type of rolling stock products
Assembling and testing	Assembling of car body and bogie, installation of key components such as engines, converters, power distribution cabinets, high- and low-voltage electronics; installation of seats and decoration materials leakage test, airtightness test, pressure test, weighting, raining test and trial operation	One day to 90 days, depending on the type of rolling stock products
Delivery	Delivery of products to customers	One to seven days, depending on the type of rolling stock products

Rolling Stock Refurbishment Process

We also provide maintenance, upgrade and refurbishment services for all types of rolling stock. Our refurbishment process for rolling stock products primarily comprises disassembly, cleaning or basic checks, examinations, components repair, assembly, adjustment and testing, unit assembly, unit testing, final check and delivery. Freight wagon refurbishment involves additional steps, including chassis polishing and de-rusting, speed-raising reformation and car reformation. The following flow chart summarizes the refurbishment process for our rolling stock products:



Step	Specific Work	Approximate Time Required
Pre-entry appraisal	Inspection of railcar; review maintenance record; and handover procedures with customers	One to two days
Rail car body and bogie disassembling	Outside cleaning of rail car; disassembling of rail car from bogie and disassembling of relevant components; and inside cleaning of rail car	One to two days, depending on the type of rolling stock products
Disassembling of railcar body and parts inspection	Disassembling of relevant parts from rail car, including pantograph, electric components, batteries, control system, and air system; and cleaning, inspection and repairmen of relevant parts	One to ten days, depending on the type of rolling stock products
Installation of parts	Installation of disassembled parts to rail car body; and repainting as necessary	One to five days, depending on the type of rolling stock products
Disassembling of bogie and parts inspection	Disassembling of relevant parts from bogie, including wheels, axle boxes, motors, gear boxes, braking system; and cleaning, flaw detection, inspection and repairmen of relevant parts, including those that cannot be disassembled	One to ten days, depending on the type of rolling stock products
Bogie assembling	Installation of disassembled parts to bogie	One to five days, depending on the type of rolling stock products
General assembling and testing	Assembling of rail car and bogie; testing of relevant parts; and test running	One to five days, depending on the type of rolling stock products
Delivery	Delivery of refurbished rail car to customers	One to two days, depending on the type of rolling stock products

RESEARCH AND DEVELOPMENT

We possess strong research and development capabilities and core innovative technologies for the manufacturing of rolling stock products and mechanical and electric products. We believe research and development is important to our future growth and our ability to remain competitive in each of our business segments. Accordingly, we dedicate significant resources to the enhancement of our research and development capabilities and we are constantly enhancing our technology development capabilities. As at the Latest Practicable Date, we had four national level research and development institutes, eight national level enterprise technical centers and 27 provincial level research and development institutes. For major research and development projects, our technology management department at our headquarters in Beijing coordinates research resources throughout our Group and sets up research and development teams responsible for project management to carry out product and technology development. We have seven technological research and development centers specialized in products and technologies relating to diesel engine, heat transfer, spring, braking, environmental protection engineering, coupler buffer and gear transmission, respectively. All of our operating subsidiaries have their respective enterprise technical centers which, together with our other research and development institutes and centers, provide our operating subsidiaries with technological support, services and solutions for our manufacturing of rolling stock, mechanical and electric products, clean energy, energy conservation and environmental protection equipment and related components. Our research and development platform enables us to accomplish our development of products of different grades, purposes, key systems and core components to satisfy different users' needs.

The following table sets forth certain information on some of our research and development centers as at the Latest Practicable Date:

Category	Number	Name/Operating Entities
National research and development institutes	4	● National Key Laboratory on Traction and Control of MUs and Locomotive (動車組和機車牽引與控制國家重點實驗室) at CNR Dalian Electric Traction ● National Engineering Lab on System Integration of High-speed Trains (高速列車系統集成國家工程實驗室) at CNR Changchun ● National Heavy-duty Rapid Freight Wagon Engineering Technology Research Center (重載快捷鐵路貨車國家工程技術研究中心) at CNR Qiqihar ● National Passenger Coach System Integration Engineering Technology Research Center (軌道客車系統集成工程技術研究中心) at CNR Changchun
National level enterprise research and development centers	8	● CNR Dalian Enterprise Technology Center ● CNR Changchun Enterprise Technology Center ● Yongji Xinshisu Enterprise Technology Center ● CNR Datong Enterprise Technology Center ● CNR Qiqihar Enterprise Technology Center ● CNR Tangshan Enterprise Technology Center ● CNR Jinan Enterprise Technology Center ● CNR Qingdao Sifang Enterprise Technology Center

Category	Number	Name/Operating Entities
Provincial engineering technology research centers, provincial engineering laboratories and provincial laboratories	5	• Shanxi Marine Electric Driving Technology Key Lab (山西省船舶電力推進技術重點實驗室) at Yongji Xinshisu • Railway Freight Wagon Equipment Engineering Lab (軌道交通貨運裝備工程實驗室) at CNR Qiqihar • Hebei Railway Vehicle Green Intelligence and Safety Engineering Lab (軌道車輛綠色智能與安全河北省工程實驗室) at CNR Tangshan • Heilongjiang Railway Freight Wagon Engineering Lab (黑龍江省鐵路貨車工程研究中心) at CNR Qiqihar • Jilin High-speed Railway Passenger Coach Engineering Research Center (吉林省高速軌道客車工程研究中心) at CNR Changchun
Provincial engineering technology research centers	13	• 13 provincial engineering technology research centers at 13 of our subsidiaries
Provincial enterprise technology centers	9	• 9 provincial enterprise technology centers at 9 of our subsidiaries
Post-doctoral workstations	5	• CNR Changchun • CNR Tangshan • Yongji Xinshisu • Our Company • CNR Qiqihar
Academician workstations	4	• CNR Qiqihar • CNR Tangshan • CNR Shenyang • CNR Jinan
Overseas research centers	2	• CNR-Czech Technical University in Prague Traction and Control Technology Joint Research Center • CNR-University of Michigan Welding Structure Research Center

As at 31 December 2013, we employed 26 chief experts, 103 senior experts, 856 experts, more than 190 experts receiving special subsidies from the State Council, 471 professor-level senior engineers and other senior professional title holders, 3,440 senior engineers and sub-senior professional title holders and more than 20,700 technical and management personnel of other professional levels.

The following table sets forth the major awards we were granted by the Ministry of Science and Technology of the PRC in recognition of our research and development capabilities:

Year	Project/Product	Award
2012	CRH 3 series of High-speed MU as part of Beijing-Tianjin Inter-city Railway Project (CRH3 型高速動車組)	First Prize of National Technology Progress Award (國家科技進步獎一等獎)
2010	HXD3 six-axle 7,200 kW AC electric locomotive (HXD3 型六軸 7,200 kW 大功率電力機車)	First Prize of National Technology Progress Award (國家科技進步獎一等獎)
2008	Qinghai—Tibet Railway Project (青藏鐵路工程) (our Company as principal participant)	Grand Prize of National Technology Progress Award (國家科技進步獎特等獎)
2008	Whole set of Heavy-hauling Transportation Technology and its Application on Daqin Line (大秦鐵路重載運輸成套技術與應用) (our Company as a primary participant)	First Prize of National Technology Progress Award (國家科技進步獎一等獎)

In addition to the above awards, CNR Changchun was recognized as a Technology Innovation Model Enterprise (技術創新示範企業) by MIIT, making us the first manufacturer to receive this honor in the PRC rolling stock industry, and our three subsidiaries were recognized as "Technical Innovative Enterprises" (創新型企業) by the Ministry of Science and Technology, SASAC and All China Association of Trade Unions.

As a leading rolling stock company in the PRC, during the Track Record Period, we played a leading role in the formulation and revision of 29 national standards and 159 industrial standards of rolling stock, as well as various national and industrial standards of other industries such as electricity, electrical engineering, oil and materials.

During the Track Record Period and up to the Latest Practicable Date, we had undertaken 67 research projects supported by government agencies at the national and ministry levels, 29 research projects supported by provincial authorities and 27 research projects supported by municipal authorities.

As part of our research and development activities, we have also established cooperative relationships with PRC domestic and overseas research institutes, such as Beijing Jiaotong University* (北京交通大學), Dalian Jiaotong University* (大連交通大學), Czech Technical University in Prague and University of Michigan. Our cooperation agreements with such universities usually provide that we will be responsible for the costs and expenses for the research work and we will either be the sole owner of the relevant intellectual property rights derived from such research work, or jointly own such intellectual property rights with the research partner without any profit sharing arrangement.

Our total expenditures on research and development recognized in our income statements for the years ended 31 December 2011, 2012 and 2013 amounted to RMB2,182.8 million, RMB2,589.2 million and RMB2,790.3 million, respectively, representing 2.5%, 2.8% and 2.9% of our total revenue for the same periods, respectively.

In the next five years, we intend to maintain levels of investment in research and development similar to those during the Track Record Period and focus on developing new technologies and

products. From time to time, we will adjust our focus of research and development in response to industry trends and market demand to maintain our leading position in the rolling stock industry and expand into other emerging industries.

RAW MATERIALS, COMPONENTS AND SUPPLIERS

The main raw materials and components we use for the manufacturing and refurbishment of our rolling stock products and manufacturing of clean energy, energy conservation and environmental protection equipment include steel, aluminum, copper, decorating materials, high- and low-voltage electronics, electric components, wheels and axles. We source the majority of our raw materials and components from a variety of third-party domestic and overseas suppliers.

The following table sets forth the price range and average purchase price of our major raw materials procured by our selected subsidiaries for the years indicate:

	Year ended 31 December								
	2011			2012			2013		
	Highest	Lowest	Average	Highest	Lowest	Average	Highest	Lowest	Average
	(RMB per tonne)								
Weathering steel	5,390	4,750	5,086	4,890	4,250	4,603	4,920	4,310	4,485
Aluminum sheet	35,890	32,000	33,945	44,320	38,000	41,108	47,260	47,260	47,260
Aluminum extruded sections	29,790	29,150	29,470	29,150	28,650	28,900	27,030	20,900	23,965
Copper film conductor	98,850	79,950	89,210	84,520	80,480	82,530	82,250	73,570	77,910

The following table sets forth the average selling prices of our major products for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	(RMB in thousand per unit)		
High-speed MUs	19,893.2	19,833.4	21,316.3
Locomotives	14,617.0	13,797.5	16,035.2
Passenger coaches	2,287.3	2,417.1	3,216.4
Freight wagons	396.0	412.8	406.7
Rapid transit vehicles	4,861.1	4,833.5	4,755.9

Different types of our products use different raw materials and some of our products are relatively more sensitive while others are less sensitive to price changes in raw materials. For further information, see "Financial Information—Factors Affecting Our Results of Operations—Cost of Raw Materials and Components". We have adopted a number of measures to mitigate the fluctuations in prices of our raw materials. For procurement of raw materials in a significant amount, we endeavor to enter into sales contract with our customers simultaneously when we enter into the procurement contract with our suppliers to ensure the cost of our raw materials are passed on to our customers. In respect of raw materials and components to be imported from overseas and our sales to overseas customers, we enter into foreign currency forward contracts with banks on a case-by-case basis to enjoy a pre-agreed fixed exchange rate and hedge against our exposure to foreign currency risk.

During the Track Record Period, our major hedging activities in respect of foreign currency risks were the foreign currency forward contracts that we had entered into. According to our hedging policies, we typically enter into such contracts when we are required to purchase a relatively large

amount of raw materials and components from overseas markets in order to manufacture products delivered under supply contracts which are settled in Renminbi and have a relatively long term and fixed purchase amount. By entering into foreign currency forward contracts which set forth a pre-agreed fixed exchange rate, we are able to lock down the RMB-equivalent purchase amount of raw materials and components and avoid any uncertainties with respect to our expected income under our supply contracts with customers in China. As such, we consider our foreign currency forward contracts as a measure to anticipate and lock down the RMB-equivalent amount of our costs that are incurred in foreign currencies and do not intend to expand such practice with the aim of generating income in our ordinary course of business. Before we enter into any foreign currency forward contracts, we consider the then prevailing exchange rates between the relevant foreign currency and Renminbi, the RMB-equivalent cost of our purchases at a certain exchange rate and our expected income under a supply contract with our customers that may be realized if the purchase of raw materials and components is made at a certain exchange rate. Any hedging activities adopted by us shall be reviewed by our financial department, internal legal counsels and material and equipment department. Most of our employees in these departments that are involved in our hedging activities have more than ten years of accounting, financing, procurement or legal experience and expertise and are able to assess the financial and legal risks associated with our hedging activities, the potential costs and benefits and our actual business needs for adopting any hedging activities. All of our hedging activities must be approved on a case-by-case basis by the General Manager Working Meeting (總經理辦公會) at the relevant subsidiary and further approved by the President Working Meeting (總裁辦公會) at our headquarters. We believe that, during the Track Record Period, the intended purpose of our hedging activities was generally achieved, the foreign currency risks we have faced were partially mitigated and our hedging activities were overall effective.

As at 31 December 2013, the outstanding amounts of our foreign currency forward contracts recorded as derivative financial instrument assets and derivative financial instrument liabilities were RMB4.9 million and RMB1.2 million, respectively. Our foreign currency forward contracts are typically denominated in Euros.

