
RELATIONSHIP WITH CONTROLLING SHAREHOLDER

BACKGROUND

Our Company is a joint stock limited company established on 26 June 2008. The A Shares of our Company have been listed and traded on the Shanghai Stock Exchange since 29 December 2009.

As at the Latest Practicable Date, CNRG directly held approximately 61.57% of the issued share capital of our Company and indirectly held approximately 5.23% of the issued share capital of our Company through Beijing CNR Investment. As such, CNRG directly and indirectly held approximately 66.80% of the issued share capital of our Company.

Immediately after the Global Offering and assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of the Share Option Scheme, CNRG will directly hold approximately 52.34% of the issued share capital of our Company and will indirectly hold approximately 2.94% of the issued share capital of our Company through Beijing CNR Investment. As such, CNRG will directly and indirectly hold approximately 55.28% of the issued share capital of our Company and will remain as our Controlling Shareholder.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER

Upon considering the following factors, we believe that the operation of our Company can be independent from that of the Controlling Shareholder and its associates after Listing.

Independence of the Board, Supervisors and Senior Management

The Board has one executive Director, two non-executive Directors and four independent non-executive Directors. Our senior management team comprises of nine members, including Mr. Xi Guohua, the executive Director and president of our Company. The table below sets out the positions held by our Directors, Supervisors and senior management team in our Company, and CNRG Group as at the Latest Practicable Date:

<u>Director/ supervisor/ senior management</u>	<u>Position in the Company</u>	<u>Position in CNRG Group</u>
CUI Dianguo (崔殿國)	Non-executive Director, Chairman of the Board	General manager of CNRG
XI Guohua (奚國華)	Executive Director and president	— ⁽¹⁾
WAN Jun (萬軍)	Non-executive Director, employee representative Director and chairman of the labor union	Chairman of the labor union of CNRG ⁽¹⁾
LI Fenghua (李豐華)	Independent non-executive Director	—
ZHANG Zhong (張忠)	Independent non-executive Director	—
SHAO Ying (邵瑛)	Independent non-executive Director	—
SUN Patrick (辛定華)	Independent non-executive Director	—
CHEN Fangping (陳方平)	Chairman of the Supervisory Committee	— ⁽¹⁾
ZHU Sanhua (朱三華)	Supervisor, assistant to chief accountant and head of audit department	Supervisor of Beijing CNR Investment (北京北車投資)

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<u>Director/ supervisor/ senior management</u>	<u>Position in the Company</u>	<u>Position in CNRG Group</u>
LIU Zhi (劉智)	Supervisor and manager of the labor union administration office	Head of the labor union office
ZHAO Guangxing (趙光興)	Vice president	— ⁽¹⁾
GAO Zhi (高志)	Vice President, chief financial officer	Chairman of Beijing CNR Investment, Director of Dao He Xin Da Asset Investment and Management Company Limited* (道和鑫達產業投資管理有限公司) ⁽¹⁾
SUN Yongcai (孫永才)	Vice president	— ⁽¹⁾
JIA Shirui (賈世瑞)	Vice president	— ⁽¹⁾
WEI Yan (魏岩)	Vice president	— ⁽¹⁾
YU Weiping (余衛平)	Vice president	— ⁽¹⁾
XIE Jilong (謝紀龍)	Secretary to the Board	—
WANG Yongzhi (王勇智)	Chief engineer	Director of Shanghai CNR Yongdian Electronic Technology Company Limited* (上海北車永電電子科技有限公司)

Note:

(1) Although Mr. Xi Guohua (奚國華) is the party secretary of CNRG, Mr. Wan Jun (萬軍) is the deputy party secretary and secretary to the disciplinary committee of CNRG, Mr. Chen Fangping (陳方平) is the deputy secretary to the disciplinary committee of CNRG and Mr. Zhao Guangxing (趙光興), Mr. Gao Zhi (高志), Mr. Sun Yongcai (孫永才), Mr. Jia Shirui (賈世瑞), Mr. Wei Yan (魏岩) and Mr. Yu Weiping (余衛平) are party members of the standing committee of CNRG, the positions are of political nature and do not involve in any commercial or operation activities.

