You should read the following discussion and analysis in conjunction with our consolidated financial information set forth in the Accountants' Report included as Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements".

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 the 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 such each 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 market 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.

For the years ended 31 December 2011, 2012 and 2013, our total 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.

We also market and sell our products globally under our "CNR" and "中國北車" brands, which are among the most recognized and internationally well-known rolling stock products 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 approximately 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, respectively.

BASIS OF PRESENTATION

Our consolidated financial information has been prepared in accordance with IFRS issued by the International Accounting Standards Board. Our financial information is presented in RMB, which is the functional currency of our Company and subsidiaries established in the PRC and overseas carrying on our principal activities.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following are the key factors that affect our results of operations.

Investment in the Rail and Rolling Stock Industry

Due to its energy-saving, low carbon-dioxide emission, environmental-friendly and highly efficient nature, the global rail and rolling stock industry benefits from strong political support globally. The global rail industry has recovered since 2009. Benefiting from the economic stimulus package and the increase in rail investment, the global rail market value, representing the value of products and services created at the time of operation and delivery of rail infrastructure, rolling stock and system technology, is expected to have a steady growth with a CAGR of 2.7% from 2012 to 2016 in terms of market value, given the ongoing urbanization, ambitious climate goals, the continuous rise in demand for resources and increasing global trade. According to SCI Verkehr, the market value of the global rolling stock industry, which includes both manufacturing and refurbishment of rolling stock products, has increased by a CAGR of 5.7% from US$83.8 billion in 2006 to US$116.5 billion in 2012. It is expected that the market value of the global rolling stock industry will continue to grow at a CAGR of 2.6% from 2012 to 2016, reaching US$129.2 billion in 2016. In the PRC, continuing economic growth, government plans, continuous urbanization and energy-efficient and environmental awareness contribute to the sustained growth of the rail and rolling stock industry in China. The rail fixed asset investment, consisting of rail construction investment, replacement and refurbishment investment and rolling stock investment, increased from RMB207.1 billion in 2006 to RMB665.7 billion in 2013, representing a CAGR of 18.2%. According to CRC's meeting on 30 April 2014 in connection with the arrangement of railway construction development plan for 2014, the national investments in the rail industry in 2014 are expected to be over RMB800 billion. Under the 12th Five-Year Plan, the PRC government plans to increase overall investment in rail fixed assets to RMB3.3 trillion, RMB1.1 trillion more than the investment of RMB2.2 trillion planned during the 11th Five Year Plan. See "Industry Overview" for further discussion regarding the industry trends of the rail transportation. Our operations mainly consist of the manufacturing, sales and refurbishment of rolling stock in the PRC. As a result, our businesses have benefited significantly from the PRC's investments in the rail and rolling stock industry. We expect that anticipated continuing growth of the global rail and rolling stock industry and the investment in the rail and rolling stock industry by the PRC government will generate significant business opportunities for us in the next few years. However, if there is any reduction in the level of growth of the PRC government's spending on railway infrastructure and rapid transit systems in China, our revenue growth could be adversely affected. See "Risk Factors—Risks Relating to Our Business Operations—Our business and financial performance may be affected by changes in PRC government policies in respect of the rolling stock industry; any decrease in public spending on, or any change in the public procurement policies or industry standards relating to rail or urban rapid transit transportation system could impact our business".

Product/Service Mix

Over the Track Record Period, we generated our revenue primarily from the manufacturing and refurbishment of rolling stock, including high-speed MUs, locomotives, passenger coaches, freight wagons, rapid transit vehicles and railway engineering machinery and equipment and core system and components of rolling stock. We also generated our revenue from other products and services including manufacturing mechanical and electric products, modern service business and emerging industry business. See "Business—Our Products and Services" for further details about our products and services. The profitability of both sales of goods and provision of services varies according to factors including the nature of the products and services, technological sophistication, and/or market supply and demand. Changes in product mix in connection with the sales of goods and provision of services may affect our revenue and financial results. Products manufactured utilizing more sophisticated technologies are generally more profitable than conventional products. Over the Track Record Period, our manufacturing and refurbishment of rolling stock products accounted for a large majority portion of our total revenue and the gross profit margin of our manufacturing and refurbishment of rolling stock products had increased steadily due to our effective cost control. There were relatively higher fluctuations in the gross profit margin of our mechanical and electric products and emerging industry business due to sales of different types of products with different product margin and changes in market demand. Our modern service business had relatively lower gross profit margin due to the nature of our trading of raw material business. If we adjust our product mix to reflect prevailing market demand in the future, our gross profit margin could, to some extent, be affected.

Cost of Raw Materials and Components

The main component of our cost of sales during the Track Record Period was the cost of raw materials and components. Our raw materials and components are mainly used for our production of rolling stock, mechanical and electric products, clean energy, energy conservation and environmental protection equipment and systems. For the years ended 31 December 2011, 2012 and 2013, our cost of raw materials and components accounted for approximately 89.8%, 87.2% and 85.8% of our total production cost before consolidation for manufacturing such products, respectively. These raw materials are commodities, and their availability and prices depend on local and global market conditions and our relationships with suppliers. Our major raw materials include steel, aluminum and copper. Fluctuations in the prices of these raw materials may affect our product costs directly and the production costs of the suppliers of our components indirectly. 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. Among our major products, MUs and freight wagons are relatively more sensitive to changes in prices of their major raw materials, aluminum and steel, respectively. It is estimated that: (i) with an increase of 1% in the price of aluminum and all other variables held constant, our cost of sales for manufacturing a unit of MU would have increased by approximately RMB3,300; and (ii) with an increase of 1% in the price of steel and all other variables held constant, our cost of sales for manufacturing a unit of freight wagons would have increased by approximately RMB1,900. However, fluctuations in prices of raw materials generally do not have a material impact on our results of operations as we have adopted a number of measures to minimize such impact and to pass the cost of our raw materials on to our customers. See "Business—Raw Materials, Components and Suppliers".

We use a combination of centralized procurement and separate procurement in respect of our procurement of raw materials. With respect to general raw materials with large purchase volumes, such as steel, we combine the orders required by our subsidiaries, select suppliers and negotiate procurement prices through biddings in a centralized manner and also 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 large volume discounts. For other raw materials that are used by particular subsidiaries from time to time, they are directly sourced by such subsidiaries through biddings. This combination of centralized and separate procurements enables us to procure raw materials from reliable suppliers and use our collective bargaining power to demand for a larger discount. Any difficulty that we may encounter in connection with centralized procurement may adversely affect our business operations.

Taxation

Currently, a number of our subsidiaries are entitled to a preferential income tax rate of 15% available to high technology businesses or businesses that participate in the PRC government's development plan for the western part of China. Other subsidiaries were generally subject to the normal income tax rate of 25% applicable to Chinese enterprises during the Track Record Period. According to the Implementation Rules of the Enterprise Income Tax Law of the PRC since 1 January 2008, research and development expenditure incurred by us in the development of new technology, new products and new skills are entitled to certain tax incentives. Primarily as a result of the above preferential tax treatments and exemptions, our effective income tax rates were 14.0%, 14.4% and 17.1% for the years ended 31 December 2011, 2012 and 2013, respectively. Termination or revision of the various types of preferential tax treatment that certain of our subsidiaries, associates and jointly-controlled entities currently enjoy would have a negative impact on our results of operations and financial condition.

Exchange Rates

Most of our cost of sales and operating expenses are denominated in Renminbi. In addition, we sell most of our products in the domestic market. However, during the Track Record Period, we have sold certain products to, and purchased certain materials from, overseas markets in transactions that involved foreign currencies. For the years ended 31 December 2011, 2012 and 2013, our revenue from overseas sales amounted to approximately RMB6,271.5 million, RMB9,630.5 million and RMB7,576.2 million, respectively, representing 7.1%, 10.5% and 7.8% of our total revenue, respectively. We expect that the portion of our revenue and costs denominated in foreign currencies may increase due to the expected expansion of our overseas business. Substantial appreciation of the Renminbi against major foreign currencies could adversely impact our revenue from export sales, which in turn affects our profitability.

Regulatory Environment of the Rail and Rolling Stock Industry

We currently generate a significant portion of our revenues and profits from manufacturing and refurbishment of rolling stock products in the PRC. The PRC rail and rolling stock sector is regulated by the PRC government and any changes in the regulatory headwind in this sector may affect our business operations and thus our financial results. For details, see "Regulations". Any future change in the regulatory headwind and environment in the PRC rail transportation and rolling stock industry will likely affect our business operation and financial results.