The following table sets forth a breakdown of foreign currencies we settled according to relevant foreign currency forward contracts for the years indicated:

	Year ended 31 December		
	2011	2012	2013
Currency			
Euro ('000)	177,785.5	8,007.0	16,576.1
US Dollars ('000)	2,894.1	3,752.7	4,677.7

Procurement Control

We use a combination of centralized procurement and separate procurement in respect of our procurement of raw materials and components. With respect to our raw materials with large purchase volumes, such as steel, and components with large purchase volumes to be procured from suppliers accredited by CRC, such as key components for our freight wagons, we combine the orders required by our subsidiaries, select suppliers, negotiate procurement prices through biddings and pay the purchase prices in a centralized manner. We believe that centralized procurement enables us to enhance our bargaining power on procurement terms and receive bulk purchase discounts. For other raw materials and components that are used by particular subsidiaries from time to time, they are directly sourced by such subsidiaries through biddings or negotiation. Our combination of centralized

procurements and separate procurements enables us to procure raw materials from reliable suppliers and leverage our collective bargaining power to receive discounts of procurement prices.

As we believe that our raw materials and components are fungible, we do not anticipate significant difficulties in obtaining alternative sources of supply. We typically have multiple suppliers for each of our raw materials and components so as to reduce any potential disruption of our operations and reliance on any particular supplier, maintain a stable procurement of raw materials and components and receive discounts of procurement prices from suppliers.

Electricity is the primary source of energy for our operations. We receive our electric power supplies from local grids where our plants are located. During the Track Record Period and up to the Latest Practicable Date, we did not experience any major disruption in our electricity, diesel fuel or water supplies.

Suppliers

During the Track Record Period, we had maintained stable relationships with our key suppliers. As at 31 December 2013, we had more than 8,000 suppliers, among which we have been working with the major suppliers for a period ranging from 10 to 20 years. We select our suppliers based on various criteria, including their supply quality, price, product nature and specification, production capacity, credit history and after-sales services, and conduct interviews with potential candidates to assess their satisfaction of these criteria. For railway-related products, we select well recognized suppliers with qualifications to our satisfaction and have established strategic relationships with these suppliers. We have established long-term relationships with major steel suppliers in the PRC, including Hebei Jingye Iron and Steel Co., Ltd.*(河北敬業鋼鐵有限公司), Anshan Iron and Steel (Group) Corporation*(鞍山鋼鐵集團公司), Baosteel Group Corporation*(寶鋼集團有限公司), Taiyuan Iron and Steel Group Co., Ltd.*(太原鋼鐵(集團)有限公司) and Wuhan Iron and Steel (Group) Corp.*(武漢鋼鐵(集團)公司), from which we procure steel at favorable prices. Moreover, we constantly monitor and evaluate current and potential suppliers on their ability to meet our requirements and standards. We review the performance of each of our suppliers on a regular basis regarding delivery time, product quality and after-sales services. For steel, we are typically required to make full payment before delivery. For other raw materials and components, our suppliers typically offer us credit terms ranging from 30 to 90 days. During the Track Record Period and up to the Latest Practicable Date, we did not experience any major interruptions in key raw materials, parts and components supplies for our operations.

For the years ended 31 December 2011, 2012 and 2013, purchase from our largest supplier accounted for approximately 8.1%, 7.4% and 8.3% of our total purchase cost, respectively. For the years ended 31 December 2011, 2012 and 2013, purchase from our five largest suppliers accounted for approximately 17.7%, 16.6% and 23.2% of our total purchase cost, respectively.

All of our five largest suppliers are independent third parties. None of the Directors, their respective associates or any of our Shareholders holding more than 5% of our issued capital, to the knowledge of our Directors, owned any interest in any of our five largest suppliers as at the Latest Practicable Date.

One of our parts and components suppliers, being Jinxi Axle Company Limited (晉西車軸股份有限公司) whose shares are listed on the Shanghai Stock Exchange, has approved to (subject to certain conditions) invest, through a qualified domestic institutional investment fund, in our H Shares in the amount of approximately US$30.0 million.

BACKLOG AND INVENTORIES

Backlog

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 the 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. As at 31 December 2013, our backlog amounted to approximately RMB81.8 billion. 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 assure you that the projected revenue amounts reported in our backlog will not decline or will result in actual revenue or translate into profits. See "Risk Factors—Risks Relating to Our Business Operations—Our backlog may not be indicative of our future results of operations".

Inventory

Our inventory includes raw materials, work-in-progress and finished goods. We inspect the inventory level at each of our operating subsidiaries on a regular basis in order to reduce the risks of under- and over-stocking and maintain our inventory of raw materials and components at an appropriate level to facilitate our manufacturing process. Our subsidiaries have adopted information management systems to monitor their respective inventory levels. We purchase raw materials to increase our inventory level from time to time in order to satisfy our production needs or if we anticipate any potential shortage in the supplies of raw materials or increases in the costs of raw materials. We also periodically review the availability of raw materials with our suppliers. Write-down of inventories will be made when the carrying amounts of inventories are lower than their estimated net realizable values.

SALES AND MARKETING

We sell our products in the PRC domestic market directly through the sales team in our operating subsidiaries, without engaging distributors or sales agents. We sell and export our products to international markets through direct sales and third-party exporting agents. We select our exporting agents based on a number of criteria, including their reputation, trading records and their marketing scale and distribution network.

All of our rolling stock products, mechanical and electric products, clean energy, energy conservation and environmental protection equipment are generally manufactured on a build-to-order basis.

PRC Domestic Sales of Rail Vehicles

We provide rail vehicle products, which include high-speed MUs, locomotives, passenger coaches and freight wagons in the PRC domestic market. We typically enter into sale and purchase agreements with our customers in China after we secure purchase orders for our products through a bidding process. The purchase price payable by our customers typically equals our bidding quote, which is proposed by us taking into consideration our production costs, expected profit margin and market competition.

Our sale and purchase agreements of rail vehicles with customers in China typically include provisions relating to delivery methods, technical requirements, inspections, trial runs and testing of rail vehicles, check and acceptance, quality assurance and quality bonds, force majeure, delivery time, penalty or liquidated damages for delays and termination of agreement. The warranty period under such agreements ranges from one to nine years or is limited to a fixed number of operating kilometers of the rail vehicles in accordance with industry standards promulgated by CRC.

PRC Domestic Sales of Rapid Transit Vehicles

We typically obtain orders for our rapid transit vehicles through an open bidding process held by rapid transit operators or project companies. We generally enter into sale and purchase agreements with our customers following a successful bid. The purchase price is payable by our customers typically equals to our bidding quote.

Our sale and purchase agreements of rapid transit vehicles with customers in China typically include provisions relating to delivery methods, technical requirements, the inspection and acceptance of deliveries, quality assurance and quality bonds, insurance, after-sales services and other rights and obligations of the parties. We usually provide limited warranty periods for complete units of rapid transit vehicles. However, we do not provide quality assurance and quality bonds for consumable components.

PRC Domestic Sales of Mechanical and Electric Products, Clean Energy, Energy Conservation and Environmental Protection Equipment

For our mechanical and electric products, clean energy, energy conservation and environmental protection equipment, we typically enter into sale and purchase agreements with our PRC domestic customers after we secure purchase orders for our products. The price of such products are negotiated and agreed by the parties, taking into account factors such as production cost, product capabilities, market supply, market demand, prevailing market conditions, changes and improvements in technical innovations and profit margin in consideration.

Our sale and purchase agreements typically include provisions relating to delivery methods, technical requirements, representations and warranties, inspection, check and acceptance, quality assurance and quality bonds, after-sales services, delivery time, penalty or liquidated damages for delays and termination of agreement. The warranty periods that we provide for our clean energy, energy conservation and environmental protection equipment range from five to nine years, and the warranty periods that we provide for mechanical and electric products range from one to six years.

Overseas Sales

By leveraging our experience and technologies in the PRC rolling stock market, we have established a growing international presence and exported various rolling stock products, mechanical and electric products, clean energy, energy conservation and environmental protection equipment to overseas countries and regions in the past years. Our sales price typically equals to our bidding quote or the price specified in the purchase orders. We usually require advance payments ranging from 10% to 40% of the purchase price after we provide a bank guarantee for an amount equal to the advance payments, and we generally require payment of 90% to 95% (inclusive of the advance payment) of the total purchase price upon delivery of our products. The remaining 5% to 10% payment will be paid to

us upon the customers' acceptance of our products after inspection, which is usually within one to two months of delivery of our products. We typically do not grant credit period to our overseas customers. We usually provide limited warranty periods of one to two years for our products sold to overseas market, for which we typically provide a bank guarantee letter amounted to less than 10% of the total price to our customers to guarantee our performance of warranty obligations under the sale and purchase agreements.

We generally conduct overseas sales through direct sales and third-party exporting agents, such as international trading companies. We do not engage our third-party exporting agents as distributors. We only enter into overseas sales and purchase agreements with third-party exporting agents on a case by case basis, after they approach us for sales of a specific number of rolling stock and both parties agree on the terms and conditions for such proposed sale.

Our sale and purchase agreements for overseas sales typically include customary provisions of international trading contracts. We usually commence production only after we receive letters of credit for the orders from our overseas customers. We enjoy value-added tax refunds for export of some of our products. Payments for our overseas sales are made by letter of credit or telegraphic transfer, and are primarily in U.S. dollars, Euros or Hong Kong dollars. In certain cases, we also provide continuous technical support for our products sold to foreign customers.

Pricing

The sales price of our products in both the PRC domestic market and the overseas market is not subject to price controls imposed by the PRC government. The majority of our purchase orders are procured through an open bidding or price negotiation process. For our rolling stock products, we take into account our cost and expected profit margin to determine the price of our rolling stock products. We formulate and adjust the prices of our mechanical and electric products, clean energy, energy conservation and environmental protection equipment with reference to market price, taking into account factors such as production cost, product capabilities, market supply, market demand, prevailing market conditions, changes and improvements in technical innovations and our profit margin consideration.

Credit Policy and Collection

For our rail vehicle products, CRC and its affiliated enterprises are generally not required to make any prepayment to us, except for sales of high-speed MUs where a prepayment of 10% of the total contract price is usually provided before we commence the production. The remaining contract price is typically payable within 30 days of delivery of the products and our provision of invoices to the customers. For non-CRC customers of our rail vehicle products, we typically require a prepayment of 50% or 60% of the total contract price, with the remaining contract price payable to us within seven days after our delivery of products, except that for certain customers with proven credit record, we may offer a credit term of up to one year after our delivery of products. In certain occasions, a warranty deposit of up to 10% of the contract price may be withheld by our customers, which shall be refunded to us within one year after our delivery of products. For our rapid transit vehicle products, we usually require a prepayment of 15% to 35% of the total contract price, with an additional 35% to 50% payable upon our delivery of products and the remaining 40% to 50% payable upon acceptance by the customer. For our mechanical and electric products, clean energy, energy conservation and environmental protection equipment, we generally require our customers to make full payment within

seven to 90 days after our delivery of products and acceptance by the customer. However, our customers may retain 5% to 10% of the contract price as warranty deposit until the expiration of the warranty periods. We determine a customer's payment terms based on a number of factors, such as our prior dealings with such customer, market practice, sales volume, such customer's current financial position and prevailing market conditions. With respect to new or short-term customers, we usually enforce strict payment provisions and require full payment prior to our delivery of products. All payments by our PRC domestic customers are made in Renminbi. If the purchase price of our products is denominated in a foreign currency, payment is generally made by our overseas customers in the foreign currency denominated in the contract, and we bear the risk of exchange rate fluctuations which, to the extent necessary, we may enter into foreign currency forward contracts to hedge against.

For our credit policy regarding overseas sales, see the subsection headed "—Overseas Sales".

As at 31 December 2013, our trade and bills receivables amounted to approximately RMB31,922.6 million. Such large amount of trade and bills receivables was primarily due to the increase in number of purchase orders that we delivered in the fourth quarter of 2013 as scheduled.

Delivery

Pursuant to the prevailing market practice and the contracts between our Company and our PRC domestic customers, we deliver our rail vehicle products on site to our customers at our manufacturing plants. The delivery is deemed complete when a trial test on railways is successfully completed and our customers take possession of the products at our manufacturing plants. For our rapid transit vehicle products, we usually transport them to our customers through railway networks or roads to a drop-off location designated by our customers. Our mechanical and electric products, clean energy, energy conservation and environmental protection equipment products are transported by us to our customers through railway networks or roads to a drop-off location designated by our customers.

Substantially all of our exported products to foreign customers are delivered to ports as designated by our customers and transported through sea freight or railway networks in accordance with the terms and conditions in the sales and purchase agreements.

Customer Service

We offer warranties to our customers on all of our rolling stock products, mechanical and electric products, clean energy, energy conservation and environmental protection equipment products. The warranty periods for our rolling stock products sold to PRC domestic customers normally range from one to nine years or are limited to a fixed number of operating kilometers in accordance with industry standards promulgated by CRC. For our rolling stock products sold to overseas customers, we normally provide warranty periods of one to two years. The warranty periods that we provide for our clean energy, energy conservation and environmental protection equipment range from five to nine years, and the warranty periods that we provide for mechanical and electric products range from one to six years. We offer warranties based on the defect rates and repair costs of our products in the past, and may adjust such warranties from time to time if there is any material change in the repair costs of our products. Our warranty policy has been consistently applied during the Track Record Period.