However, we believe that our Directors, senior management and Supervisors positions in CNRG Group do not jeopardize the independence management of our Company for the following reasons:

- Four out of the seven Directors are independent of CNRG and decisions of the Board of Directors require the approval of a majority vote from the Board. Therefore, the Board of Directors is not under significant influence of CNRG and can manage the operation of our Company independently of CNRG.
- According to the Articles of Association, with respect to any matters of conflict or potential conflicts of interest which involve a transaction between our Company and another company or entity to which a Director or his associates holds office, such Director shall abstain from voting and shall be excluded from the quorum and the discussion (unless he is specifically invited by the disinterested Directors) of the particular matter to be resolved. Therefore, the common directorship of these Directors will not affect their independence or the independence of the Board of Directors; and
- Although Mr. Cui Dianguo (崔殿國) concurrently acts as the non-executive Director, the Chairman of the Board and as the general manager of CNRG, he focuses principally on the work of the Board of Directors, whereby he is in charge of formulating corporate and

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business strategies. He does not participate in the daily internal management and decision-making of our Company's operations. Given the fact that our Company has our own management team, the overlapping roles of Mr. Cui will not affect our independence from CNRG.

All Directors are aware of their obligations as Directors, including to act in the best interests of our Company and none of the Directors receives any remuneration from their positions in CNRG Group.

Operational Independence

Our operations are independent from and do not rely on that of CNRG. We independently applied for and obtained requisite licenses and permits for our operations and have sufficient funds, resources and staff to operate our business independently. Our Directors are of the view that our Company can remain independent from CNRG after its Listing for the following reasons:

- Our Company has its own organizational structure, functional departments, business and administrative units responsible for various specific functions;
- Our Company can perform the functions of research and development, production, sales, repair and maintenance independently without, and reliance on, CNRG;
- Our Company has implemented a comprehensive internal control system for effective management of operations; and
- Our Company has its own corporate governance measures and internal manuals, including the rules on procedure to commence shareholders' general meeting and board meeting.

Financial Independence

We have an independent financial system which allows us to make independent financial decisions in accordance with our operational requirements. Our financial department performs functions in treasury, accounting, reporting, financing and internal control. We have independent bank accounts and do not own joint accounts with CNRG. We conduct independent tax registrations and pay taxes out of our own funds. Our Directors believe that our Company can raise sufficient funds for its operations from external sources other than CNRG pursuant to market terms and conditions.

The Entrusted Loans

During the Track Record Period and thereafter, our Controlling Shareholder has provided certain entrusted loans to our Company.

In accordance with the relevant laws, regulations and policies of the PRC, our Company may apply for fiscal funds from the relevant PRC authorities through our Controlling Shareholder, CNRG. Pursuant to section 8 of the Provisional Regulations on Strengthening the Financial Information Management of Enterprises (加強企業財務信息管理暫行規定) promulgated by the MOF, fiscal funds contributed by the parent company of a corporate group as capital to its wholly-owned subsidiaries or its other subsidiaries shall be regarded as equity investment. If the subsidiary does not have plans to increase its share capital, such funds shall be regarded as an entrusted loan.

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In order to ensure that the fiscal funds are transferred to the subsidiary in a timely manner according to the requirements as promulgated by the MOF, CNRG and our Group has entered into several entrusted loan agreements. As at the Latest Practicable Date, the outstanding entrusted loans between CNRG and our Group are set out as follow:

On 22 November 2013, the Board resolved and approved our Company to obtain an entrusted loan of no more than RMB1.50 billion from CNRG. Pursuant to the entrusted loan agreements dated 27 December 2013 and 31 December 2013 entered into by CNRG, China CITIC Bank Corporation Limited (中信銀行股份有限公司) and our Company, CNRG lent to our Company an aggregate amount equal to RMB602.0 million through China CITIC Bank Corporation Limited at a fixed interest rate of 4.40% per annum to be used directly on projects sponsored by fiscal funds or to supplement the working capital spent on projects sponsored by fiscal funds (the “**Entrusted Loans**”). The term of each of the loans is one year.