CRITICAL ACCOUNTING POLICIES

Our accounting policies are important for an understanding of our financial condition and results of operation. We have identified below certain accounting policies and accounting estimates and judgments that are significant to the preparation of our financial information. These accounting policies require subjective or complex judgments by our management, often as a result of the need to make estimates and assumptions about the effect of matters that are inherently uncertain. We based our estimates on historical experience and other factors we consider to be relevant under the circumstances. Our Directors confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results during the Track Record Period and that we have consistently applied these estimates or underlying assumptions during the Track Record Period. We will continuously assess our assumptions and estimates going forward.

Revenue Recognition

Our revenue is primarily derived from the manufacturing and refurbishment of rolling stock products, including high-speed MUs, locomotives, passenger coaches, freight wagons, rapid transit vehicles and railway engineering machinery and equipment and core system and components of rolling stock. We also generated our revenue from other products and services including manufacturing of mechanical and electric products, modern service business and emerging industry business. See "Business—Our Products and Services". Revenue is measured at the fair value of the consideration received or receivable. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Provided it is probable that the economic benefits will flow to us and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sales of products

We derived revenues from sales of products including high-speed MUs, locomotives, passenger coaches, freight wagons, rapid transit vehicles and railway engineering machinery and equipment and core system and components of rolling stock, mechanical and electric products, clean energy, energy conservation and environmental protection equipment products. Our revenue from sales of products is recognized when we deliver the products to our customers and when the customers have accepted our products and the related risks and rewards of ownership are transferred them based on the terms of the relevant contracts as follows:

- With respect to the purchase orders from CRC and its affiliated enterprises that we obtained through bidding, according to the terms of our relevant contracts, we are generally required to deliver our products to the CRC's inspection department that CRC set up in our manufacturing plants. The delivery is only deemed complete after such inspection department finished inspection of the products and issued an acceptance note. We use the acceptance note as a basis for our recognition of our revenue.

- With respect to purchase orders from non-CRC customers that we obtained through bidding, the final products are generally required to be inspected by CRC for quality reason. Depending on the terms of the relevant contracts with the customers, the final delivery location of the products may be the CRC's inspection department that CRC set up in our manufacturing plants. If the relevant contract specifies that the acceptance standards of the products are same as CRC's standards, the delivery will be deemed complete after such inspection department's inspection and issuance of its acceptance note at the manufacturing plants. If the contract specifies that the final acceptance are different from CRC's standards, the delivery will be deemed complete only after the customers' further inspection and the issuance of acceptance note by the customer.

- With respect to our overseas sales, we generally sell our products to agents who are responsible for customs clearance according to the terms of the relevant contracts. We generally recognize our revenue for such sales when the customs declarations are issued.

(ii) Provision of services

Our revenue from provisions of maintenance, upgrade and refurbishment services for rolling stock and other products is recognized in the statements of comprehensive income based on the percentage of completion accounting method, measured by reference to proportion of the actual accumulated contracts costs incurred to date to the estimated total cost of the relevant contract at the end of the reporting period.

Construction Contract Revenue

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. Revenue and profit recognition of a construction project in progress is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on our recent experience and the nature of the construction activity undertaken by us, we make estimates at the point at which it considers the work is sufficiently advanced such that the cost to complete and revenue can be reliably estimated. When the outcome of a construction contract can be estimated reliably, contract costs are recognized as an expense by reference to the stage of completion of the contract at the end of the reporting period. When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognized as an expense in the period in which they are incurred. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognized in future years as an adjustment to the amounts recorded to date. We had not made any such adjustment during the Track Record Period.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognized profit less recognized losses and progress billings, and are presented in the statements of financial position as the "gross amount due from customers for contract work" (as an asset) or the "gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "trade and bills receivables".

Impairment Losses for Bad and Doubtful Debts

We estimate impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. We base the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

Impairment Losses of Non-current Assets

In considering the impairment losses that may be required for certain of our assets which include property, plant and equipment, investment property, lease prepayments, intangible assets, investments in an associate and unquoted equity investment, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of sales volume, selling price and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs.

Write-down of Inventories to Net Realizable Value

We determine the write-down for obsolescence of inventories. Based on our review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realizable values. Due to changes in market conditions, actual saleability of goods, practical usage of goods may be different from estimation and profit or loss could be affected by differences in this estimation. Our write down of inventories for the years ended 31 December 2011, 2012 and 2013 was RMB134.6 million, RMB101.1 million and RMB148.3 million, respectively.

Recognition of Deferred Tax Assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognized and measured based on the expected manner of realization or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the statements of financial position date. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to our operating environment and requires a significant level of judgment exercised by the directors. Any changes in such assumptions and judgments would affect the carrying amounts of deferred tax assets to be recognized and hence the net profit in future years.

Warranty Provisions

We offer warranties to customers on all of our rolling stock products and mechanical and electric products, clean energy, energy conservation and environmental protection equipment products. The warranty periods for our rolling stock products normally range from one to nine years or is limited to a fixed number of operating kilometers in accordance with industry standards promulgated by CRC. We provide different warranty periods for different mechanical and electric products, clean energy,

energy conservation and environmental protection equipment. We make provision for warranties based on historical information, including recent claim experience, defect rates and repair costs of our products as well as the experience of other companies for similar products. Provision for warranties is only made where a warranty claim is probable. We continuously review material deviation from past cost information to make appropriate adjustment to the provision. Our provision policy in relation to warranties has been consistently applied during the Track Record Period. See "Business—Sales and Marketing—Customer Service". 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.

Research and Development Expenses

All of our expenditures on research and development were recognized as expenses during the Track Record Period. According to our accounting policy, research expenditures are expensed as incurred and development expenditures are recognized as an intangible asset if and only if, we can demonstrate all of the following:

(i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) our intention to complete the intangible asset and use or sell it;

(iii) our ability to use or sell the intangible asset;

(iv) the intangible asset will generate probable future economic benefits and, among other things, we can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) our ability to measure reliably the expenditures attributable to the intangible asset during its development phase.

Expenditures in the research phase shall be recognized as expenses when they are incurred and costs of internally generated intangible assets in the development phase shall be capitalized. As we do not distinguish the research phase from the development phase of an internal project to create an intangible asset and the costs incurred in the research phase and development phase are not collected and measured separately in our costing system, all of our expenditures on research and development were recognized as expenses in our consolidates statements of profit or loss during the Track Record Period.

SELECTED FINANCIAL DATA

The following table sets forth our consolidated statements of profit or loss for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Revenue	**88,810,826**	**91,798,238**	**96,756,070**
Cost of sales	(77,090,955)	(78,706,746)	(80,103,393)
Gross profit	**11,719,871**	**13,091,492**	**16,652,677**
Other revenue	609,872	697,774	583,771
Other net loss	(128,510)	(60,828)	(230,650)
Selling and distribution expenses	(1,468,869)	(1,722,959)	(2,018,084)
Administrative expenses	(6,075,014)	(6,875,741)	(8,783,823)
Profit from operations	**4,657,350**	**5,129,738**	**6,203,891**
Finance costs	(1,247,501)	(1,180,961)	(1,395,424)
Share of profits of associates	159,856	119,777	110,651
Share of profits of joint ventures	85,340	118,882	180,013
Profit before taxation	**3,655,045**	**4,187,436**	**5,099,131**
Income tax	(510,495)	(603,108)	(873,128)
Profit for the year	**3,144,550**	**3,584,328**	**4,226,003**

The following table sets forth our consolidated statements of financial position as at the dates indicated:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	22,062,263	25,295,354	27,997,062
Lease prepayments	8,698,547	9,126,850	9,966,563
Goodwill	—	13,557	13,557
Intangible assets	343,425	348,302	639,805
Interest in associates	1,050,573	1,004,864	1,040,052
Interest in joint ventures	703,031	783,053	944,177
Deferred tax assets	252,104	286,085	451,337
Other non-current assets	1,927,137	5,437,275	8,376,952
Total non-current assets	**35,037,080**	**42,295,340**	**49,429,505**
Current assets			
Inventories	31,119,462	24,714,198	18,636,790
Trade and bills receivables	16,737,917	22,715,011	31,922,635
Prepayments, deposits and other receivables	8,387,542	7,784,130	10,828,672
Income tax recoverable	39,453	45,502	9,269
Restricted deposits	149,466	206,548	1,084,981
Banks deposits with original maturities over three months	—	441,512	1,132,657
Cash and cash equivalents	5,894,744	8,379,753	7,114,408
Total current assets	**62,328,584**	**64,286,654**	**70,729,412**
Current liabilities			
Interest-bearing loans and borrowings	18,198,372	20,095,074	20,609,153
Trade and bills payables	30,800,402	33,347,494	36,026,256
Other payables and accruals	15,346,463	10,807,293	16,063,130
Defined benefit obligations	290,621	264,611	247,518
Income tax payable	156,030	273,238	521,657
Provision for warranties	483,229	471,558	535,900
Total current liabilities	**65,275,117**	**65,259,268**	**74,003,614**
Net current liabilities	**2,946,533**	**972,614**	**3,274,202**
Total assets less current liabilities	**32,090,547**	**41,322,726**	**46,155,303**
Non-current liabilities			
Interest-bearing loans and borrowings	225,160	25,533	1,415,277
Defined benefit obligation	2,444,957	2,229,720	2,131,239
Deferred tax liability	682	786	1,183
Other non-current liabilities	3,254,929	2,818,110	3,041,969
Total non-current liabilities	**5,925,728**	**5,074,149**	**6,589,668**
NET ASSETS	**26,164,819**	**36,248,577**	**39,565,635**
CAPITAL AND RESERVES	**26,164,819**	**36,248,577**	**39,565,635**
TOTAL EQUITY	**26,164,819**	**36,248,577**	**39,565,635**