Our provision for warranties for the years ended 31 December 2011, 2012 and 2013 was RMB459.8 million, RMB379.3 million and RMB516.1 million, respectively. As at 31 December 2013,

our balance of provision of warranties amounted to RMB535.9 million, taking into account the amount carried forward from 2012 of RMB471.6 million and the provisions utilized in 2013 of RMB451.8 million.

We have also established after-sales service network consisting of after-sales service stations in various cities in China as well as 16 overseas after sales service stations in countries such as Australia and Brazil, to provide on-site technical support service for our products.

Marketing

Each of our operating subsidiaries maintains a sales and marketing team to collect market information, negotiate purchase terms and conditions and participate in the bidding or price negotiations for purchase orders.

Seasonality

Our manufacturing and sales activities are not subject to seasonality.

CUSTOMERS

Types of Our Customers

The following table sets forth each type of our customers, revenues earned by customer type and revenues from each type of these customers as a percentage of our total revenue:

	Year ended 31 December					
	2011		2012		2013	
	Amount (RMB Million)	% of Total (%)	Amount (RMB Million)	% of Total (%)	Amount (RMB Million)	% of Total (%)
PRC domestic sales						
CRC and its affiliated enterprises	51,602.8	58.0	43,829.8	47.8	46,949.9	48.5
Rapid transit operators and rapid transit vehicles and components purchasers	6,370.4	7.2	8,096.6	8.8	5,851.3	6.0
Other enterprises	24,566.1	27.7	30,241.3	32.9	36,378.7	37.7
Sub-total	82,539.3	92.9	82,167.7	89.5	89,179.9	92.2
Overseas sales	6,271.5	7.1	9,630.5	10.5	7,576.2	7.8
Total	**88,810.8**	**100.0**	**91,798.2**	**100.0**	**96,756.1**	**100.0**

PRC Domestic Customers

CRC and its affiliated enterprises

CRC, the former MOR, is the national railway operator of the PRC. CRC operates rail commuter and freight transport in China via its 18 government-owned operators, or CR bureaus. The CR bureaus and the affiliated enterprises of CRC are, through CRC, the ultimate end-users of high-speed MUs, locomotives, passenger coaches and freight wagons, while certain qualified enterprises authorized by CRC also purchase high-speed MUs, locomotives, passenger coaches and freight wagons. As a result, CRC is the purchaser of most of the rail vehicles that are in operation on the national railways in China.

We generally win purchase orders for our rail vehicle products from CRC and its affiliated enterprises through a bidding process. Purchase orders placed by CRC and its affiliated enterprises, including the CR bureaus, depend largely on the prevailing government policies, and CRC generally has a significant influence over the procurement of rolling stock products in China. See "Risk Factors—Risks Relating to Our Business Operations—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". For our credit policy regarding CRC and its affiliated enterprises, see "—Sales and Marketing—Credit Policy and Collection".

As one of the two major suppliers of rail vehicles products in the PRC, we believe that we have maintained, and will continue to maintain, a strong relationship with CRC, primarily due to our qualifications, reputation, product quality and reliability, sophisticated technologies and research and development capabilities.

Rapid transit operators

We provide a wide range of rapid transit vehicles for rapid transit systems in major cities in China, such as Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen, Wuhan, Chongqing, Changchun, Dalian, Shenyang, Xi'an, Foshan and Harbin. In China, rapid transit systems are not part of the national rail system and thus fall outside the regulation of CRC. Rapid transit operators are able to select supplier of rapid transit vehicles and components through an open-bidding process. For our credit policy regarding rapid transit operators, see "—Sales and Marketing—Credit Policy and Collection".

Our sales and marketing of rapid transit vehicles and components are conducted by our respective subsidiaries that are engaged in the production of such products. We believe that we are a competitive market player for rapid transit vehicles and components due to our qualifications, sophisticated technologies, reputation, product quality, prompt deliveries and competitive prices.

Other enterprises

We also sell our rolling stock products, mechanical and electric products, clean energy, energy conservation and environmental protection equipment and key components to other enterprises, which mainly consist of local railway operators, logistic and transportation companies, oil drilling companies, seaports, large industrial and mining enterprises, wind turbine manufacturers and power companies. Purchase orders from these customers are generally based on their specific requirements. For our credit policy regarding these other enterprises, including non-CRC customers for our rail vehicle products and customers for our mechanical and electric products, clean energy, energy conservation and environmental protection equipment, see "—Sales and Marketing—Credit Policy and Collection".

Our aggregated exposure to local government customers and their affiliated entities during the Track Record Period primarily related to our project management contracting services for urban rail and other related projects, and our supply of rapid transit vehicles and components to rapid transit operators in China. The related revenue and receivables for each year or as at the relevant year end during the Track Record Period were:

	Year ended 31 December/At 31 December					
	2011		2012		2013	
	Revenue	Receivables	Revenue	Receivables	Revenue	Receivables
	(RMB Million)					
Supply of rapid transit vehicles and components	3,902.6	1,510.4	4,105.6	1,337.1	5,666.5	3,944.2
Project management contracting services	—	—	1,627.7	1,646.9	2,692.5	4,443.7
Total	**3,902.6**	**1,510.4**	**5,733.3**	**2,984.0**	**8,359.0**	**8,387.9**

We did not experience any significant default or delay in payment from the local governments or their affiliated entities during the Track Record Period. Most of our receivables were due within one year. Bad debts provisions were made mainly according to the aging of the receivables.

For details of risks relating to local government customers and their affiliated entities, see "Risk Factors—Risks Relating to Our Business 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".

Overseas Customers

We currently export our products to over 80 countries and regions in Oceania, Southeast Asia, Latin America, Central Asia, South Asia, the Middle East, Africa, Europe and North America. Our revenue generated from export of MUs, rapid transit vehicles, diesel locomotives, electric locomotives, passenger coaches, freight wagons and various other products increased by 53.6% from RMB6,271.5 million in 2011 to RMB9,630.5 million in 2012. We also conducted business with customers in Sanctioned Countries during the Track Record Period. See "—Operations in the Sanctioned Countries" for further details.

We determine a foreign customer's payment terms based on several factors, such as our prior dealings with such customer, sales volume, such customer's current financial position and the prevailing market conditions. For our credit policy regarding foreign customers, see "—Sales and Marketing—Overseas Sales".

Geographical Analysis of Our Sales

The following table sets forth our sales revenue based on the geographical locations of our customers for the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December					
	2011		2012		2013	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB Million)	(%)	(RMB Million)	(%)	(RMB Million)	(%)
Domestic	82,539.3	92.9	82,167.7	89.5	89,179.9	92.2
Overseas	6,271.5	7.1	9,630.5	10.5	7,576.2	7.8
Total	**88,810.8**	**100.0**	**91,798.2**	**100.0**	**96,756.1**	**100.0**

Key Customers

For the years ended 31 December 2011, 2012 and 2013, our five largest customers accounted for approximately 62.4%, 56.3% and 58.9% of our revenue, respectively, and our largest customer, comprising the CRC and its affiliated enterprises, accounted for approximately 58.0%, 47.8% and 48.5% of our total revenue for the same periods, respectively.

Our largest customer for the years ended 31 December 2011, 2012 and 2013, consisted of the CRC and its affiliated enterprises, each of which is an independent third party. In addition, all of our five largest customers during the Track Record Period are independent third parties. None of our Directors, chief executives, management, associates or Shareholders holding more than 5% of our issued share capital had any interest in any of our five largest customers for the years ended 31 December 2011, 2012 and 2013.

Overlapping of Customers and Suppliers

For the years ended 31 December 2012 and 2013, two of our major customers, namely, China Railway United Logistics Co., Ltd.* (中鐵聯合物流股份有限公司) ("**CR United**") and China Railway Materials Company Limited* (中國鐵路物資股份有限公司) ("**CR Materials**"), were also among our major suppliers. CR Materials was also both one of our major suppliers and one of our major customers for the year ended 31 December 2011. We purchased components of rolling stock from CR Materials and sold raw materials to CR Materials. We purchased coal from CR United and sold wood pulp, copper fuel and pitch to CR United.

Our sales to our major customers who were also our major suppliers attributed to approximately 2.7%, 1.5% and 2.7% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively. The amount of purchases from our major suppliers who were also our major customers attributed to approximately 4.1%, 3.5% and 2.7% of our cost of sales for the years ended 31 December 2011, 2012 and 2013, respectively.

COMPETITION

We principally operate businesses and compete in both the PRC domestic market and the overseas market.

PRC Domestic Market

We are one of the two major players in the PRC rolling stock industry. Our main competitor in the PRC market is CSR. We were the largest rolling stock manufacturer in China in terms of revenue in 2012. According to CRC, we won the bids for 66.0%, 53.2% and 47.8% of the total number of high-speed MUs with a maximum operating speed over 300 km/h (inclusive), locomotives and freight wagons that CRC purchased in 2013, respectively, making us CRC's largest bid winner among all the bidders in each such product category in terms of the aggregate number of units. As at 31 December 2013, of all the urban rapid transit lines in operation in China, comprising 87 urban rapid transit lines in 19 cities in China, our rapid transit vehicles operated on 48 urban rapid transit lines in 13 cities, representing a leading market share in China. In addition to CSR, a number of relatively smaller companies in the PRC domestic market participate in the manufacturing and refurbishment of freight wagons, including Baotou Beifang Chuangye Co., Ltd.* (包頭北方創業股份有限公司), Chongqing Changzheng Heavy Industry Co., Ltd.* (重慶長征重工有限責任公司), and Jinxi Railway Vehicle Co., Ltd.* (晉西鐵路車輛有限責任公司), Jinan Dongfang Xinxing Vehicle Co., Ltd.* (濟南東方新興車輛有限公司), Liuzhou Locomotive Vehicle Factory* (柳州機車車輛廠) and Guangzhou

Railway Vehicle Factory* (廣州鐵道車輛廠). In the locomotive and passenger coach manufacturing and refurbishment market, we mainly compete with CSR.

The international rolling stock manufacturers that participate in China's rolling stock manufacturing market include Bombardier, Alstom, Siemens, GE, Kawasaki and Hyundai Rotem. Due to industry policy and certain technological barriers, overseas rolling stock manufacturers are currently not allowed to engage in manufacturing of complete units in China. As such, we currently do not compete directly with these international players in the PRC domestic market.

The markets for our other products and services, such as mechanical and electric products, trading of raw materials and finance leasing, are highly fragmented and competitive. We compete against industry peers for the relevant products and services based on quality and price of our products and services.

Overseas Market

We currently export our rolling stock products, including MUs, rapid transit vehicles, locomotives, passenger coaches, freight wagons and relevant components to over 80 countries and regions around the world. We compete in these markets based on criteria such as product performance, pricing, maintenance costs and delivery schedules. In the past, we have sold our rolling stock products mostly to Oceania, Asia, Africa and Latin America, and we have devoted resources to expand our customer base in developed markets in North America and Europe. We have also sold rolling stock products to European markets, such as France, Belarus and Poland, and our component products have also entered the U.S. market.

We face intense competition in the export market from international companies, such as Bombardier, Alstom, Siemens, GE, Kawasaki and Hyundai Rotem, and the other major PRC domestic market players, such as CSR.

We plan to explore and develop markets in selected developed countries to export more high-end products to international customers, such as high-speed MUs, rapid transit vehicles and locomotives. We may encounter more intense competition with international players in developed markets.

QUALITY CONTROL

We placed great emphasis on quality control, which is an integral part of our procurement and production process. We have implemented strict quality control measures throughout our production processes in accordance with national standards as well as with ISO9001:2008 quality management standards, ISO10012:2003 measurement systems and EN15085 quality system. At all stages of our production process, we adopt measures to control the capability, function and safety of our products, such as flaw detection, software testing and reliability testing. In addition to the assurances given by our suppliers, we inspect our raw materials for quality control purposes. On 3 December 2013, CNR Qiqihar was awarded the highest quality prize in China, namely National Quality Award (全國質量獎), by China Quality Association (中國質量協會), making us the only manufacturer to receive this honor in the PRC rolling stock industry. On 12 December 2013, CNR Changchun was awarded the China Quality Nomination Award (中國質量獎提名獎) by General Administration of Quality Supervision Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局), in the First China Quality Award Session (首屆中國質量獎評選).

The following table sets forth the quality standards for which our subsidiaries were accredited as at the Latest Practicable Date:

Standards	Our Subsidiaries
GB/T19001-2000/ISO9001:2008 (quality systems)	• 18 subsidiaries of our Company
IRIS	• 17 subsidiaries of our Company
ISO17025	• 10 subsidiaries of our Company
EN15085—rolling stock and welding certification	• 11 subsidiaries of our Company
GB/T 19022-2003/ISO10012:2003 (measurement systems)	• 11 subsidiaries of our Company

As at 31 December 2013, we had a quality control team consisting of more than 3,000 quality control personnel. They hold licenses necessary for the quality control work they perform. Our quality management teams at our headquarters and each subsidiary monitor various aspects of our operations, including procurement of raw and auxiliary materials, manufacturing processes, inspection of final products and after-sales surveillance of our products. The key quality control personnel leading our quality control team in our operating subsidiaries generally have more than ten years of industrial experience.