We will repay such loans to CNRG immediately before conversion of such funds into equity investment in our Company by CNRG according to the relevant requirements.

But for the aforesaid PRC requirements, we can fund the financial needs of our Group and the maintenance of the entrusted loans was not a result of our Group’s financial inability to secure alternate financing.

The Entrusted Loans are an exempt continuing connected transaction. See “Connected Transactions—I. Exempt Continuing Connected Transactions—A. Entrusted Loan Agreements”.

Save as disclosed herein and in the paragraph headed “Financial Information — Indebtedness”, CNRG and its associates have not provided any guarantee or loans to our Company as at the Latest Practicable Date. Therefore, the Directors are of the view that our Company shall be financially independent from the Controlling Shareholder after Listing.

OTHER BUSINESS INTERESTS OF THE CONTROLLING SHAREHOLDER

Principal Business of our Company

Our Company primarily focused 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. Its principal products include high-speed MUs, locomotives, passenger coaches, freight wagons, rapid transit vehicles, engineering machinery and electrical and mechanical products.

Principal Business of CNRG Group

CNRG Group is mainly engaged in investment holding and assets management. Except its equity interest in our Company, the assets of CNRG Group are mainly its equity interests in Beijing CNR Investment and retaining companies. Beijing CNR Investment, a shareholder of our Company holding more than 5% of equity interest in our Company, is mainly engaged in project investment, investment holding, assets management and management consultation. The retaining companies of CNRG Group are mainly engaged in real estate development, sales of marine engineering ships, and the investment, asset management and production of railway switch. The business of the retaining companies of CNRG Group does not compete with the business of our Group.

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As indicated above, there is no existing and potential business competition between our Group and CNRG and its associates, and between our Group and Beijing CNR Investment, and its associates.

Save as disclosed above, as at the Latest Practicable Date, none of our Controlling Shareholder or Directors has any interests in businesses which competes or likely to compete with the business of our Company (other than the business of the Group).

NON-COMPETITION AGREEMENT

To ensure that CNRG Group does not compete with our Company, we entered into a non-competition agreement with CNRG on 23 September 2008 and in anticipation of the Listing, we entered into another non-competition agreement with CNRG on 29 April 2014 (the “**Non-Competition Agreement**”) which will be effective upon Listing (subject to Shareholders’ approval) and will supersede the previous one upon effective, pursuant to which CNRG agreed to make the following non-competition undertakings:

- CNRG Group will not, and will procure its associates not to directly or indirectly engage in or participate in or assist to engage in or participate in any business or activity that competes or may compete with any existing and future core businesses of our Company and its subsidiaries in any manner (including but not limited to investment, merger and acquisition, associated companies, joint ventures, contracting, leasing operation, purchase of stocks of or investment in listed companies), whether solely or jointly with other parties in the PRC or overseas;
- CNRG Group will not, and will procure its associates not to support any other parties (other than the Company and its controlling enterprises) to engage in any business or activity that competes or may compete with any existing and future core businesses of our Company or its subsidiaries in any manner in the PRC or overseas;
- CNRG Group will not, and will procure its associates not to (directly or indirectly) involve in any business or activity that competes or may compete with any existing and future core businesses of our Company or its subsidiaries in any other manner;
- CNRG Group shall immediately notify our Company in writing once any new business opportunity that constitutes or may constitute direct or indirect competition with any core businesses of our Company is identified, and shall use its best endeavor to offer the pre-emptive right of such business opportunity to our Company or its subsidiaries on reasonable and fair terms and conditions. CNRG Group or relevant controlling enterprises shall, under the same conditions, transfer the pre-emptive right of such new business opportunity to our Company or its relevant controlling enterprises. In addition, CNRG Group undertakes to use its best endeavor to procure its investees to comply with such undertaking;
- If CNRG Group intends to transfer, sell, lease, license or otherwise transfer or permit to use any of its existing businesses which directly or indirectly competes with any core businesses of our Company or any other future new business which directly or indirectly competes or may compete with any core businesses of our Company to a third party, CNRG Group shall notify our Company in writing in advance and our Company has the right to decide whether to acquire the aforesaid competitive business or interests. Before our Company makes the decision, CNRG Group shall not make any notifications to the third party in relation to its intention to transfer, sell, lease, or permit to use its competitive business or interests; and