DESCRIPTION OF SELECTED COMPONENTS OF OUR INCOME STATEMENTS

Revenue

We generate our revenue primarily from the following products and services:

(i) manufacturing and refurbishment of rolling stock products, including high-speed MUs, locomotives, passenger coaches, freight wagons, rapid transit vehicles and railway engineering machinery and equipment and core system and components of rolling stock;

(ii) manufacturing of mechanical and electric products, mainly including motors and gearboxes for oil drilling machinery, mining machinery and metallurgical machinery and electric components, such as IGBT module;

(iii) modern service business, mainly including finance leasing of rolling stock and machines and equipment, project management contracting services for urban rail and other related projects and trading of raw materials; and

(iv) emerging industry business, mainly including production of wind power generation equipment, electric buses, clean energy, energy conservation and environmental protection equipment as well as enterprise resource planning service and other information technology services.

Revenue by product or business type

For the years ended 31 December 2011, 2012 and 2013, our revenue was RMB88,810.8 million, RMB91,798.2 million and RMB96,756.1 million, respectively. The following table sets forth a breakdown of our revenue by product or business type for the years indicated:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing and refurbishment of rolling stock products						
Locomotive	19,862,233	22.4	16,023,664	17.5	15,774,141	16.3
Passenger coaches	4,076,616	4.6	5,471,454	6.0	7,996,324	8.3
Freight wagons	14,098,511	15.9	14,492,977	15.8	13,298,299	13.7
High-speed MUs	24,954,414	28.1	22,129,618	24.1	23,858,310	24.7
Rapid transit vehicles	6,370,422	7.2	8,096,629	8.8	5,851,344	6.0
Railway engineering machinery and equipment	1,055,684	1.1	251,998	0.2	1,225,531	1.3
Sub-total	**70,417,880**	**79.3**	**66,466,340**	**72.4**	**68,003,949**	**70.3**
Manufacturing of mechanical and electric products	**1,314,461**	**1.5**	**2,251,854**	**2.5**	**1,793,503**	**1.9**
Modern service business	**14,914,992**	**16.8**	**20,241,171**	**22.0**	**22,806,107**	**23.5**
Emerging industry business	**2,163,493**	**2.4**	**2,838,873**	**3.1**	**4,152,511**	**4.3**
Total revenue	**88,810,826**	**100.0**	**91,798,238**	**100.0**	**96,756,070**	**100.0**

Revenue by geographical location

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 approximately RMB6,271.5 million, RMB9,630.5 million and RMB7,576.2 million, respectively, representing approximately 7.1%, 10.5% and 7.8% of our revenue, respectively. Our revenue from overseas sales increased from 2011 to 2012 primarily as a result of our growing international presence and increased exported sales of our products. Revenue from our domestic sales remained relatively stable in 2011 and 2012. Revenue from our overseas sales decreased from 2012 to 2013 primarily due to the decrease in number of overseas purchase orders that we delivered as scheduled in 2013 as compared to 2012. The following table sets forth a breakdown of our domestic revenue and overseas revenue for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Domestic revenue	82,539,355	82,167,704	89,179,841
Overseas revenue	6,271,471	9,630,534	7,576,229
	88,810,826	**91,798,238**	**96,756,070**

Cost of Sales

Our cost of sales consists principally of raw materials and components, staff costs, depreciation and amortization expenses and operating lease charges. For the years ended 31 December 2011, 2012 and 2013, our cost of sales was RMB77,091.0 million, RMB78,706.7 million and RMB80,103.4 million, respectively. The following table sets forth a breakdown of our cost of sales by business type for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Manufacturing and refurbishment of rolling stock products	60,351,568	55,322,023	54,048,378
Manufacturing of mechanical and electric products	939,738	1,834,204	1,475,163
Modern service business	14,134,402	19,285,110	21,176,885
Emerging industry business	1,665,247	2,265,409	3,402,967
Total cost of sales	**77,090,955**	**78,706,746**	**80,103,393**

Gross Profit and Gross Profit Margin

For the years ended 31 December 2011, 2012 and 2013, our gross profit was RMB11,719.9 million, RMB13,091.5 million and RMB16,652.7 million, respectively, and our gross profit margin was 13.2%, 14.3% and 17.2%, respectively. The following table sets forth a breakdown of our gross profit by business type for the years indicated:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing and refurbishment of rolling stock products:	10,066,312	85.9	11,144,317	85.1	13,955,571	83.8
Manufacturing of mechanical and electric products	374,723	3.2	417,650	3.2	318,340	1.9
Modern service business	780,590	6.7	956,061	7.3	1,629,222	9.8
Emerging industry business	498,246	4.2	573,464	4.4	749,544	4.5
Total gross profit	**11,719,871**	**100.0**	**13,091,492**	**100.0**	**16,652,677**	**100.0**

The following table sets forth a breakdown of our gross profit margin by business type for the years indicated:

	Year ended 31 December		
	2011	2012	2013
Manufacturing and refurbishment of rolling stock products	14.3%	16.8%	20.5%
Manufacturing of mechanical and electric products	28.5%	18.5%	17.7%
Modern service business	5.2%	4.7%	7.1%
Emerging industry business	23.0%	20.2%	18.1%
Overall gross profit margin	**13.2%**	**14.3%**	**17.2%**

During the Track Record Period, the gross profit margin of our manufacturing and refurbishment of rolling stock products increased steadily primarily due to effective control of our cost of raw materials and components as our product technology level and independent development rate of core system and key components improved. Our manufacturing of mechanical and electric products has relatively higher gross profit margin than most of our other products and services because they have many spare parts and components which have relatively higher added value and cover a wide variety of categories. There were relatively higher fluctuations in the gross profit margin of our mechanical and electric products and emerging industry business due to sales of different types of products with different product margin and changes in market demand. Our modern service business has relatively lower gross profit margin due to the nature of our trading of raw material business.

Other Revenue

Our other revenue consists principally of government grants, interest income and dividend income. For the years ended 31 December 2011, 2012 and 2013, our other revenue was RMB609.9 million, RMB697.8 million and RMB583.8 million, respectively. The following table sets forth a breakdown of the major components of our other revenue for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Government grants	508,993	581,129	398,810
Dividend income	2,867	1,744	5,693
Interest income	98,012	114,901	179,268
Total other revenue	**609,872**	**697,774**	**583,771**

During the Track Record Period, we applied for and received government grants from both central and local PRC government authorities, including mainly government grants for research and development and government grants for specific projects. As a rolling stock manufacturer, we are entitled to apply to relevant government authorities for grants in accordance with applicable state and local policies favorable to the high-end equipment manufacturing industry. The relevant government authorities generally take into account the scope of our research and development and projects and will approve our application for grants if such scope is consistent with the applicable policies favorable to the high-end equipment manufacturing industry. We are allowed to use the government grants awarded in accordance the scope of research and development and projects approved by the relevant government authorities. Although government grants are generally awarded to us every year, they are not recurring in nature and are made on a case-by-case basis by the relevant government authorities in accordance with the applicable national and local policies.