During the Track Record Period, we had a product return on a one-off basis. Since the commencement of operation of the Beijing-Shanghai high-speed railway in June 2011, we have noticed occurrences of several incidents of delays of our CRH380BL high-speed MUs caused by potential problems with the alarm of the automatic safety system. We reported such potential malfunction to the former MOR and suggested comprehensive improvement measures. Subsequently, in August 2011, our Company and CNR Changchun received a notice from the Transportation Bureau of the former MOR on the suspension of the production of 17 CRH380BL high-speed MUs, the contract value of which amounted to approximately RMB670 million. On 11 August 2011, in order to ensure that all the high-speed MUs would operate on schedule, our Company further reported this issue to the former MOR and voluntarily withdrew 54 CRH380BL high-speed MUs in use on the Beijing-Shanghai high-speed railway, in addition to the suspension of the production of the 17 MUs as requested. After these high-speed MUs were returned to us, we immediately inspected the automatic safety system and conducted a thorough internal investigation into manufacturing, quality control and product evaluation procedures for the relevant high-speed MUs. Certain repairs have been made to rectify the flaws in these high-speed MUs to ensure safety. As the expenses incurred for such repairs were immaterial and within the provision of warranties of the relevant products, there was no adverse impact on our income statement. This return did not negate our Company's high-speed MU contracts but only delayed our recognition of revenue derived from such contracts. Upon completion of rectification of the flaw, experimental verification process, third-party evaluation and approval of experts, the rectification was granted by China Railway Test and Certification Center (中鐵檢驗認證中心) to be effective, and all the 54 high-speed MUs returned were put into operations starting from 16 November 2011. As at the Latest Practicable Date, we had not faced any administrative penalties as a result of this return. We do not expect to be liable for any future legal proceeding or claims in connection with this return. As at the Latest Practicable Date, we had not encountered return or recall for any other products. See "Risk Factors—Risks Relating to Our Business Operations—We may face potential product liability claims or suffer losses due to defective products" for further details.

On 19 June 2009 and 2 June 2011, we entered into two design, manufacturing, inspection, test and delivery agreements with KiwiRail, a New Zealand based railway company. Pursuant to the agreements, we agreed to supply 40 locomotives manufactured by CNR Dalian to KiwiRail. On 3 March 2014, we were informed by KiwiRail that the 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 of our production processes, including procurement of raw materials, components and parts, manufacturing process of such locomotives, painting and equipment installation and manufacturing of frame and wheelset. A small amount of chrysotile asbestos in damping pulp and noise reduction materials supplied by an independent third party was detected. Our findings were confirmed by the independent examination commissioned by KiwiRail. KiwiRail commissioned an independent institution approved by the New Zealand government to carry out a sampling inspection of the locomotives. The laboratories that undertook the analysis of the samples meet International Standard ISO 17025 and as such are New Zealand Accredited Laboratories accredited by International Accredited New Zealand. According to the results of the examination, a well bonded spray on asbestos material was identified under the roof of the engine room, and in the internal linings of the drivers cab of the locomotives. The results of the examination also indicated that the asbestos materials have not become airborne, but the asbestos materials identified in the packing materials around hinges of some of the engine room doors are friable and considered an asbestos risk. According to the press release of KiwiRail dated 7 March 2014, the results show no immediate risk to health.

Upon being notified of the incident, we formed two working groups at our headquarters and CNR Dalian, respectively, working actively with KiwiRail to investigate and resolve the incident. We have arranged our technicians to process or replace the relevant components and parts. As at the Latest Practicable Date, we have successfully made smooth progress for the processing or replacement of the relevant parts and components. As at the Latest Practicable Date, it was anticipated that those locomotives would resume operation progressively, upon completion of the currently on-going processing or replacement and further follow-up inspections. To the knowledge of our Company, KiwiRail will carry out testing on the locomotives every six weeks following the resumption of operation. We will follow up closely with KiwiRail on the post-operation testing and the operations of the locomotives.

The occurrence of the incident was caused by our failure to properly manage the relevant suppliers of raw materials, components and parts during their manufacturing process. We agreed to be responsible for the costs incurred in processing and/or replacing the defective parts and components. It is estimated that the direct costs involved in processing and/or replacing the defective parts and components would not exceed approximately RMB40.0 million. The Directors consider that the financial impact of such costs on the business operation and financial performance of our Group would be immaterial on a consolidated basis considering our Group's total revenue and assets. As at the Latest Practicable Date, no claim had been brought against our Company for damages in connection with the incident.

As part of our commitment to provide high-quality services to our customers and to prevent similar incidents from reoccurring, members of senior management at our subsidiaries (management responsible for our production and procurement of raw materials, parts and components), our legal advisers, and our quality management team consisting of more than 3,000 quality control personnel (at our headquarters and each subsidiary) who hold the license necessary for the quality control work they

perform will continue to review all our related products, quality control procedures for all materials, components and services provided by our suppliers and contractors, our manufacturing processes of products and parts, and ensure that the raw materials, components and parts supplied to us are in strict adherence to our terms and conditions. In addition, we are in the process of implementing the following measures:

- further review and improve our quality control systems, such as introducing updated guidelines for employees in charge of quality control, and issuing notices to affiliated companies to emphasize the importance of strictly following the terms and conditions of the standard contracts;
- accelerate our ongoing plans to implement internal quality requirements, such as imposing stricter standards on suppliers of raw materials, components and parts and specifying in procurement contracts the contents and quality of the raw materials, components and parts;
- further review our testing procedures to enhance efficiency and implement improved measures in identifying harmful substances, by carrying out expanded examination on non-metal raw materials, components and parts, and increase our investments in upgrading our biochemical laboratories; and
- further strengthen our monitoring system, by increasing the frequency of carrying out random checks on our products and services.

We will engage external consultants (including technical experts and/or independent assessment institutions) to assist in implementing and supervising the above-mentioned measures, as well as carrying out sample testing of the raw materials, components and parts before using them in the manufacturing process. With the assistance from external consultants in implementing and overseeing the process, our Directors are of the view that the enhanced internal control measures would be adequate and effective in preventing similar incidents from reoccurring. Taking into account the results of the above-mentioned investigations conducted by KiwiRail and us, the nature of the incident, our active response to the resolution of the incident, the costs expected to be incurred for processing or replacing the defective components and parts, our Directors believe that the incident will not have any material and adverse impact on our business, financial condition, operating results and reputation. In addition, our Directors consider that the results of investigations conducted by KiwiRail and us, and the incident do not reflect any significant deficiencies in our operation, internal control or risk management. We have and will continue to strengthen our internal management and control over suppliers to prevent similar incidents from reoccurring.

As at the Latest Practicable Date, the relevant parties were still in the process finalizing the resolution of the incident. We undertake to make further disclosure with respect to any material development of the incident in compliance with the Hong Kong Listing Rules.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns or recall by customers or experience any material product liability or other legal claims involving problems relating to the quality of our products.

OCCUPATIONAL HEALTH AND SAFETY

We regard occupational health and safety as an important social responsibility. Our operations involve mechanical processes, the usage of electricity, welding, craneage, transportation process, smelting, and a certain amount of flammable and explosive materials. As a result, our employees may face risks of various work-related injuries and accidents. We place significant emphasis on safety

control to minimize incidents during our manufacturing process that could result in injuries or fatalities. We have implemented various standards, in line with international standards with domestic certifications, for occupational health and safety management. We have adopted a health and safety supervision and management system comprising government supervision, internal controls and external certifications. Each of our operating subsidiaries engaged in our manufacturing and refurbishment businesses has passed OHSAS18001 certification for their respective health, safety and environmental management systems. 16 of our subsidiaries have been recognized as Level I Enterprises under the National Safe Production Standardization (國家安全生產標準化一級企業).

We have established a safety production committee, which is in charge of the overall safety supervision and management at our Group level. Our safety production committee, headed by our Chairman Mr. Cui Dianguo, is composed of heads of all departments of our Company. In addition, our operating subsidiaries also implement safety control by setting up their own safety production committees.

We have formulated and implemented various manuals and internal policies with regard to safety control procedures and standards, including without limitation procedures for handling safety issues, accident investigation procedures, protective and remedial measures, accident reporting procedures, and punitive and rectification measures. Each of our operating subsidiaries and branches has their respective safety control management systems.

As at 31 December 2013, we had over 200 employees responsible for safety control across different operations in our business. We provide occupational safety training to all of our employees on a regular basis. The safety production committees also conduct periodic inspections of our facilities to ensure that all stages of our operations are in compliance with the applicable laws and regulations.

We impose safety measures as well as regular internal safety inspections at all stages of our operations including without limitation the purchase, installation and operation of new equipment as well as the construction of new facilities and the manufacturing of products, in order to minimize the work-related accidents and injuries. We provide various healthcare benefits and insurance, as well as safety education, to our employees in accordance with the applicable laws and regulations. We have placed great emphasis on occupational health management. During the Track Record Period, we have periodically monitored the working environment, proactively dealt with potential occupational hazards in the working areas, provided the employees with full labor protection products and appliances, established occupational health records, and periodically arranged health examination for our employees, in order to effectively prevent our employees from suffering occupational hazards.

During the Track Record Period and up to the Latest Practicable Date, we recorded two fatal accidents involving two contracted labor staff in 2011 and 2012, respectively. These two accidents were independent and isolated accidents resulting from relevant employee's improper operation of equipment in violation of our safety procedures. We have conducted thorough investigations for these two accidents and compensated the family members of the deceased employees and there are no outstanding legal disputes relating to such accidents. As at the Latest Practicable Date, no material claim was brought against us as a result of these accidents. Additionally, we experienced no material interruption to our operations as a result of these accidents, nor have these accidents had a material effect on our financial condition and results of operations. After these two accidents, we implemented enhanced safety measures in addition to our regular safety procedures to prevent future accidents. We provided intensive safety education and training programs for our employees to analyze causes of these

accidents and review our preventive measures, as well as inspected our machinery and operational sites to identify and solve potential safety-related issues. We also reinforced equipment operating license requirements for employees under our safety standards through technical and safety examinations on our licensed technicians. In light of the reasons for these two fatal accidents and operational and financial impacts on us resulting from these accidents, and considering that our enhanced safety measures are in line with the industry practice and have covered the key aspects in our operations with a focus to prevent potential accidents, our Directors are of the view that, our enhanced safety measures are effective.

We believe that our business operations are in compliance with applicable PRC laws, regulations and rules with respect to safety control in all material aspects. During the Track Record Period and up to the Latest Practicable Date, save as disclosed herein, we were not subject to any penalties associated with any material violation of applicable safety control laws or regulations in the PRC. According to our PRC legal adviser, Jingtian & Gongcheng, our operations are in compliance with the applicable labor and safety regulations in all material respects.

ENVIRONMENTAL PROTECTION

We do not operate in a highly-polluted industry, and our production processes primarily involve technical processing and manufacturing. However, we regard environmental protection as an important corporate responsibility and place great emphasis on environmental protection measures and policies in our daily operations. Our operations are subject to environmental laws, rules and regulations relating to, among others, gas and water emissions, hazardous substances and waste management. See "Regulations—Environmental Protection Laws and Regulations". We place great emphasis on the compliance with applicable environmental protection requirements in the PRC. Each of our manufacturing subsidiaries has obtained ISO14001 certificates for their respective environmental management systems. We utilize raw materials that have low or no toxicity levels and are either harmless or less harmful to the environment. We also utilize new technologies to prevent, minimize or manage pollution during our production processes. The levels of waste water, gas pollution, noise pollution and solid waste we generate during our production process, after being processed internally, are within the permitted levels in China. In addition, we conduct environmental feasibility studies and environmental impact assessments for all of our projects, and install pollution control facilities, if necessary, to ensure our compliance with applicable environmental protection standards required for our manufacturing facilities.

Our cost for compliance with applicable environmental protection laws and regulations for the years ended 31 December 2011, 2012 and 2013 amounted to approximately RMB72.0 million, RMB83.0 million and RMB81.0 million, respectively, which were mainly related to payment of waste discharge fees and purchase of environmental protection equipment. Our cost for compliance with applicable environmental protection laws and regulations for the year ending 31 December 2014 is expected to be approximately RMB85.0 million.

Based on the confirmations issued by the local Environmental Protection Bureaus in the areas where we operate, we have complied with all applicable national, provincial and municipal environmental laws and regulations in all material respects during the Track Record Period, except that our subsidiary CNR Beijing Feb. 7th was imposed a fine of RMB0.02 million by the relevant local governmental authority for discharging waste exceeding a certain limit. This waste discharging issue has been duly corrected as at the Latest Practicable Date. See "—Historical Non-compliance Incidents"

for further details. According to our PRC legal adviser, Jingtian & Gongcheng, save as otherwise disclosed in "—Historical Non-compliance Incidents" we have complied with the relevant environmental rules and regulations during the Track Record Period in all material respects, as evidenced by the certificates from Beijing Environmental Protection Bureau and the local environmental protection offices of our subsidiaries. Save as disclosed in "—Historical Non-compliance Incidents", there were no material administrative penalties imposed on us as a result of a violation of environmental rules and regulations during the Track Record Period.