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- CNRG will actively improve, reorganize and properly operate its existing businesses and new competitive businesses which may be acquired in the future, with an aim to ultimately transfer its competitive businesses to our Company by granting preference and option and/or pre-emptive right and/or right of first refusal to our Company.

The above non-competition undertakings ends on the date of which either: (i) CNRG and its subsidiaries hold less than 30% of the shares of our Company; or (ii) the Shares cease to be listed on Shanghai Stock Exchange or the Hong Kong Stock Exchange, whichever is later.

CORPORATE GOVERNANCE MEASURES

Upon Listing, our Company will continue to enter into connected transactions with CNRG Group and its associates. CNRG Group has also undertaken with our Company under the Non-Competition Agreement that it shall not, and shall procure its subsidiaries not to involve or participate in any business which directly or indirectly competes, or may compete, with any core businesses of our Company. To avoid further potential conflicts of interest between our Company and CNRG Group, our Company has adopted the following measures:

- In preparation for the Listing, our Company has amended its Articles of Association to comply with the Hong Kong Listing Rules. In particular, the Articles of Association provide that, except for certain exceptions permitted under the Hong Kong Listing Rules, a Director shall not vote on any board resolution approving any contract or arrangement or any other proposals to which he or his associates have a material interest, nor shall such Director be counted in the quorum present at such meeting. Furthermore, a Director who holds directorship and/or senior management positions in CNRG Group shall not vote on any board resolution regarding any transactions proposed to be entered into between any member of our Group and CNRG Group, nor shall such Director be counted in the quorum present at such meeting;
- Our Company has appointed China International Capital Corporation Hong Kong Securities Limited as our compliance adviser to provide us with advice and guidance as to compliance with applicable laws and the Hong Kong Listing Rules (including but not limited to various requirements relating to the responsibilities of Directors and internal control);
- Directors holding various positions in CNRG Group shall not vote in relation to any matter regarding the Non-Competition Agreement on the meeting of the Board of Directors;
- The following factors will be considered by the independent non-executive Directors when deciding whether to accept any business opportunities under the Non-Competition Agreement:
 - (a) whether the acquisition of new business meets the long-term development plan of our Company;
 - (b) whether our Company has sufficient financial and human resources to complete the acquisition without affecting our existing businesses;
 - (c) whether the acquisition contributes to our existing businesses;

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- (d) the scale, asset quality, expected profits, growth potential and risks and liabilities of the new business;
 - (e) the management qualification of the new business and whether it can integrate to the existing management of our Company; and
 - (f) the risks and costs of operating the new business after its acquisition;
- Independent non-executive Directors may engage an independent financial adviser if considered necessary to advise on matters in relation to the Non-Competition Agreement (including the exercise of pre-emptive right and terms of the exercise of such option or pre-emptive right) or any business opportunities that may be referred to our Company by CNRG Group at the expense of our Company;
 - Pursuant to the Hong Kong Listing Rules, any transfer, exercise or non-exercise of any option or pre-emptive right under the Non-Competition Agreement shall constitute a connected transaction. Our Company will comply with all applicable requirements of disclosure, reporting and/or independent Shareholders' approval (including obtaining approval from independent Shareholders (if applicable)) in relation to such connected transactions. Our Company will also make announcements on the decisions relating to the exercise of pre-emptive rights; and
 - Independent non-executive Directors shall review all the decisions (if applicable) in relation to the exercise of pre-emptive rights under the Non-Competition Agreement and the acceptance of any business opportunities referred to our Company by CNRG Group at the end of each calendar year, and disclose such decisions and reasons in the annual report of our Company.