Other Net Loss

Our other net loss consists principally of net foreign exchange loss and net loss on disposal of property, plant and equipment. For the years ended 31 December 2011, 2012 and 2013, we had other net loss of RMB128.5 million, RMB60.8 million and RMB230.7 million, respectively. The following table sets forth a breakdown of the major components of our other net loss for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Net gain/(loss) from changes in fair value	30,812	1,511	(6,069)
Net gain/(loss) on sale of available-for-sale investments	1,246	1,968	(50)
Net (loss)/gain on sale of derivative financial instruments	(9,708)	(3,275)	6,330
Net foreign exchange loss	(75,922)	(1,183)	(53,842)
Net loss on disposal of property, plant and equipment	(6,311)	(20,641)	(10,614)
Others	(68,627)	(39,208)	(166,405)
Total other net loss	**(128,510)**	**(60,828)**	**(230,650)**

Selling and Distribution Expenses

Our selling and distribution expenses consist principally of sales services fee, transportation costs and staff cost and other expenses such as installation and packaging fees. For the years ended 31 December 2011, 2012 and 2013, our selling and distribution expenses were RMB1,468.9 million, RMB1,723.0 million and RMB2,018.1 million, respectively. The table below sets forth a breakdown of the major components of our selling and distribution expenses for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Sales services fees	636,927	596,852	922,012
Transportation costs	340,995	442,534	361,359
Staff costs	194,917	267,459	323,362
Others	296,030	416,114	411,351
Total selling and distribution expenses	**1,468,869**	**1,722,959**	**2,018,084**

Administrative Expenses

Our administrative expenses consist principally of research and development expenses, staff costs, repair costs and taxes. For the years ended 31 December 2011, 2012 and 2013, our administrative expenses were RMB6,075.0 million, RMB6,875.7 million and RMB8,783.8 million, respectively. The table below sets forth a breakdown of the major components of our administrative expenses for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Research and development expenses	2,182,834	2,589,214	2,790,296
Staff costs	1,497,779	1,679,600	2,175,471
Repair costs	602,965	621,678	685,175
Depreciation	167,114	199,503	259,222
Amortization of intangible assets	182,199	197,357	219,562
Travelling costs	92,745	102,315	110,152
Administrative costs	92,715	101,288	91,319
Land use tax	117,900	128,689	130,189
Stamp tax	50,335	63,471	62,143
Property tax	64,966	78,076	101,839
Impairment losses	258,023	235,447	1,139,023
Others	765,439	879,103	1,019,432
Total administrative expenses	**6,075,014**	**6,875,741**	**8,783,823**

Finance Costs

Our finance costs consist principally of interest expenses on bank loans and borrowings. For the years ended 31 December 2011, 2012 and 2013, our finance costs were RMB1,247.5 million, RMB1,181.0 million and RMB1,395.4 million, respectively. The table below sets forth a breakdown of the major components of our finance costs for the years indicated.

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest cost recognized in respect of defined benefit obligations	108,064	89,865	89,753
Interest expenses on bank advances and borrowings	1,336,376	1,387,041	1,610,366
Less: interest expenses capitalized into property, plant and equipment	196,939	295,945	304,695
Total finance costs	**1,247,501**	**1,180,961**	**1,395,424**

Share of Profits of Associates

Our share of profits of associates is the profits attributable to us from our associates pursuant to our equity interests in such associates. An associate is an entity in which we have a significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions. For the years ended 31 December 2011, 2012 and 2013, our share of profits of associate was RMB159.9 million, RMB119.8 million and RMB110.7 million, respectively.

Share of Profits of Joint Ventures

Our share of profits of joint venture is the profits attributable to us from our joint ventures pursuant to our equity interests in such joint ventures. A joint venture is an arrangement whereby we and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement. For the years ended 31 December 2011, 2012 and 2013, our share of profits of joint ventures was RMB85.3 million, RMB118.9 million and RMB180.0 million, respectively.

Income Tax

Our income tax expense consists principally of corporate income tax and movements in deferred tax assets and liabilities. For the years ended 31 December 2011, 2012 and 2013, our income tax was RMB510.5 million, RMB603.1 million and RMB873.1 million, respectively, and our effective income tax rate was 14.0%, 14.4% and 17.1%, respectively. During these years, the increase in our income tax expense was primarily due to an increase in our profit before tax and increase in our effective income tax rate was mainly due to an increase in non-deductible expenses and tax loss of certain of our subsidiaries that cannot be recognized as deferred tax.

On 16 March 2007, the Fifth Plenary of the Tenth National People's Congress passed the new EIT Law. Accordingly, effective from 1 January 2008, our PRC subsidiaries are generally subject to income tax at the statutory rate of 25%, unless otherwise specified.

As at 31 December 2013, some of our subsidiaries were entitled to the following preferential income tax treatments based on the then prevailing income tax rules and regulations:

(i) eight of our subsidiaries were located in the western region of China and were each entitled to a preferential income tax rate of 15%;

(ii) 23 of our subsidiaries were certified as new high-technology enterprises and were each entitled to a preferential income tax rate of 15%;

(iii) one of our subsidiaries, CNR (Hong Kong) Corporation Limited, is located in Hong Kong and is entitled to Hong Kong profits tax at 16.5%; and

(iv) one of our subsidiaries, CNR (Czech) Science and Technology Development Corporation Limited, is located in Czech Republic and is entitled to income tax at the statutory rate of 19%.

As at the Latest Practicable Date, we had paid or made provisions for paying all relevant taxes and we did not have any material disputes with the relevant tax authorities.

RESULTS OF OPERATIONS

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Revenue

For the years ended 31 December 2012 and 2013, we recorded revenue from (i) manufacturing and refurbishment of rolling stock products of RMB66,466.3 million and RMB68,003.9 million, representing approximately 72.4% and 70.3% of our total revenue, respectively; (ii) manufacturing of mechanical and electric products of RMB2,251.9 million and RMB1,793.5 million, representing approximately 2.5% and 1.9% of our total revenue, respectively; (iii) our modern service business of RMB20,241.2 million and RMB22,806.2 million, representing approximately 22.0% and 23.5% of our total revenue, respectively and (iv) our emerging industry business of RMB2,838.8 million and RMB4,152.5 million, representing approximately 3.1% and 4.3% of our total revenue, respectively.

Our total revenue increased by RMB4,957.9 million, or 5.4%, from RMB91,798.2 million for the year ended 31 December 2012 to RMB96,756.1 million for the year ended 31 December 2013. The increase was mainly attributable to (i) the increase in revenue from the manufacturing and refurbishment of our rolling stock products by RMB1,537.6 million mainly due to the increase in number of our domestic purchase orders; and (ii) increase in revenue from our modern service business by RMB2,565.0 million and emerging industry business by RMB1,313.7 million due to our expansion of such businesses.

Our revenue generated from manufacturing and refurbishment of rolling stock products, increased by RMB1,537.6 million, or 2.3%, from RMB66,466.3 million for the year ended 31 December 2012 to RMB68,003.9 million for the year ended 31 December 2013. The increase was mainly attributable to increase in revenue from passenger coaches by RMB2,524.8 million and high-speed MUs by RMB1,728.7 million, primarily due to the increase in number of products that we delivered as scheduled and an increased demand for our refurbishment services in relation to high-speed MUs and passenger coaches; which was partially offset by a decrease in revenue from rapid transit vehicles by RMB2,245.3 million primarily due to decrease in number of products that we delivered as scheduled.

Our revenue generated from manufacturing of mechanical and electric equipment decreased by RMB458.4 million, or 20.4%, from RMB2,251.9 million for the year ended 31 December 2012 to RMB1,793.5 million for the year ended 31 December 2013. The decrease was mainly because the sales of our mechanical and electric equipment decreased as a result of decrease in purchase orders delivered.

Our revenue generated from our modern service business increased by RMB2,565.0 million, or 12.7%, from RMB20,241.2 million for the year ended 31 December 2012 to RMB22,806.2 million for the year ended 31 December 2013. The increase was primarily due to the increase in revenue from our trading of raw materials, finance leasing business and project management contracting service.

Our revenue generated from our emerging industry business increased by RMB1,313.7 million, or 46.3%, from RMB2,838.8 million for the year ended 31 December 2012 to RMB4,152.5 million for the year ended 31 December 2013. The increase was due to the expansion of our business for clean energy, energy conservation and environment protection equipment and systems.

Cost of sales

Our cost of sales increased by RMB1,396.7 million, or 1.8%, from RMB78,706.7 million for the year ended 31 December 2012 to RMB80,103.4 million for the year ended 31 December 2013. The increase was mainly due to the increase of sales over the same period.

Our cost of sales attributable to manufacturing and refurbishment of rolling stock products decreased by RMB1,273.6 million, or 2.3%, from RMB55,322.0 million for the year ended 31 December 2012 to RMB54,048.4 million for the year ended 31 December 2013. The decrease of cost of sales was mainly because we effectively controlled our raw material and component costs through centralized procurement and combining the orders required by our subsidiaries.

Our cost of sales attributable to manufacturing of mechanical and electric equipment decreased by RMB359.0 million, or 19.6%, from RMB1,834.2 million for the year ended 31 December 2012 to RMB1,475.2 million for the year ended 31 December 2013. The decrease of cost of sales was generally in line with the decrease of revenue generated from manufacturing of mechanical and electric equipment over the same period.