INTERNAL CONTROLS

Our internal control systems cover corporate governance, operations, management, legal matters, finance and auditing, as appropriate for the needs of our organization. Pursuant to the PRC Company Law, Code of Corporate Governance for Listed Companies in the PRC and other relevant regulations, we have established internal rules and policies, such as the Rules of Procedure for Shareholders' Meeting, the Rules of Procedure for Board of Directors, the Rules of Procedure for Supervisor Committee, Independent Directors Working Principles and President Working Principles. These internal rules and policies have defined the rights and obligations, scope of responsibilities and procedural rules for our Board of Directors, Supervisors Board and General Manager and set the procedural processes governing shareholders' meetings. Major decisions regarding our Group have been and will be made in the shareholders' meetings, board meetings and supervisors' meetings.

We have established comprehensive risk management and internal control systems through which we monitor, evaluate and manage financial, operational, compliance and legal risks that we are exposed to in our business activities. Our Audit and Risk Management Committee, acting on behalf of our Board of Directors, reviews and approves our risk management and internal control policies and strategies and adopts resolution relating to major risks mitigation plans. See "Directors, Supervisors and Senior Management—Board Committees—Audit and Risk Management Committee" for future details on the composition and responsibilities of the Audit and Risk Management Committee. Our management implements our risk management system and reviews our annual risk assessment results. Different departments of our Company and our subsidiaries are responsible for periodic risk management and internal control assessment and reporting to our management the risks identified.

In addition, we have adopted a number of internal rules and policies governing the conduct of our employees, and have set up a monitoring department at each of our headquarters and subsidiaries to closely monitor and report corruption or other misconduct that our employees may have. As at the Latest Practicable Date, our monitoring departments had nearly 100 members with considerable experience in internal control. They are responsible for internal review of key steps of our business operation and risk management, including financial control, bidding of projects, procurement of raw materials and equipment, recruitment of employees and management of human resources, so as to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. We provide training courses, including study of regulations and case analysis, to members of our monitoring departments on an annual basis to continuously improve their knowledge and skills that are required to satisfy their internal control obligations. We also have an anti-corruption e-mail account through which we are able to receive reports on our employees' misconduct and intend to set up an anti-corruption hotline for the same purposes. During the Track Record Period, we were not aware of corruption or any other material misconduct of our employees.

We compile and update our internal control guidance each year. Our Directors believe that our internal control systems and current procedures are adequate and effective.

LICENSES AND PERMITS

The regulatory and legal framework of the rolling stock industry in the PRC is set out in the section headed "Regulations" in this prospectus. Our Directors and our PRC legal adviser, Jingtian & Gongcheng, are of the view that our Company and PRC subsidiaries have obtained, and currently maintain, all necessary licenses and permits required for our business operation, and we are in compliance with the applicable PRC laws and regulations relating to our business operation in all material respects.

The following table sets forth our major licenses and permits in relation to our business operation, including their respective expiry dates:

No.	Types of Licenses	Number of Licenses owned by our Group	Grant Date/Range of Grant Date	Expiry Date/Range of Expiry Date
1.	Certificate of models of railway rolling stock (鐵路機車車輛型號合格證)	102	15 August 2006 – 13 November 2013	N/A[1]
2.	Production license of railway rolling stock (鐵路機車車輛生產許可證)	98[2]	14 April 2007 – 23 March 2013	13 April 2012 – 13 November 2018
3.	Refurbishment permit of railway rolling stock (鐵路機車車輛維修合格證)	97	10 October 2010 – 13 November 2013	9 October 2015 – 18 November 2018
4.	Design permit of special equipment (特種設備設計許可證)	Two	24 September 2012 – 31 March 2013	23 September 2016 – 31 March 2017
5.	Manufacturing permit of special equipment (特種設備製造許可證)	Five	15 January 2012 – 1 September 2013	14 January 2016 – 1 September 2017
6.	Installing and refurbishment permit of special equipment (特種設備安裝改造維修許可證)	One	22 May 2013	21 May 2017
7.	License of financial service (金融許可證)	One	29 November 2012	N/A[3]
8.	License of insurance and brokerage business (保險兼業代理業務許可證)	One	26 November 2013	25 November 2016
9.	Production license of national industrial products (全國工業產品生產許可證)	Two	13 June 2011	28 January 2017
10.	Business license of dangerous chemicals (危險化學品經營許可證)	One	28 September 2011	27 September 2014
11.	Business license of road transportation operation/Road transportation license of dangerous articles (道路運輸經營許可證/道路危險貨物運輸許可證)	Six	26 November 2013	25 March 2016
12.	Production license of research and development of weapon equipment (武器裝備科研生產許可證)	One	28 September 2011	23 July 2014

No.	Types of Licenses	Number of Licenses owned by the Group	Grant Date/Range of Grant Date	Expiry Date/Range of Expiry Date
13.	License of safety production (安全生產許可證)	Two	19 January 2011	18 November 2016
14.	Qualification certificate of construction enterprise (建築業企業資質證書)	One	20 March 2013	N/A(4)
15.	Qualification certificate of project contracting (對外承包工程資格證書)	One	9 April 2013	N/A(4)

Notes:
(1) According to applicable laws and regulations, this certificate is permanently valid once issued.
(2) Among these 98 licenses, two licenses expired on 22 January 2014 and the other two licenses expired on 23 February 2014. We are in the process of renewing these four licenses. Our PRC legal adviser, Jingtian & Gongcheng, is of the view that there is no legal impediment to obtain the renewed licenses.
(3) This license is permanently valid once issued.
(4) This license has no expiry date and is subject to annual review by the relevant authority.

INTELLECTUAL PROPERTIES

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 patent 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 patent applications overseas. We submit patent applications for products and technologies that we have developed from time to time in order to proactively protect our intellectual property rights. We also have unregistered trade secrets, technologies, know-how, processes and other intellectual property rights.

Our research and development personnel have entered into confidentiality agreements with us, pursuant to which they undertake to strictly comply with our internal rules with respect to the protection of our trade secret and not to disclose any of such trade secret.

We have not been engaged in any litigation or legal proceedings for violation of intellectual property rights, and there is no material violation of the same. Details of our intellectual property rights are set out in "Appendix VII—Statutory and General Information—B. Further information about our business" included in this prospectus.

PROPERTIES

Land Use Rights

As at the Latest Practicable Date, we owned or leased 150 parcels of land in the PRC with an aggregate site area of approximately 20,976,762 sq.m., which are mainly used for manufacturing or research and development purposes.

Owned land

As at the Latest Practicable Date, we owned land use rights of 147 parcels of land in the PRC with an aggregate site area of approximately 20,840,056 sq.m., the details of which are as follows:

- 85 parcels of land with an aggregate site area of approximately 10,176,464 sq.m. were granted land with land use rights certificates obtained by us. As advised by Jingtian & Gongcheng, our PRC legal adviser, that, under terms specified in the land use right certificates, we are entitled to legally occupy, use, grant, transfer, lease, mortgage or otherwise dispose of the rights to use the 85 parcels of land in accordance with the applicable PRC laws and regulations;
- 60 parcels of land with an aggregate site area of approximately 10,621,235 sq.m. were land authorized by the MLR to manage and operate. We have obtained the land use right certificates of these 60 parcels of land. As advised by Jingtian & Gongcheng, our PRC legal adviser, we are entitled to legally occupy and use those parcels of lands within the scope of use specified in the land use right certificate; and
- two parcels of land, with an aggregate site area of 42,358 sq.m., were allocated land with land use right certificates obtained by us. As advised by Jingtian & Gongcheng, our PRC legal adviser, that we are entitled to legally occupy and use those parcels of land within the scope of use specified in the land use right certificate.

In addition, with respect to 12 parcels of land with an aggregate site area of approximately 2,728,784 sq.m., we have entered into land use right transfer agreements with competent regulatory authorities, and are in the process of applying for the land use right certificates. As advised by Jingtian & Gongcheng, our PRC legal adviser, as we have already entered into the relevant agreements and the applications for certificates only involve certain procedural matters, there is no substantial legal impediment for us to obtain such certificates.

Leased land

As at the Latest Practicable Date, we leased three parcels of land with an aggregate site area of approximately 136,706 sq.m. for industrial use. The lessors have obtained valid land use rights certificates.

Buildings

Our corporate headquarters is located at 15 Area One, Fangchengyuan, Fengtai District, Beijing, China. As at the Latest Practicable Date, we owned and leased 1,473 buildings in the PRC with an aggregate gross floor area of approximately 4,624,687 sq.m.

Owned buildings

As at the Latest Practicable Date, we owned 1,458 buildings in the PRC with an aggregate gross floor area of approximately 4,580,461 sq.m. (including land use rights for the land on which such properties were erected), among which:

- for 1,267 buildings with an aggregate gross floor area of approximately 4,305,232 sq.m., accounting for 93.99% of the aggregate gross floor area of our owned buildings, we have obtained the relevant building ownership certificates, and the land use right certificates for the land on which such properties were erected; and

- for 191 buildings with an aggregate gross floor area of approximately 275,230 sq.m, we have not obtained the relevant building ownership certificate, among which:
  - for 146 buildings with an aggregate gross floor area of approximately 188,730 sq.m., accounting for 4.12% of the aggregate gross floor area of our owned buildings, we have not obtained the building ownership certificates, but have obtained the land use right certificates for the land on which such buildings were erected. These buildings are mainly used for industrial purposes. We are in the process of applying for building ownership certificates from competent governmental authorities or changing the registration of the building ownership certificates into our names from that of CNRG. These buildings were injected into our Company by CNRG, our Controlling Shareholder, during our reorganization. Pursuant to the restructuring agreement between CNRG and us, CNRG has undertaken to provide all necessary assistance in our application for the building ownership certificates. CNRG has also undertaken to bear any costs or expenses arising from the transfer of these building ownership certificates, and has undertaken to compensate us for all losses, claims, expenses and fees that we may suffer should we fail to obtain the building ownership certificates, to the extent such failure is not due to us. Jingtian & Gongcheng, our PRC legal adviser, is of the view that our ownership to these properties will be intact and effective once we obtain the relevant building ownership certificates. Given these properties represent only an insignificant portion of the total value of our owned buildings and no disputes regarding the ownership of these properties that will have a material adverse effect on our operation have arisen, our Directors are of the view that the absence of the relevant title certificates will not, individually or in aggregate, have any material adverse effect on our operation;
  - for 38 buildings with an aggregate gross floor area of approximately 75,781 sq.m., accounting for 1.65% of the aggregate gross floor area of our owned buildings, we have not obtained the building ownership certificates. These buildings are mainly used for business operation and in good safety condition. We failed to obtain the building ownership certificates for these 38 buildings, primarily because we commenced the construction of these buildings without required permits or approvals under applicable laws and regulations; and
  - for seven buildings with an aggregate gross floor area of approximately 10,719 sq.m., accounting for 0.20% of the aggregate gross floor area of our owned buildings, we have not obtained the building ownership certificates. These buildings are mainly used for business operation and in good safety condition. We are in the process of obtaining the relevant building ownership certificates.

As at the Latest Practicable Date, we have not been considered by the competent authorities to be in violation of applicable laws and regulations for the defective titles in our properties, and we have not been subject to any administrative penalty as a result of these defects. We do not believe we will be subject to any administrative penalties as a result of our failure to obtain the relevant title certificates.

In general, we do not consider these defective properties crucial to our core business operations. Our Directors believe that these properties are of safe conditions. We believe we are able to be relocated in a timely manner with minimal expenses, and would not materially affect our business or financial position. Thus, our Directors believe that the title defects in these properties will not,

individually or in aggregate, have a material impact on our operations. Our PRC legal adviser, Jingtian & Gongcheng, is of the view that since the defective properties only represent an insignificant portion of our Company's owned buildings and we have obtained relevant land use right certificates, the absence of the relevant title certificates will not, individually or in aggregate, result in any material adverse effect on our operation.

Leased buildings

As at the Latest Practicable Date, we leased 15 buildings with an aggregate gross floor area of approximately 44,225 sq.m. in the PRC, the lessors of which have obtained valid building ownership certificates. We have not registered the lease agreements with relevant regulatory authorities. Our PRC legal adviser, Jingtian & Gongcheng, is of the view that the failure to register these leases will not affect the legality, validity or enforceability of such leases.

Overseas Properties

As at 31 December 2013, we leased certain units with a total gross floor area of approximately 4,104 sq.m. overseas such as in Hong Kong, Brazil, Arabia and Thailand. We leased these properties from independent third parties. Our Directors are of the view that such tenancy agreements have been entered into in accordance with the local legal requirements and are valid and binding.

As at 31 December 2013, no single property interest forming part of our Group's property activities had a carrying amount of 1% or more of our Group's total assets and no single property interest forming part of our Group's non-property activities had a carrying amount of 15% or more of our Group's total assets. As such, we are exempted from compliance with the requirements of Rules 5.01A and 5.01B of the Hong Kong Listing Rules, with respect to the inclusion of a property valuation report in this prospectus. Our Directors confirm that none of our property interest is individually material to us in terms of income contribution or rental expense.

Projects under Construction

As at the Latest Practicable Date, we had 25 projects under construction with an aggregate site area of approximately 2,809,518 square meters. These projects relate to the construction of buildings for office, production and research and development purposes. Details of these projects are as follow:

- with respect to seven projects with an aggregate site area of 823,972 sq.m., our PRC legal adviser, Jingtian & Gongcheng, is of the view that we have obtained the relevant permits and certificates required for the respective construction stages of these projects;
- with respect to six projects with an aggregate site area of approximately 777,415 sq.m., we have obtained land use rights certificates. Our PRC legal adviser, Jingtian & Gongcheng, is of the view that there would be no substantial legal impediment for us to obtain the relevant construction planning permit and/or construction commencement permit;
- with respect to five projects with an aggregate site area of approximately 558,781 sq.m., we have obtained land use rights certificates and are in the process of applying for the construction commencement permits. Pursuant to a notification dated 29 January 2014 issued by City Construction Management Bureau of Lvshun Kou District of Dalian, Liaoning Province, (i) our subsidiaries are permitted to commence construction prior to the issuance of the construction permits; (ii) there is no legal impediment for our subsidiaries

to obtain the construction permits; (iii) the local government will support us in obtaining the construction permits; and (iv) our subsidiaries will not be subject to any administrative penalties resulting from commencing construction prior to the issuance of the construction permits;

- with respect to three projects with an aggregate site area of approximately 131,874 sq.m., we are in the process of applying for land use rights certificates, and planning and construction permits. According to an opinion dated 27 January 2014 issued by the People's Government of Fengrun District of Tangshan, Hebei Province, (i) the MLR has approved the usage of land for these projects; and (ii) our subsidiary is permitted to commence construction prior to the issuance of the construction permits and any penalties that we may be subject to due to our failure to complete the relevant procedures are waived by the relevant government authorities; and
- with respect to four projects with an aggregate site area of approximately 517,476 sq.m., we have entered into state-owned land use rights contracts for a majority of such site area and are in the process of applying for land use rights certificates and planning and construction permits. According to a notification dated 27 January 2014 issued by the People's Government of Wanbailin District of Taiyuan, Shanxi Province, the local government will support us in obtaining the relevant land use right certificates, land for construction permits, construction planning permits and construction permits, will not impose any penalty for our failure to complete the relevant procedures, and will allow us to commence construction of the relevant projects under current status.

According to our PRC legal adviser, Jingtian & Gongcheng, following our completion of the relevant procedures and construction acceptance of the above projects by the relevant government authorities, there would be no substantial legal impediment for us in obtaining the relevant building ownership certificates.

EMPLOYEES

Currently, we have entered into employment agreements with every member of our entire work force. The agreements typically specify the employee's position, responsibilities, remuneration and grounds for termination pursuant to PRC Labor Law and other relevant regulations. Some of our subsidiaries are parties to collective bargaining agreements with their employees. These collective bargaining agreements are entered into and executed after fair and equal negotiations on the relevant conditions in accordance with all applicable laws and regulations, and are valid and effective. Our employees are recruited through a competitive hiring process. As at 31 December 2013, our Company had 86,138 full-time employees, all of whom were based in the PRC. As at 31 December 2013, 16,686 of our employees held bachelor's degrees, 2,289 of our employees held master's degrees and 51 of our employees held doctorates. The table below sets forth the number of our employees by their functions:

	At 31 December 2013	
	Number of Employees	% of Total
Manufacturing personnel	58,314	67.7
Technical personnel	12,032	13.0
Managerial personnel	13,038	15.1
Others	2,754	3.2
Total	**86,138**	**100.0**

We believe that developing and maintaining a team of capable and motivated managerial, technical and other employees is critical to our success. We formulate our employee recruiting and retention policies taking into account a number of factors, including market conditions and our business demands and expansion plans. We aim to recruit, train and retain talented professionals through a multi-step recruiting and training process, and offer competitive performance-linked remuneration packages and career development opportunities to our employees. We conduct periodic performance reviews for our employees, and offer performance-based salaries and bonuses. In addition, we have implemented training programs according to different job requirements. We believe that these initiatives have contributed to increased employee productivity.

The remuneration package for our employees generally includes salary and bonuses. Our employees also receive welfare benefits, including medical care, housing subsidies, retirement benefits, occupational injury insurance and other miscellaneous items. Our staff cost, including wages, salaries and other employee's benefits, amounted to RMB7,354.4 million, RMB8,225.9 million and RMB9,090.9 million for the years ended 31 December 2011, 2012 and 2013, respectively.

As required by the applicable regulations, we participate in various pension schemes for our staff which are organized by municipal and provincial governments as well as supplemental pension schemes, pension subsidies and early retirement benefits programs. We are required to make contributions of approximately 18% to 22% of the wages, salaries and other employee's benefits to the government pension schemes. We have no other material obligations for the payment of pension benefits associated with these plans beyond the annual contributions described above. Our costs incurred in respect of government and supplemental pension schemes as well as pension subsidies and early retirement benefits programs for the years ended 31 December 2011, 2012 and 2013 were RMB858.7 million, RMB1,130.2 million, and RMB1,314.2 million, respectively.

We have labor unions that protect our employees' rights, assist us in attaining the economic objectives of our Company, encourage employee to participate in management decisions and assist us in mediating disputes with union members. Our subsidiaries and their operating units both have separate labor union branches. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption during our normal business operations due to strikes or labor disputes, and we believe that we have and will continue to maintain positive relations with our employees.

INSURANCE

Pursuant to general practice in the industry, we are required to obtain fire, liability or other property insurance for the property, equipment or inventories in relation to our operations. We have also purchased pension insurance, medical insurance, unemployment insurance, work-related injury insurance, personal injury insurance and maternity insurance for our employees, in compliance with the relevant PRC laws and regulations. We have also carried liability insurance for our directors, supervisors and major management personnel. See "Risk Factors—Risks Relating to Our Business Operations—Insurance coverage for our business, products and properties may not be sufficient".

We do not carry any third-party liability insurance to cover claims in respect of personal injury, property or environmental damages arising from accidents on our property or relating to our operations, nor do we carry any business interruption insurance. Unless otherwise required by our customers, our Company and our subsidiaries do not carry product liability insurance for any of our

products. Such insurance policies are not mandatory according to PRC laws and regulations, and would impose additional costs on our operations, which would reduce our competitiveness. See "Risk Factors—Risks Relating to Our Business Operations—We may face potential product liability claims or suffer losses due to defective products".

We will continue to review and assess our risk portfolio. We will make necessary and appropriate adjustments to our insurance mechanisms in line with our needs and with industry practice in China. As at the Latest Practicable Date, we have not received any material claims from our customers regarding any of our products.

OPERATIONS IN THE SANCTIONED COUNTRIES

The U.S. and other jurisdictions, including the E.U., Australia and the U.N., have comprehensive or broad economic sanctions targeting the Sanctioned Countries. For descriptions of sanction 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. We do not expect any material increase in our revenues from such operations in the next three years.

Sales and Operations in the Sanctioned Countries

Iran

Sales in Iran

During the Track Record Period, we sold rail vehicles and parts and accessories to certain entities in Iran pursuant to six contracts for a total contract value of approximately US$259.4 million. Our sales activities involving Iran are conducted on commercial terms in the ordinary course of business. Our payments for these sales were made in Renminbi or Euros, and did not involve any U.S. dollar payments. Our sales and operations in Iran as at the Latest Practicable Date did not involve U.S. persons, U.S. origin items or the U.S. financial system. The revenue from our sales and business operations in Iran accounted for approximately 2.10%, 0.95% and 0.51% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. We do not expect any material increase in our revenues from operations in Iran over the next three years. Our sales and operations involving Iran are as follows:

- In July 2008, we entered into a contract with an Iranian train manufacturing company, with respect to our sales of railway passenger coaches and electric generator vehicles to them for a total contract value of approximately EUR44.7 million. We delivered three sample vehicles to them and they had settled the relevant payment. The contract was terminated after mutual consultation between the parties in September 2012 because they failed to make subsequent payments to us in accordance with the contract.
- In December 2010, we entered into a contract with TWM, a joint venture in Iran that we held 20% of interest through our subsidiary CNR Changchun (see "—Joint Venture and Representative Office in Iran" below), with respect to our sales of vehicle bodies to them for a total contract value of approximately EUR12.3 million. The contract was terminated at the end of 2011 as TWM failed to make payments to us.

- In March 2011, we entered into a contract with a Chinese trading company with respect to our sales of bogies to them for a total contract value of approximately RMB45.8 million. The contract was completed in May 2012 and all of our obligations and payments from them related to this contract had been settled. To our knowledge, the bogies that we sold to them were subsequently sold by them to an Iranian transportation company that engages in manufacturing of freight wagons.

- In December 2011, we entered into a contract with a Chinese trading company with respect to sales of coupler yokes to them for a total contract value of approximately RMB13.3 million. The contract was partly completed in May 2012 with a contract value of RMB0.03 million settled and the remaining delivery under the contract was suspended as at the Latest Practicable Date due to the customer's failure to issue letter of credits for payments under the contract. To our knowledge, the coupler yokes that we sold to them were subsequently sold by them into Iran.

- In May 2012, we entered into another contract with TWM with respect to our sales of 30 metro vehicles to it for a total contract value of approximately EUR110.0 million. The production of the metro vehicles is still in preparation stage and the contract is expected to be completed in July 2015.

- In October 2012, we entered into a contract with an Iranian entity that primarily engages in manufacturing and import/export of railway cars and trains, with respect to our sales of three metro vehicles to them for a total contract value of approximately EUR13.2 million. Over the Track Record Period, we delivered two metro vehicles to it and the remaining delivery is expected to be completed in July 2014.

All of the counterparties to these contracts are Independent Third Parties.

In relation to the above contracts involving Iran, we have not been notified that any sanctions will be imposed on us. None of the contracting parties are specifically identified on the Specially Designated Nationals and Blocked Entities ("**SDN**") list maintained by the OFAC or other restricted parties lists maintained by the E.U., Australia and the U.N. and therefore would not be deemed as sanctioned targets. Our sales and export activities under these contracts do not involve industries or sectors that are currently subject to specific U.S., E.U., Australia or U.N. sanctions and therefore are not deemed to be prohibited activities under the relevant sanctions laws and regulations.

Joint Venture and Representative Office in Iran

Our subsidiary, CNR Changchun, is a minority shareholder of TWM, a joint venture company in Iran. TWM was established on 15 May 2004 and the total investment contributed by CNR Changchun amounted to approximately US$3.3 million. The joint venture partners in TWM are:

- an Iranian entity under the control of the Government of Iran who is responsible for the planning, construction and operation of urban rail transport in Tehran, Iran, owning 31% equity interest of TWM;

- Green Plour, an Iranian entity that primarily engages in manufacturing and import/export of railway cars and trains, owning 20% equity interest of TWM;

- a Chinese entity that provides engineering services, owning 29% equity interest of TWM; and
- our subsidiary, CNR Changchun, owning 20% equity interest of TWM.

The main business of TWM includes manufacturing of car bodies for passenger coaches, assembly of passenger coaches and metro cars and related repair services. TWM has approximately 200 formal employees, all hired by TWM locally. We are not involved in the operation of TWM and we do not have any control on the decision making process of TWM. We did not receive any return from our investment in TWM in the past three years.

None of the joint venture parties of TWM are specifically identified on SDN or other restricted parties lists maintained by the E.U., Australia and the U.N. and therefore would not be deemed as sanctioned targets.

CNR Changchun also has a representative office in Iran that is primarily responsible for after-sales services for the rapid transit vehicles and rail cars sold by CNR to Iran, as well as market development and support services.

The activities of CNR Changchun as a joint venture partner in TWM and related activities through CNR Changchun's representative office in Iran do not involve industries or sectors that are subject to specific U.S., E.U., Australia or U.N. sanctions and therefore are not deemed to be prohibited activities under the relevant sanctions laws and regulations.

Financial Transactions in Iran

Our financial transactions in relation to our sales to Iran, including to TWM, are settled by the counterparties in Iran by wire transfer payment or letter of credit in either Euros or Renminbi, through the Bank of Kunlun to us. Bank of Kunlun is not on the SDN list nor other restricted parties lists maintained by the E.U., Australia or the U.N., although it was sanctioned by OFAC in 2012 for providing significant financial services to Iran. If Bank of Kunlun engages in financial transactions with SDN designated banks in Iran or other banks on the restricted parties listed maintained by the E.U., Australia or the U.N., it can be subject to further sanctions. Based on the view of our legal advisers, any sanctions on Bank of Kunlun would not be directly applicable to us but it may become difficult for us to process payments for our Iran-related transactions if Bank of Kunlun ceases to engage in Iran-related transactions due to concerns about being subject to further sanctions, and if other Chinese financial institutions adopt a similar policy of not handling Iran-related transactions to avoid being subject to sanctions.

TWM uses Bank Mellat for TWM's financial transactions and Bank Mellat is specifically identified as an SDN (and by the E.U. and Australian sanctions). However, given that CNR Changchun is a 20% minority shareholder in TWM without any actual or apparent control of TWM, based on the advice of our legal adviser, we believe that it is very unlikely that OFAC (or the E.U. or Australian regulators) would sanction CNR Changchun solely due to the fact that TWM uses Bank Mellat for TWM transactions, as long as CNR (directly or via CNR Changchun) does not control TWM's activities. Neither CNR Changchun nor CNR has any direct relationship with Bank Mellat or other Iranian banks.