Our cost of sales attributable to modern service business increased by RMB1,891.8 million, or 9.8%, from RMB19,285.1 million for the year ended 31 December 2012 to RMB21,176.9 million for the year ended 31 December 2013. The increase of cost of sales was generally in line with the increase of revenue generated from modern service business over the same period.

Our cost of sales attributable to emerging industry business increased by RMB1,137.5 million, or 50.2%, from RMB2,265.4 million for the year ended 31 December 2012 to RMB3,402.9 million for the year ended 31 December 2013. The increase of cost of sales was generally in line with the increase of revenue generated from emerging industry business over the same period.

Gross profit and gross profit margin

Our gross profit increased by RMB3,561.2 million, or 27.2%, from RMB13,091.5 million for the year ended 31 December 2012 to RMB16,652.7 million for the year ended 31 December 2013. Our gross profit margin increased from 14.3% for the year ended 31 December 2012 to 17.2% for the year ended 31 December 2013. The increase of our gross profit and gross profit margin was primarily attributable to an increase in gross profit and profit margin of our manufacturing and refurbishment of rolling stock products.

The following table sets forth a breakdown of our gross profit by business type for the years ended 31 December 2012 and 2013:

	Year ended 31 December			
	2012		2013	
	RMB'000	%	RMB'000	%
Manufacturing and refurbishment of rolling stock products	11,144,317	85.1	13,955,571	83.8
Manufacturing of mechanical and electric products	417,650	3.2	318,340	1.9
Modern service business	956,061	7.3	1,629,222	9.8
Emerging industry business	573,464	4.4	749,544	4.5
Total gross profit	**13,091,492**	**100.0**	**16,652,677**	**100.0**

The following table sets forth a breakdown of our gross profit margin by business type for the years ended 31 December 2012 and 2013:

	Year ended 31 December	
	2012	2013
Manufacturing and refurbishment of rolling stock products	16.8%	20.5%
Manufacturing of mechanical and electric products	18.5%	17.7%
Modern service business	4.7%	7.1%
Emerging industry business	20.2%	18.1%
Overall gross profit margin	**14.3%**	**17.2%**

Our gross profit and gross profit margin attributable to manufacturing and refurbishment of rolling stock products increased from RMB11,144.3 million and 16.8% for the year ended 31 December 2012 to RMB13,955.5 million and 20.5% for the year ended 31 December 2013, respectively, primarily because of (i) the improvement of our production technology and our increased capacity to develop and manufacture core system and key components independently by ourselves; (ii) our effective control of our raw material and component costs through centralized procurement and combining the orders required by our subsidiaries and (iii) changes in product mix of rolling stock products with increased sales of products with relatively higher profit margin.

Our gross profit and gross profit margin attributable to manufacturing and refurbishment of mechanical and electric products decreased from RMB417.7 million and 18.5% for the year ended 31 December 2012 to RMB318.3 million and 17.7% for the year ended 31 December 2013 primarily due to changes in product mix over such period.

Our gross profit and gross profit margin attributable to our modern service business increased from RMB956.1 million and 4.7% for the year ended 31 December 2012 to RMB1,629.3 million and 7.1% for the year ended 31 December 2013. The increase in gross profit and gross profit margin was primarily due to the expansion and increased scale of economies of our finance leasing business and project management contracting services.

Our gross profit attributable to our emerging industry business increased from RMB573.5 million for the year ended 31 December 2012 to RMB749.6 million for the year ended 31 December 2013 primarily due to increased number of purchase orders we received in 2013. Our gross profit margin attributable to our emerging industry business decreased from 20.2% for the year ended 31 December 2012 to 18.1% for the year ended 31 December 2013 primarily due to changes in product mix with a higher proportion of sales of products with relatively lower profit margin.

Other revenue

Our other revenue decreased by RMB114.0 million, or 16.3%, from RMB697.8 million for the year ended 31 December 2012 to RMB583.8 million for the year ended 31 December 2013. The decrease was primarily due to a decrease in government grants for our projects of RMB182.3 million from the year ended 31 December 2012 to the year ended 31 December 2013.

Other net loss

Our other net loss increased by RMB169.9 million, or 279.4%, from RMB60.8 million for the year ended 31 December 2012 to RMB230.7 million for the year ended 31 December 2013. The increase in our other net loss was primarily attributable to an increase in net foreign exchange loss of RMB52.7 million due to fluctuations in exchange rates and an investment loss of RMB51.3 million that we recognized in relation to our acquisition of Jilin High-New Electric Cars Co., Ltd. in April 2013.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB295.1 million, or 17.1%, from RMB1,723.0 million for the year ended 31 December 2012 to RMB2,018.1 million for the year ended 31 December 2013. The increase was primarily attributable to an increase of our sales services fee of approximately RMB325.2 million in relation to our overseas sales and sales to non-CRC customers in the PRC from the year ended 31 December 2012 to the year ended 31 December 2013. The following table sets forth the components of our selling and distribution expenses for the years ended 31 December 2012 and 2013:

	Year ended 31 December	
	2012	2013
	RMB'000	RMB'000
Sales services fees	596,852	922,012
Transportation costs	442,534	361,359
Staff costs	267,459	323,362
Others	416,114	411,351
Total selling and distribution expenses	**1,722,959**	**2,018,084**

Administrative expenses

Our administrative expenses increased by RMB1,908.1 million, or 27.8%, from RMB6,875.7 million for the year ended 31 December 2012 to RMB8,783.8 million for the year ended 31 December 2013. The increase was primarily attributable to (i) an increase in impairment losses of RMB903.6 million primarily due to an increase in amount of provision that we recorded with respect to our receivables based on our individual assessment of collectability; (ii) an increase in our staff costs of RMB495.9 million from the year ended 31 December 2012 to the year ended 31 December 2013 primarily due to increased wages and benefits; and (iii) an increase in research and development expenses of RMB201.1 million as a result of our increased research and development activities. The following table sets forth the components of our administrative expenses for the years ended 31 December 2012 and 2013:

	Year ended 31 December	
	2012	**2013**
	RMB'000	**RMB'000**
Research and development expenses	2,589,214	2,790,296
Staff costs	1,679,600	2,175,471
Repair costs	621,678	685,175
Depreciation	199,503	259,222
Amortization of intangible assets	197,357	219,562
Travelling costs	102,315	110,152
Administrative costs	101,288	91,319
Land use tax	128,689	130,189
Stamp tax	63,471	62,143
Property tax	78,076	101,839
Impairment losses	235,447	1,139,023
Others	879,103	1,019,432
Total administrative expenses	**6,875,741**	**8,783,823**

Finance costs

Our finance costs increased by RMB214.4 million, or 18.2%, from RMB1,181.0 million for the year ended 31 December 2012 to RMB1,395.4 million for the year ended 31 December 2013. The decrease was primarily attributable to an increase in interest expense on our borrowings due to an increase in our average financing interest rate.

Profit before tax

As a result of the foregoing, our profit before tax increased by RMB911.7 million, or 21.8%, from RMB4,187.4 million for the year ended 31 December 2012 to RMB5,099.1 million for the year ended 31 December 2013.

Income tax

Our income tax increased by RMB270.0 million, or 44.8%, from RMB603.1 million for the year ended 31 December 2012 to RMB873.1 million for the year ended 31 December 2013. The increase was primarily due to the increase in our profit before tax and increase in our effective income tax rate. Our effective income tax rate was 14.4% for the year ended 31 December 2012 and 17.1% for the year ended 31 December 2013. The increase of our effective income tax rate from the year ended

31 December 2012 to the year ended 31 December 2013 was primarily due to increases in non-deductible fees and tax loss of certain of our subsidiaries in 2013 that cannot be recognized as deferred tax.

Profit for the year

As a result of the foregoing, our net profit increased by RMB641.7 million, or 17.9%, from RMB3,584.3 million for year ended 31 December 2012 to RMB4,226.0 million for year ended 31 December 2013.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenue

For the years ended 31 December 2011 and 2012, we recorded revenue from (i) manufacturing and refurbishment of rolling stock products of RMB70,417.9 million and RMB66,466.3 million, representing 79.3% and 72.4% of our total revenue, respectively; (ii) manufacturing of mechanical and electric products of RMB1,314.5 million and RMB2,251.9 million, representing 1.5% and 2.5% of our total revenue, respectively; (iii) our modern service business of RMB14,915.0 million and RMB20,241.2 million, representing 16.8% and 22.0% of our total revenue, respectively; and (iv) our emerging industry business of RMB2,163.4 million and RMB2,838.8 million, representing approximately 2.4% and 3.1% of our total revenue, respectively.