Cuba

During the Track Record Period, the revenue from our sales in Cuba accounted for approximately nil, nil and 0.034% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. We do not expect any material increase in our revenues from operations in Cuba over the next three years. Our payment for these sales were generally made in Euros and did not involve payments in US dollars. During the Track Record Period, we had sold accessories for locomotives and parts to an export company in Cuba pursuant to four contracts as follows:

- In December 2011 with respect to our sales of locomotive accessories to the Cuba export company for a total contract value of approximately US$4.4 million. The delivery of our products was completed in July 2013.
- In April 2012 with respect to our sales of locomotive accessories to the Cuba export company for a total contract value of approximately US$1.1 million. The delivery of our products was completed in October 2013.
- In October 2012 with respect to our sales of locomotive accessories to the Cuba export company for a total contract value of approximately US$1.3 million. As at the Latest Practicable Date, the accessories are being delivered to them, which is expected to be completed in April 2014.
- In December 2012 with respect to our sales of locomotive accessories to the Cuba export company for a total contract value of approximately US$1.2 million. As at the Latest Practicable Date, the contract is still in preparation stage and is expected to be completed in November 2014.

To our knowledge, the products that we sold to the Cuba export company were/will be subsequently sold by them to a state-owned railway enterprise in Cuba.

Sudan

During the Track Record Period, the revenue from our sales in Sudan accounted for approximately nil, 0.0003% and 0.0081% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. We do not expect any material increase in our revenues from operations in Sudan over the next three years. Our payment for these sales did not involve US dollars. During the Track Record Period, we had sold locomotives and parts and accessories to certain entities in Sudan as follows:

- In May 2012, we entered into a contract with a food company in Sudan with respect to our sales of railway electric accessories to them for a total contract value of approximately US$0.03 million. The contract was completed in September 2012. All of the obligations and payments under the contract had been settled.
- In April 2013 and July 2013, we entered into two contracts with the same Sudan food company with respect to our sales of railway electric accessories to them for a total contract value of approximately US$0.03 million. The contracts were completed in August 2013 and October 2013, respectively. All of the obligations and payments under the contract had been settled.
- In July 2013, we entered into a contract with a government-owned railway entity in Sudan with respect to our sales of diesel locomotive and related accessories to them for a total

contract value of approximately US$6.6 million. The contract is ongoing and is expected to be completed at the beginning of 2015.

- In July 2013, we entered into another contract with the same government-owned railway entity in Sudan with respect to our sales of freight wagon bogies to them for a total contract value of approximately RMB30.6 million. The contract is ongoing and is expected to be completed in June 2014.

Myanmar

During the Track Record Period, the revenue from our operations in Myanmar accounted for approximately 0.0059%, 0.00045% and 0.0229% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. We do not expect any material increase in our revenues from operations in Myanmar over the next three years. During the Track Record Period, we entered into contracts with certain export agents for sales to Myanmar as follows:

- In June 2012, we entered into a contract with a Chinese shipbuilding company with respect to our sales of marine diesel engines to them for a total contract value of approximately RMB24.1 million. The contract is ongoing and is expected to be completed in January 2016. To our knowledge, we are not aware of the identity of the users of our products in Myanmar that the Chinese shipbuilding company sold to.

- In March 2013, we entered into a contract with a Myanmar trading company with respect to our sales of railway electric accessories to them for a total contract value of approximately US$0.04 million. The contract was completed in July 2013. All of the obligations and payments under the contract had been settled. To our knowledge, the products that we sold to the trading company will be/were subsequently sold by them to a state-owned railway enterprise in Myanmar.

- In August 2013, we entered into a contract with a Singapore trading company with respect to our sales of springs to them for a total contract value of approximately US$0.2 million. The contract was completed in November 2013. All of the obligations and payments under the contract had been settled. To our knowledge, we are not aware of the identity of the users of our products in Myanmar that the Singapore company sold to.

Iraq

During the Track Record Period, the revenue from our operations in Iraq accounted for approximately nil, 0.0334% and nil of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. We do not expect any material increase in our revenues from operations in Iraq over the next three years. During the Track Record Period, we had entered two contracts with certain export agents for sales to Iraq for a total contract value of approximately of US$6.2 million, details of which were set forth below:

- In April 2012, we entered into a contract with a Chinese export company with respect to sales of diesel engines and accessories to them for a total contract value of approximately US$3.2 million. The delivery of the products was completed in December 2012. To our knowledge, the products that we sold to the Chinese export company will be/were subsequently sold by them to an Iraqi Railway company.

- In March 2012, we entered into a contract with a Chinese export company with respect to our sales of bogie accessories to them for a total contract value of approximately US$3.0 million. The delivery of our products was completed in December 2013. To our knowledge, the products that we sold to the Chinese export company will be/were subsequently sold by them to an Iraqi Railway company.

Liberia

During the Track Record Period, the revenue from our operations in Liberia accounted for approximately 0.0122%, 0.0131% and 0.0025% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. We do not expect any material increase in our revenues from operations in Liberia over the next three years. During the Track Record Period, we entered into one contract with a Hong Kong trading company in April 2012 for sales of diesel locomotives and accessories to them for a total contract value of approximately of US$1.9 million. To our knowledge, the products that we sold to the trading company will be/were subsequently sold by them to a Liberia railway entity. The delivery of the products was completed in September 2012.

Zimbabwe

During the Track Record Period, we did not recognize any revenue from our operations in Zimbabwe. We do not expect any material increase in our revenues from operations in Zimbabwe over the next three years. We entered into one contract with a state-owned Zimbabwe railway entity in 2010 for sales of diesel locomotives to them for a total contract value of approximately US$29.0 million. The contact has not been performed yet as we have not received the letter of credit from the customer as required by the contract.

Sanctioned Country Summary

In relation to the above contracts involving Cuba, Sudan, Myanmar, Iraq, Liberia and Zimbabwe, we have not been notified that any sanctions will be imposed on us. All of the counterparties to these contracts are Independent Third Parties. Except for a government-owned railway entity in Sudan that is on the SDN list maintained by the OFAC, none of the contracting parties are specifically identified on the SDN list maintained by the OFAC or other restricted parties lists maintained by the U.S., the E.U., Australia and the U.N. and therefore would not be deemed as sanctioned targets. With respect to the transactions with the government-owned railway entity in Sudan, no U.S. persons or U.S. origin items (as defined under U.S. sanctions and export laws) were involved. Our sales and export activities under these contracts do not involve industries or sectors that are subject to sector-specific U.S., E.U., Australia or U.N. sanctions and therefore are not deemed to be prohibited activities under the relevant sanctions laws and regulations.

Sanction Risks

United States sanctions

Based on our legal adviser's view, we believe that: (i) as our business activities in Cuba, Iran, Myanmar and Sudan do not involve U.S. persons, U.S. origin items or the U.S. financial system, we would not be subject to the applicable U.S. sanctions law; (ii) our payment arrangements with respect to our activities in Myanmar do not involve the provision of U.S. financial services and therefore do not involve conduct by us covered by the applicable OFAC sanctions in effect against Myanmar; (iii) our counterparties to our Iraq and Zimbabwe contracts are not on the SDN list and therefore are not

subject to U.S. sanctions; (iv) although we engage in export related activities with several other countries that are listed by OFAC as subject to U.S. sanctions, with respect to each of these countries, the applicable OFAC prohibitions are with respect to SDNs rather than a country-wide embargo and the prohibition on dealing with SDNs (other than with respect to Iran), is applicable only to U.S. persons; and (v) our sales and business activities in Iran do not involve industries or sectors (such as petroleum, energy, shipping and automotive) that are subject to sector-specific U.S. sanctions, and the counterparties to our Iranian transactions are not specifically identified as subject to U.S. sanctions and therefore there is a low risk that our export of products to Iran or that the activities in Iran of our subsidiary, CNR Changchun, and the shareholding interest of CNR Changchun in TWM would expose us to U.S. sanctions risk under current U.S. sanctions law.

Based on the above, our Directors believe that: (i) it is very unlikely that we could be deemed to have violated U.S. sanctions prohibitions as a result of our past business activities in the Sanctioned Countries; and (ii) it is also very unlikely that our existing and ongoing business activities in the Sanctioned Countries would be subject to U.S. sanctions risk under current law.

In addition, although Bank Mellat is specifically identified as an SDN, given that neither we nor CNR Changchun has any direct relationship with Bank Mellat and that CNR Changchun is only a 20% minority shareholder in TWM without any actual or apparent control of TWM, based on our legal adviser's view, we believe that it is very unlikely that we or CNR Changchun will face U.S. sanctions risk solely due to the fact that TWM uses Bank Mellat for TWM's financial transactions, as long as we (directly or via CNR Changchun) do not control TWM's activities.

Although one of our customers in Sudan, a government owned railway entity, is on the SDN list, given that no U.S. persons or U.S. origin items (as defined under U.S. sanctions and export laws), based on our legal adviser's view, it would not be a violation of U.S. sanctions for us to engage in a transaction with such entity.

After consulting with our legal adviser and based on our legal adviser's view, we also believe that the same analysis applies with respect to the Hong Kong Stock Exchange, the Listing Committee and its members, HKSCC, HKSCC Nominees, our Shareholders and investors (collectively, the "**Relevant Persons**"), and therefore the Relevant Persons are very unlikely to face U.S. sanctions risk due to their transactions involving CNR given the limited nature and very low level of revenue of our business activities in the Sanctioned Countries, assuming such Relevant Persons do not have the ability to control us and are not involved in any of our business activities related to countries subject to U.S. sanctions.

European Union sanctions

Our business activities in the Sanctioned Countries do not involve industries or sectors (such as petroleum, energy and shipping) that are subject to sector-specific E.U. sanctions. In addition, the counterparties to our transactions in the Sanctioned Countries are not specifically identified as subject to the E.U. sanctions. Furthermore, as we are not aware of any direct or intentional involvement, in the context of our business activities in the Sanctioned Countries, of the E.U. territory or E.U. persons (individuals or entities) or vessels or aircrafts under the E.U. jurisdiction, we believe, after consulting with our legal advisers and based on our legal advisers' views, that it is very unlikely that the current E.U. sanctions law applies to us and our subsidiaries.

Based on the above, our Directors believe that: (i) it is very unlikely that we could be deemed to have violated the E.U. sanctions as a result of our past business activities in the Sanctioned Countries; and (ii) it is also very unlikely that our existing and ongoing business activities in the Sanctioned Counties would be subject to the E.U. sanctions risk under current law.

In addition, although Bank Mellat is specifically identified on the restricted parties list maintained by the E.U., given that we are not aware of any involvement of an E.U. citizen or an E.U. entity in any CNR Changchun's transactions with TWM and given that CNR Changchun is only a 20% minority shareholder in TWM without any actual or apparent control of TWM, we believe that based on our legal adviser's view, it is very unlikely that we or CNR Changchun will face the E.U. sanctions risk solely due to the fact that TWM uses Bank Mellat for TWM's financial transactions, as long as we (directly or via CNR Changchun) do not control TWM's activities.

After consulting with our legal adviser and based on our legal adviser's view, we also believe that the same analysis applies with respect to the Relevant Persons and therefore the Relevant Persons are very unlikely to face the E.U. sanctions risk due to their transactions involving CNR, assuming such Relevant Persons do not have the ability to control us and are not involved in any of our business activities related to countries subject to the E.U. sanctions.

Australia sanctions

After consulting with our legal adviser and based on our legal adviser's view, we believe that , as our business activities involving our payment arrangements in Iran, Iraq, Sudan, Liberia and Zimbabwe do not involve Australian persons (individuals or entities) or Australian territory, such activities would not be subject to applicable Australian sanctions law. In addition, (i) our activities in the Sanctioned Countries do not involve industries or sectors (such as petroleum, petrochemicals and nuclear capability) that are subject to specific Australian sanctions; and (ii) the counterparties to our transactions in the Sanctioned Countries are not specifically identified as subject to Australian sanctions. Accordingly there is a low risk that our exports of products to Iran or other Sanctioned Countries or that the activities in Iran of our subsidiary, CNR Changchun, and the shareholding interest of CNR Changchun in TWM would expose us to Australian sanctions risk under current law.

Based on the above, our Directors believe that: (i) it is very unlikely that we could be deemed to have violated Australian sanctions prohibitions as a result of our past business activities in the Sanctioned Countries; and (ii) it is also very unlikely that our existing and ongoing business activities in the Sanctioned Counties would be subject to Australian sanctions risk under current law.

In addition, based on our legal advisers' views, although Bank Mellat is specifically identified on the restricted parties list maintained by Australian regulators, given there is no involvement of an Australian citizen or Australian entity in any CNR Changchun's transactions with TWM and given that CNR Changchun is only a minority shareholder of TWM without any apparent control of TWM, we believe that it is unlikely that we or CNR Changchun will face Australian sanctions risk solely due to the fact that TWM uses Bank Mellat for TWM's financial transactions, as long as we (directly or via CNR Changchun) does not control TWM's activities.

After consulting with our legal adviser and based on our legal adviser's view, we also believe that the same analysis applies with respect to the Relevant Persons and therefore the Relevant Persons are very unlikely to face Australian sanctions risk due to their transactions involving CNR. This applies as well to Australian investors as long as they are minority shareholders and may not influence our Company's activities.

United Nations sanctions

Based on our legal adviser's view, our Directors believe we would not be in violations of the U.N. sanctions under the applicable UNSC resolutions in connection with our activities in the Sanctioned Countries because: (i) our business activities do not involve sectors, industries or products subject to UNSC sanctions; and (ii) the counterparties to our business transactions in Iran and Sudan do not appear on the UNSC list of sanctioned persons. Given that our business activities in the Sanctioned Countries do not implicate current UNSC sanctions, such activities would not have any impact on the Relevant Persons.

Hong Kong sanctions

After consulting with our legal adviser and based on our legal adviser's view, our Directors believe we would not be in violations of the U.N. sanctions under the relevant UNSC resolutions applicable in Hong Kong in connection with our activities in the Sanctioned Countries because: (i) our business activities do not involve sectors, industries or products subject to UNSC sanctions and; (ii) the counterparties to our business transactions in Iran and Sudan do not appear on the UNSC list of sanctioned persons. Given that our business activities in the Sanctioned Countries do not implicate current UNSC sanctions applicable in Hong Kong, such activities would not have any impact on the Relevant Persons.

Our Directors' Views

On the basis of: (i) the fact that our revenue derived from our business operations in the Sanctioned Countries in aggregate only accounted for approximately 2.12%, 1.00% and 0.58%, respectively, of our revenue for the years ended 31 December 2011, 2012 and 2013; (ii) our consultation with our legal adviser and our legal adviser's view described above; and (iii) our undertakings to the Hong Kong Stock Exchange and the internal control measures that we have implemented to ring-fence our exposure to sanctions risk in relation to our existing and ongoing as well as future potential business activities in the Sanctioned Countries (See "—Our Undertakings and Internal Control Procedures" below), our Directors believe it is not necessary for us to terminate or transfer our existing business in Iran or the other Sanctioned Countries at this time, and maintaining our existing operations in Iran or the other Sanctioned Countries would not render our Company not suitable for listing on the Hong Kong Stock Exchange.

Parameters/Criteria that We Consider in Assessing Whether to Continue our Existing and Ongoing Business in the Sanctioned Countries

We will continuously monitor and evaluate our existing and ongoing business in the Sanctioned Countries in order to control our exposure to sanctions risk. In assessing whether to continue our existing and ongoing business in the Sanctioned Countries, the parameters or criteria that we would take into consideration include: (i) the value and size of the business activities as a percentage of our total revenue; (ii) whether the counterparties to the existing transaction have become subject to any economic sanctions taking into account any changes in applicable sanction laws; (iii) whether the relevant business activities involve any industries or sectors that are subject to any applicable sanctions taking into account any changes in applicable sanction laws; and (iv) the potential legal and reputational risk to us of continuing such activities.

In addition, we would take into consideration the similar parameters and criteria when determining whether to embark on new business opportunities in the Sanctioned Countries, including: (i) the expected value and size of the new business activities as a percentage of our total revenue; (ii) whether the counterparties to the new transaction falls into any restricted persons listed maintained by the U.S., the E.U., Australia and the U.N.; (iii) whether the business activities involve any industries or sectors that are subject to any applicable sanctions; and (iv) the potential legal and reputational risk to us of engaging in such activities.

Our Undertakings and Internal Control Procedures

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 (hereinafter, the "**sanctioned business**"). In addition, we have no present intention to undertake any future business that would cause us or the Relevant Persons to violate or become a target of sanctions laws of the U.S., the E.U., Australia, the U.N. or Hong Kong. We also undertake to 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.

We will continuously monitor and evaluate our business and take measures to comply with our undertakings to the Hong Kong Stock Exchange and to protect the interests of our Group and our Shareholders. The following measures have been fully implemented as at the date of this prospectus.

- We will monitor and regulate the use of the net proceeds of the Global Offering as well as any other funds raised through the Hong Kong Stock Exchange, and ensure that such proceeds and funds currently are not being used for or applied to and will not be used for or applied to any sanctioned business. In addition, we will deposit the proceeds from the Global Offering, as well as any other funds raised through the Hong Kong Stock Exchange, in a bank account separated from our other funds.
- To further enhance our existing internal risk management functions, we have established an overseas risk control committee (the "**Overseas Risk Control Committee**"). The members of such committee include a chief sanction compliance officer with overall responsibility for the implementation and monitoring of the sanctions compliance policies and procedures, our President, two Vice Presidents, head of the finance department, head of the legal department, head of the overseas business department and a manager responsible for information disclosure, and the responsibilities of the committee include, among others, monitoring and minimizing our exposure to sanctions law risks, our implementation and monitoring of the related internal control procedures and our compliance with our undertakings to the Hong Kong Stock Exchange. Our Overseas Risk Control Committee will hold at least four meetings each year to monitor our exposure to sanctions risks.
- Under the Overseas Risk Control Committee, we have also set up an overseas risk control and management working group (the "**Overseas Risk Control Working Group**"), which

is headed by the general manager of our overseas business department and consists of other members from our overseas business department and legal department as well as business managers of our subsidiaries who are involved in our business in the Sanctioned Countries.

Specifically, in order to ensure our compliance with the undertaking 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, we have also put in place the following internal control policies and procedures:

- According to our internal control policies, our Overseas Risk Control Working Group needs to review and approve our new business opportunities and to determine whether such business involves any sanctioned business. In particular, our Overseas Risk Control Working Group will review the information relating to the counterparty to the contract along with the draft new contract. Our Overseas Risk Control Working Group will check the counterparty against the various lists of restricted parties and countries maintained by the U.S., the E.U., Australia and the U.N., which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in a Sanctioned Country or a sanctioned person. In addition, our Overseas Risk Control Working Group will aim to include provisions in our contracts that permit us to terminate a specific contract if performance of the contract could expose us to sanctions risk.
- In addition, our Overseas Risk Control Working Group needs to periodically review our existing contracts and if an existing executed contract is updated or amended, our Overseas Risk Control Working Group needs to check that the business activities carried out under the updated or amended contract do not fall within the scope of industries and activities subject to sanctions, and we will not face any potential legal or reputational risk due to our involvement in such business activities.
- To minimize the sanction risk of our existing and ongoing business activities in the Sanctioned Countries, the Overseas Risk Control Working Group also needs to (i) check and prevent U.S. persons, E.U. citizens or E.U. based companies and Australian persons from becoming involved in such business activities; (ii) monitor new sanctions laws or any change to the existing sanctions laws (particularly with respect to Iran) and seek advice from external legal counsel as necessary, to confirm that our existing business activities do not violate any latest applicable sanction laws; and (iii) check and ensure that our relevant employees who are involved in business in the Sanctioned Countries understand and comply with our internal control framework. The Overseas Risk Control Working Group will also maintain a detailed list of U.S. origin products and technology used in our projects to prevent the export of products that are subject to U.S. export control laws and sanctions to countries, individuals and entities that are subject to U.S. sanctions and to sanctioned persons as necessary.
- The Overseas Risk Control Working Group will provide a quarterly status report for the Overseas Risk Control Committee's review, which will include, among others, an updated list of Sanctioned Countries and sanctioned persons and entities and a list of projects which contracts have been reviewed by the legal department.
- If any potential sanctions risk is identified by the Overseas Risk Control Working Group, our Overseas Risk Control Working Group will seek advice from reputable external international legal counsel with relevant expertise and experiences. Based on the advice of the external international legal counsel, the Overseas Risk Control Working Group would

report to the Overseas Risk Control Committee, who will then evaluate whether to continue our existing business or whether to veto any new business opportunities that may involve sanction risk. When evaluating whether to continue existing and ongoing business in the Sanctioned Countries, the major parameters or criteria that the Overseas Risk Control Committee would take into consideration include: (i) whether such business constitutes a predominant portion of our business based on the revenue or value of the contract as a percentage of our total revenue; (ii) whether the counterparties to the existing transaction have become subject to any economic sanctions based on any changes in applicable sanction laws and regulations; (iii) whether the relevant business activities involve any industries or sectors that are subject to any applicable sanctions based on any changes in applicable sanction laws and regulations; and (iv) the potential legal and reputational risk to us of continuing such activities. The Overseas Risk Control Committee would also take into consideration similar parameters and criteria when determining whether to embark on new business opportunities in the Sanctioned Countries.

- If we believe that any transaction would put us or the Relevant Persons to risks of being sanctioned based on the internal control measures described above, the Overseas Risk Control Committee will instruct us not to enter into such transaction.
- We will retain external international legal counsel with relevant expertise and experience in sanctions law matters on an ongoing basis. Our Overseas Risk Control Committee and Overseas Risk Control Working Group, advised by our external international legal counsel, will periodically review our internal control policies and procedures with respect to sanctions law matters and provide us with recommendations and advice as necessary.
- Our Overseas Risk Control Working Group will invite our external international legal counsel to provide regular training programs relating to relevant sanctions laws to our Directors, our senior management, the Overseas Risk Control Committee, the Overseas Risk Working Group and other relevant members from our overseas business department and subsidiaries who are involved in our business in the Sanctioned Countries to assist them in evaluating the potential sanctions risks in our daily operations.

Our legal advisers have reviewed and evaluated these internal control measures and are of the view that these measures are adequate and effective for our Company to comply with our undertaking to the Hong Kong Stock Exchange.

Taking into account our legal advisers' view above, our Directors are of the view that these measures will provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interest of our Shareholders and us. After undertaking relevant due diligence, and subject to the full implementation and enforcement of these measures, the Joint Sponsors are of the view that these measures will provide a reasonably adequate and effective internal control framework to assist the Company in identifying and monitoring any material risk relating to sanctions laws.

HISTORICAL NON-COMPLIANCE INCIDENTS

We set out below details of our material non-compliance incidents during the Track Record Period.

Non-compliance Incident	Causes of Non-compliance	Legal Consequences, Potential Maximum Penalties and other Financial Liabilities	Rectification Actions/ Preventive Measures
On 18 December 2012, CNR Beijing Feb. 7th was found by Beijing Environmental Protection Bureau to discharge sulfur dioxide exceeding limits	Delay in maintenance of environmental protection device for its boiler led to discharge of pollutants exceeding legal limit	• Beijing Environmental Protection Bureau imposed a fine of RMB0.02 million on CNR Beijing Feb. 7th; and • According to a letter issued by Beijing Environmental Protection Bureau, such non-compliance has been duly corrected.	• Training of staff in charge of maintenance of environmental protection devices to ensure strict compliance with the relevant operational procedures • Establishment of emergency back-up plan • Shortening of maintenance period to enhance in-time refill of relevant chemicals • Engagement of third-party inspectors to conduct periodic inspection of the level of emission
As at the Latest Practicable Date, we failed to obtain the building ownership certificates for 38 buildings with an aggregate gross floor area of approximately 75,781 sq.m., accounting for 1.66% of the aggregate gross floor area of our owned buildings. These buildings are mainly used for business operation.	We commenced construction of these buildings without obtaining required permits or approvals under applicable PRC laws and regulations.	• A penalty ranging between 1% and 2% of the total contracted construction price may be imposed for any commencement of construction prior to the obtaining of the relevant Construction Work Commencement Permit; • A penalty ranging between 5% and 10% of the total contracted construction price may be imposed for any commencement of construction prior to the obtaining of the relevant Construction Land Planning Permit; • A penalty of no more than RMB10,000 may be imposed for commencement of construction prior to	• Training of staff in charge of construction of properties on the legal requirements with respect to permits and approvals required prior to commencement of construction • Adoption of an internal policy with respect to the responsibility of key personnel in any investment activities, including construction of new projects and properties, and the relevant reporting and approval procedures within our Group • Strengthening the communication between our subsidiaries and the competent government authorities with respect to the obtaining of permits and approvals that are

Non-compliance Incident	Causes of Non-compliance	Legal Consequences, Potential Maximum Penalties and other Financial Liabilities	Rectification Actions/ Preventive Measures
		the filing of environmental impact assessment with the competent governmental authorities; and • The buildings that are constructed without the required permits may be subject to demolishment in certain circumstances.	required in our business operations to ensure full compliance with the applicable laws and regulations

Save as disclosed above, our Directors confirm that there has been no material non-compliance incidents during the Track Record Period and up to the Latest Practicable Date. Save as disclosed above, as advised by our PRC legal adviser, Jingtian & Gongcheng, our Company and each of our PRC subsidiaries have, in all material aspects, complied with the PRC laws and regulations that are applicable to our business operations during the Track Record Period and up to the Latest Practicable Date.

On the basis of the preventive measures mentioned above, our Directors and the Joint Sponsors are of the view that we have adequate internal control procedures in place for the purpose of Rule 3A.15(5) of the Hong Kong Listing Rules. Furthermore, having considered the facts and circumstances leading to the non-compliance incidents as disclosed in this section, our Directors' integrity, and our Group's internal control measures to avoid recurrence of the non-compliance incidents, our Directors and the Joint Sponsors are of the view that the past non-compliance incidents will not affect their suitability to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Hong Kong Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Hong Kong Listing Rules.

LEGAL PROCEEDINGS

We may from time to time be involved in contract disputes or legal proceedings arising from the ordinary course of our business. As at the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations. Moreover, save as disclosed in this prospectus neither our Company nor any of our subsidiaries was subject to any material claims, damages, losses or product returns during the Track Record Period. As at the Latest Practicable Date, no such material litigation, arbitration or administrative proceedings have been threatened against our Company or any of our subsidiaries.