Our total revenue increased by RMB2,987.4 million, or 3.4%, from RMB88,810.8 million for the year ended 31 December 2011 to RMB91,798.2 million for the year ended 31 December 2012. The increase was mainly attributable to the increase in revenue generated from our modern service business by RMB5,326.2 million, partially offset by decrease in revenue generated from our manufacturing and refurbishment of rolling stock products by RMB3,951.6 million over the period.

Our revenue generated from manufacturing and refurbishment of rolling stock products decreased by RMB3,951.6 million, or 5.6%, from RMB70,417.9 million for the year ended 31 December 2011 to RMB66,466.3 million for the year ended 31 December 2012. The decrease was mainly attributable to a decrease in our revenue from locomotives by RMB3,838.5 million due to decrease in number of new purchase orders in 2012 and a decrease in revenue from high-speed MUs by RMB2,824.8 million primarily due to decrease in number of products that we delivered in 2012, partially offset by (i) an increase in our revenue from rapid transit vehicles by RMB1,726.2 million; and (ii) an increase in revenue from passenger coaches by RMB1,394.9 million primarily due to increase in number of sales.

Our revenue generated from manufacturing of mechanical and electric equipment increased by RMB937.4 million, or 71.3%, from RMB1,314.5 million for the year ended 31 December 2011 to RMB2,251.9 million for the year ended 31 December 2012. The increase was mainly due to increase in purchase orders.

Our revenue generated from our modern service business increased by RMB5,326.2 million, or 35.7%, from RMB14,915.0 million for the year ended 31 December 2011 to RMB20,241.2 million for the year ended 31 December 2012. The increase was due to the expansion of our trading of raw materials business, finance leasing business and project management contracting service.

Our revenue generated from our emerging industry business increased by RMB675.4 million, or 31.2%, from RMB2,163.4 million for the year ended 31 December 2011 to RMB2,838.8 million for the year ended 31 December 2012. The increase was mainly due to the expansion of our clean energy, energy conservation and environment protection equipment and systems business.

Cost of sales

Our cost of sales increased by RMB1,615.8 million, or 2.1%, from RMB77,090.9 million for the year ended 31 December 2011 to RMB78,706.7 million for the year ended 31 December 2012. The increase was generally in line with the increase of our total revenue.

Our cost of sales attributable to manufacturing and refurbishment of rolling stock products decreased by RMB5,029.6 million, or 8.3%, from RMB60,351.6 million for the year ended 31 December 2011 to RMB55,322.0 million for the year ended 31 December 2012. The decrease was mainly due to decrease of sales and refurbishment of rolling stock products as a result of decrease in purchase orders delivered over the same period.

Our cost of sales attributable to manufacturing of mechanical and electric equipment increased by RMB894.5 million, or 95.2%, from RMB939.7 million for the year ended 31 December 2011 to RMB1,834.2 million for the year ended 31 December 2012. The increase was mainly due to increase of sales from manufacturing of mechanical and electric equipment over the same period.

Our cost of sales attributable to modern service business increased by RMB5,150.7 million, or 36.4%, from RMB14,134.4 million for the year ended 31 December 2011 to RMB19,285.1 million for the year ended 31 December 2012. The increase was generally in line with the increase of revenue generated from modern service business over the same period.

Our cost of sales attributable to emerging industry business increased by RMB600.2 million, or 36.0%, from RMB1,665.2 million for the year ended 31 December 2011 to RMB2,265.4 million for the year ended 31 December 2012. The increase was generally in line with the increase of revenue generated from emerging industry business over the same period.

Gross Profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB1,371.6 million, or 11.7%, from RMB11,719.9 million for the year ended 31 December 2011 to RMB13,091.5 million for the year ended 31 December 2012. Our gross profit margin increased from 13.2% for the year ended 31 December 2011 to 14.3% for the year ended 31 December 2012. The increase of our gross profit and gross profit margin was primarily due to an increase in gross profit and profit margin of our manufacturing and refurbishment of rolling stock products; which was partially offset by a decrease in gross profit and profit margin of production of manufacturing of mechanical and electric products. The following table sets forth a breakdown of our gross profit by business type for the years ended 31 December 2011 and 2012.

	Year ended 31 December			
	2011		2012	
	RMB'000	%	RMB'000	%
Manufacturing and refurbishment of rolling stock products	10,066,312	85.9	11,144,317	85.1
Manufacturing of mechanical and electric products	374,723	3.2	417,650	3.2
Modern service business	780,590	6.7	956,061	7.3
Emerging industry business	498,246	4.2	573,464	4.4
Total gross profit	**11,719,871**	**100.0**	**13,091,492**	**100.0**

The following table sets forth a breakdown of our gross profit margin by business type for the years ended 31 December 2011 and 2012:

	Year ended 31 December	
	2011	2012
Manufacturing and refurbishment of rolling stock products	14.3%	16.8%
Manufacturing of mechanical and electric products	28.5%	18.5%
Modern service business	5.2%	4.7%
Emerging industry business	23.0%	20.2%
Overall gross profit margin	**13.2%**	**14.3%**

Our gross profit and gross profit margin attributable to manufacturing, sales and refurbishment of rolling stock increased from RMB10,066.3 million and 14.3% for the year ended 31 December 2011 to RMB11,144.3 million and 16.8% for the year ended 31 December 2012, respectively, primarily because we improved our product technology level and independent development rate of core system and key components.

Our gross profit attributable to manufacturing of mechanical and electric products increased from RMB374.8 million for the year ended 31 December 2011 to RMB417.7 million for the year ended 31 December 2012 primarily due to increase in number of purchaser orders and sales. Our gross profit margin attributable to manufacturing of mechanical and electric products decreased from 28.5% for year ended 31 December 2011 to 18.5% for the year ended 31 December 2012 primarily due to changes in product mix with increased sales of products with relatively lower profit margin.

Our gross profit attributable to our modern service business increased from RMB780.6 million for the year ended 31 December 2011 to RMB956.1 million for the year ended 31 December 2012 primarily due to increase in sales. Our gross profit margin attributable to our modern service business decreased slightly from 5.2% for the year ended 31 December 2011 to 4.7% for the year ended 31 December 2012 primarily due to our increased trading of raw materials, which had a relatively low gross profit margin.

Our gross profit attributable to our emerging industry business increased from RMB498.2 million for the year ended 31 December 2011 to RMB573.5 million for the year ended 31 December 2012 primarily due to an increase in number of purchaser orders and sales. Our gross profit margin attributable to our emerging industry business decreased from 23.0% for the year ended 31 December 2011 to 20.2% for the year ended 31 December 2012 primarily due to changes in product mix with increased sales of products with relatively lower profit margin.

Other revenue

Our other revenue increased by RMB87.9 million, or 14.4%, from RMB609.9 million for the year ended 31 December 2011 to RMB697.8 million for the year ended 31 December 2012. The increase was primarily due to an increase in government grant for our projects of RMB72.1 million from the year ended 31 December 2011 to the year ended 31 December 2012.

Other net loss

Our other net loss decreased by RMB67.7 million, or 52.7%, from RMB128.5 million for the year ended 31 December 2011 to RMB60.8 million for the year ended 31 December 2012. The decrease in other net loss was primarily attributable to a decrease in net foreign exchange loss of approximately of RMB74.7 million due to fluctuations in exchange rates.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB254.1 million, or 17.3%, from RMB1,468.9 million for the year ended 31 December 2011 to RMB1,723.0 million for the year ended 31 December 2012. The increase was primarily due to (i) an increase in transportation costs of RMB101.5 million and an increase of staff costs of RMB72.5 million in relation to our increased overseas sales and increased after-sales services; and (ii) an increase in other expenses of RMB120.1 million due to increase in packaging, installation and other miscellaneous expenses. The following table sets forth the components of our selling and distribution expenses for the years ended 31 December 2011 and 2012:

	Year ended 31 December	
	2011	2012
	RMB'000	RMB'000
Sales services fees	636,927	596,852
Transportation costs	340,995	442,534
Staff costs	194,917	267,459
Others	296,030	416,114
Total selling and distribution expenses	**1,468,869**	**1,722,959**

Administrative expenses

Our administrative expenses increased by RMB800.7 million, or 13.2%, from RMB6,075.0 million for the year ended 31 December 2011 to RMB6,875.7 million for the year ended 31 December 2012. The increase was primarily due to an increase in research and development expenses of approximately RMB 406.4 million primarily due to our increased research and development activities and an increase in staff costs of RMB181.8 million primarily due to increased wages and benefits of our administrative staff. The following table sets forth the components of our administrative expenses for the years ended 31 December 2011 and 2012:

	Years ended 31 December	
	2011	2012
	RMB'000	RMB'000
Research and development expenses	2,182,834	2,589,214
Staff costs	1,497,779	1,679,600
Repair costs	602,965	621,678
Depreciation	167,114	199,503
Amortization of intangible assets	182,199	197,357
Travelling costs	92,745	102,315
Administrative costs	92,715	101,288
Land use tax	117,900	128,689
Stamp tax	50,335	63,471
Property tax	64,966	78,076
Impairment losses	258,023	235,447
Others	765,439	879,103
Total administrative expenses	**6,075,014**	**6,875,741**

Finance costs

Our finance costs decreased by RMB66.5 million, or 5.3%, from RMB1,247.5 million for the year ended 31 December 2011 to RMB1,181.0 million for the year ended 31 December 2012. The decrease was primarily attributable to a decrease in interest expense on our borrowings due to decrease in our average financing interest rate.

Profit before tax

As a result of the foregoing, our profit before tax increased by RMB532.4 million, or 14.6%, from RMB3,655.0 million for the year ended 31 December 2011 to RMB4,187.4 million for the year ended 31 December 2012.

Income tax

Our income tax increased by RMB92.6 million, or 18.1%, from RMB510.5 million for the year ended 31 December 2011 to RMB603.1 million for the year ended 31 December 2012. The increase was primarily due to the increase in profit before tax over the same period. Our effective income tax rate remained relatively stable from 14.0% for the year ended 31 December 2011 to 14.4% for the year ended 31 December 2012.

Profit for the year

As a result of the foregoing, our net profit increased by RMB439.7 million, or 14.0%, from RMB3,144.6 million for the year ended 31 December 2011 to RMB3,584.3 million for the year ended 31 December 2012.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our liquidity requirements through cash flows from operations, equity financing and bank borrowings. Our primary liquidity requirements are to finance working capital, fund the payment of interest and principal due on our indebtedness and fund capital expenditures and growth and expansion of our facilities and operations. Going forward, we expect these sources to continue to be our principal sources of liquidity, and we may use a portion of the proceeds from the Global Offering to finance a portion of our capital requirements. As at 31 March 2014, we had approximately RMB110,190.0 million of banking facilities available to us from commercial banks, of which approximately RMB79,089.0 million was unutilized and unrestricted, and cash and cash equivalents of approximately RMB8,265.7 million.

Cash Flows

The following table sets forth a summary of our cash flows for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(2,517,194)	1,795,900	4,886,783
Net cash used in investing activities	(7,767,193)	(5,985,771)	(5,715,976)
Net cash generated from/(used in) financing activities	10,964,469	6,672,465	(415,592)
Cash and cash equivalents at the beginning of year	5,242,324	5,894,744	8,379,753
Effect of foreign exchange rate changes, net	(27,662)	2,415	(20,560)
Cash and cash equivalents at the end of year	5,894,744	8,379,753	7,114,408

Net cash used in/generated from operating activities

Net cash generated from/used in operating activities primarily consisted of profit before tax adjusted for non-cash items, such as depreciation of property, plant and equipment and amortization of lease prepayments and intangible assets, share of profits of associates and joint ventures and finance costs, and the effects of changes in working capital, such as increase or decrease of inventories, trade and bills receivables, deposits, prepayments and other receivables and trade and other payables.

Cash flows from operating activities can be significantly affected by factors such as the timing of collections of trade and bills receivables from customers and payments of trade and other payable to suppliers during the regular course of business.

For the year ended 31 December 2013, we recorded net cash inflow from operating activities of RMB4,886.8 million, primarily as a result of profit before taxation of RMB5,099.1 million, adjusted for: (i) a decrease in inventories of RMB5,921.0 million as some of our purchase orders were delivered; and (ii) an increase in trade and other payables of RMB8,513.9 million mainly due to increase in receipts in advance from our major customers in relation to new purchase orders that we secured in 2013; which were partially offset by (i) an increase in trade and bills receivables of RMB9,893.9 million mainly due to the increase in number of purchase orders that we delivered in the last quarter of 2013 as scheduled; and (ii) an increase in deposits, prepayments and other receivables of RMB7,171.8 million mainly due to expansion of our modern service business.

For the year ended 31 December 2012, we recorded net cash inflow from operating activities of RMB1,795.9 million, primarily as a result of profit before taxation of RMB4,187.4 million, adjusted for: a decrease in inventories of RMB6,518.3 million as some of our purchase orders were delivered; which were partially offset by (i) an increase in trade and bills receivables of RMB5,944.5 million primarily due to our increased sales to non-CRC customers in the PRC and overseas customers, which generally have a relatively longer payment cycle; (ii) an increase in deposits, prepayments and other receivables of RMB2,734.3 million primarily due to expansion of our modern service business; and (iii) a decrease in trade and other payables of RMB1,970.3 million primarily due to decrease in receipts in advance from our customers as we delivered some of our products over the year.

For the year ended 31 December 2011, we recorded net cash outflow from operating activities of RMB2,517.2 million, primarily as a result of profit before taxation of RMB3,655.0 million, adjusted for: (i) an increase in inventories of RMB6,795.6 million in preparation for the purchase orders that we received; and (ii) an increase in trade and bills receivables of RMB5,435.8 million due to the expansion of our business; which were partially offset by (i) an increase in trade and other payables of RMB2,566.5 million primarily due to the expansion of our business; and (ii) a decrease in deposits, prepayments and other receivables of RMB1,599.9 million primarily due to the settlement of the prepayments as we delivered some of our products.

Net cash used in investing activities

Our cash outflow from investing activities primarily consists of payments for purchase of property, plant and equipment and intangible assets and payments for acquisition of associates and joint ventures. Our cash inflow from investing activities primarily consists of government grants received and dividends received in relation to our available-for-sale investments.

For the year ended 31 December 2013, our net cash used in investing activities was RMB5,716.0 million. Cash used in investing activities in 2013 was primarily attributable to payment for purchase of property, plant and equipment of RMB5,326.8 million, partially offset by government grants received of RMB219.7 million.

For the year ended 31 December 2012, our net cash used in investing activities of RMB5,985.8 million, primarily attributable to payment for purchase of property, plant and equipment, lease prepayments and intangible assets of RMB6,119.0 million; partially offset by government grants received of RMB428.4 million.

For the year ended 31 December 2011, our net cash used in investing activities of RMB7,767.2 million, primarily attributable to payment for purchase of property, plant and equipment, lease prepayments and intangible assets of RMB7,569.0 million; partially offset by government grants received of RMB105.4 million.

Net cash generated from/used in financing activities

Our cash inflow from financing activities primarily consists of proceeds from bank loans and borrowings, proceeds from issuance of short-term bonds and proceeds from issue of shares. Our cash outflow from financing activities primarily consists of repayment of bank loans and borrowings, repayment of debentures and payment of interest expense.

For the year ended 31 December 2013, our net cash used in financing activities was RMB415.6 million, primarily attributable to (i) repayment of bank loans and borrowings of RMB63,691.9 million; (ii) repayment of short-term bonds of RMB19,957.1 million; and (iii) payment of interest expense of RMB1,195.0 million; partially offset by (i) proceeds from bank loans and borrowings of RMB69,546.9 million; and (ii) proceeds from issuance of short-term bonds of RMB15,968.6 million.

For the year ended 31 December 2012, our net cash generated from financing activities was RMB6,672.5 million, primarily attributable to (i) proceeds from bank loans and borrowings of RMB38,044.6 million; (ii) proceeds from issuance of short-term bonds of RMB13,966.0 million; and (iii) proceeds from issue of shares of RMB6,873.6 million; partially offset by (i) repayment of bank loans and borrowings of RMB41,722.6 million; (ii) repayment of short-term bonds of RMB7,971.9 million; and (iii) payment of interest expense of RMB1,196.8 million.

For the year ended 31 December 2011, our net cash generated from financing activities was RMB10,964.5 million, primarily attributable to (i) proceeds from bank loans and borrowings of RMB42,608.9 million; and (ii) proceeds from issuance of short-term bonds of RMB7,972.0 million; partially offset by (i) repayment of bank loans and borrowings of RMB34,108.6 million; (ii) repayment of short-term bonds of RMB3,975.8 million; and (iii) payment of interest expense of RMB843.4 million.

Capital Expenditures

In the past, we incurred capital expenditures primarily for the construction and expansion of our manufacturing and refurbishment facilities and the procurement of machinery used to manufacture and refurbish rolling stock products. Our capital expenditures were RMB7,751.2 million, RMB5,400.5 million and RMB6,170.4 million for the years ended 31 December 2011, 2012 and 2013, respectively. The following table sets forth the components of our capital expenditures for the years indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB '000	RMB '000	RMB '000
Property plant and equipment	6,172,834	4,716,165	4,712,859
Intangible assets	135,609	76,231	353,541
Lease prepayment	1,442,752	608,129	1,104,049
Total	**7,751,195**	**5,400,525**	**6,170,449**

As at 31 December 2013, we have capital commitments of RMB4,172.4 million contracted for but not yet incurred, which will be mainly used for acquisition of property, plant and equipment and leasehold improvements and management. We estimate that our capital expenditures for the years ending 31 December 2014 and 2015 will be approximately RMB5,000.0 million and RMB5,000.0 million, respectively, which will be mainly used for the purchase of property, plant and equipment primarily in relation to the research and development and manufacturing of our rolling stock products. These capital expenditures will be financed by cash flow generated from operating activities, proceeds from the Global Offering and/or bank borrowings. We are not subject to any externally imposed capital requirement in the current and prior years.

Although these are our current plans with respect to our capital expenditures, such plans may change as a result of a change of circumstances and the actual amount of expenditures set out above may vary from the estimated amount of expenditures for a variety of reasons, including changes in market conditions, competition and other factors. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding for our future capital expenditures is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC and Hong Kong.

Working Capital

During the Track Record Period, we have met our working capital needs mainly from our cash and cash equivalents on hand, cash flow generated from operations, bank borrowings and debt and equity financing. We manage our cash flow and working capital by closely monitoring and managing, among other things, (i) the level of our accounts payables and receivables; and (ii) our ability to obtain external financing. We also diligently review future cash flow requirements and assess our ability to meet debt repayment schedules and adjust our investment, financing and dividend payout plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

Although we had negative operating cash flow and net current liabilities during the Track Record Period mainly due to the significant amount short-term loans and borrowings that we incurred to finance our development of the modern service business and purchase of raw materials and components for the manufacturing and refurbishment of rolling stock products, the Directors are of the view that we have sufficient working capital required for our operation at present and for at least the next 12 months from the date of this prospectus in light of our available banking facilities and our strong financing ability as described below:

- ***Available banking facilities***: As at 31 March 2014, we had unutilized and unrestricted banking facilities of RMB79,089.0 million that we can use for our working capital requirements.
- ***Strong financing ability and credit rating***: We have maintained strong and long-term relationships with major commercial banks and financial institutions in the PRC such as Bank of China and Agriculture Bank of China. During the Track Record Period, we had made all interest payments on our bank loans in a timely manner and we had been able to renew or roll over our bank loans at maturity if required. We do not foresee any immediate repayment requirement for our bank loans nor withdrawal or reduction in banking facilities on short notice that could have a material adverse effect on our liquidity position. We have also maintained a strong credit rating from credit agencies. In relation to our issuance of short-term inter-bank corporate bonds in an aggregate principal amount of RMB4,000 million in January 2014, we received credit rating of "AAA" from China Cheng Xin International Credit Rating Co. Ltd. (中誠信國際信用評級有限責任公司), a credit rating agency in the PRC, due to our strong loan repayment ability and good credit history (the credit rating "AAA" is the highest credit rating that a Chinese company can obtain from such credit rating agency). We believe we will be able to continue to renew our bank loans and obtain additional bank financing on commercially acceptable terms in the future to finance our working capital as necessary.

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, cash flow generated from operations, unutilized banks facilities and additional bank and debt financings we may obtain, as well as estimated net proceeds from the Global Offering, our Directors are of the opinion, and the Joint Sponsors concur, that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this prospectus.

NET CURRENT ASSETS AND LIABILITIES

The table below sets forth our current assets, current liabilities and net current liabilities as at the dates indicated:

	At 31 December			At 31 March
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets				
Inventories	31,119,462	24,714,198	18,636,790	23,716,291
Trade and bills receivables	16,737,917	22,715,011	31,922,635	33,779,828
Prepayments, deposits and other receivables	8,387,542	7,784,130	10,828,672	12,936,170
Income tax recoverable	39,453	45,502	9,269	25,209
Restricted deposits	149,466	206,548	1,084,981	929,042
Banks deposits with original maturities over three months	—	441,512	1,132,657	1,848,000
Cash and cash equivalents	5,894,744	8,379,753	7,114,408	8,265,748
Total current assets	**62,328,584**	**64,286,654**	**70,729,412**	**81,500,288**
Current liabilities				
Interest-bearing loans and borrowings	18,198,372	20,095,074	20,609,153	27,246,931
Trade and bills payables	30,800,402	33,347,494	36,026,256	36,613,607
Other payables and accruals	15,346,463	10,807,293	16,063,130	15,155,392
Defined benefit obligations	290,621	264,611	247,518	244,500
Income tax payable	156,030	273,238	521,657	429,716
Provision for warranties	483,229	471,558	535,900	509,965
Total current liabilities	**65,275,117**	**65,259,268**	**74,003,614**	**80,200,111**
Net current (liabilities)/assets	**(2,946,533)**	**(972,614)**	**(3,274,202)**	**1,300,177**

As at 31 December 2011, 2012 and 2013, we had net current liabilities of RMB2,946.5 million, RMB972.6 million and RMB3,274.2 million, respectively. As at 31 March 2014, we had net current assets of RMB1,300.2 million. We had net current liabilities during the Track Record Period primarily because we incurred a significant amount of short-term loans and borrowings to finance the development of our modern service business and our purchase of raw materials and components for manufacturing and refurbishment of rolling stock products. We had relatively more short-term bank loans and borrowings than long-term bank loans and borrowings as the average market interest rate of short-term bank loans and borrowings is generally lower than that for long-term bank loans and borrowings. Our net current liabilities decreased by RMB1,973.9 million from RMB2,946.5 million as at 31 December 2011 to RMB972.6 million as at 31 December 2012. The decrease was primarily due to (i) the profit that we generated from our operations in 2012; and (ii) the use of a portion of proceeds from our issue of shares in 2012 for our working capital, which was partially offset due to the expansion of our finance leasing business and project management contracting service. Our net current liabilities increased by RMB2,301.6 million from RMB972.6 million as at 31 December 2012 to RMB3,274.2 million as at 31 December 2013. The increase was primarily due to (i) the expansion of our finance leasing business and project management contracting services; (ii) increase in capital expenditure for purchase of property, plant and equipment; and (iii) increase in short-term loans and borrowings; partially offset by (i) the profits we generated from our operations for the year end 31 December 2013; and (ii) the increase in long-term loans and borrowings as a result of our debt restructuring to reduce our short-term borrowings. We recorded net current assets of RMB1,300.2 million as at 31 March 2014 primarily due to change of our financing structure to increase the use of long-term borrowing including the issuance of medium term notes on 24 February 2014 and 17 March 2014 in an aggregate principal amount of RMB4,000.0 million.

We expect to improve our net current liabilities position by: (i) receiving the proceeds from the Global Offering; (ii) continuing generating profit from our business operation; and (iii) restructuring our debt to increase the use of long-term borrowings.

Inventories

As at 31 December 2011, 2012 and 2013, inventories amounted to RMB31,119.5 million, RMB24,714.2 million and RMB18,636.8 million, respectively, representing 49.9%, 38.4% and 26.3% of our total current assets, respectively.

The following table sets forth the components of our inventories as at the dates indicated:

	At 31 December		
	2011	**2012**	**2013**
	RMB '000	**RMB '000**	**RMB '000**
Cost, net of provision			
Raw materials	11,143,583	8,317,891	7,514,808
Work in progress	17,835,340	13,939,966	9,099,758
Finished goods	1,872,551	2,347,167	1,947,423
Others(1)	267,988	109,174	74,801
Total	**31,119,462**	**24,714,198**	**18,636,790**

Note:

(1) "Others" include supplemental materials such as packaging materials.

Our raw materials comprise steel, aluminum, copper and various other components used in our manufacturing process. Inventories are stated at cost, which is calculated using the weighted average method or first in/first out method, or net realizable value, whichever is lower. Net realizable value is based on estimated selling prices in the ordinary course of business less any estimated costs to be incurred on completion and disposal. Write-down of inventories will be made when the carrying value of inventories declines below their estimated net realizable value. Due to changes in market conditions, actual saleability of goods, practical usage of goods may be different from estimation and profit or loss could be affected by differences in this estimation. Our write down of inventories for the years ended 31 December 2011, 2012 and 2013 was RMB134.6 million, RMB101.1 million and RMB148.3 million, respectively.

Our inventories decreased by RMB6,405.3 million, or 20.6%, from RMB31,119.5 million as at 31 December 2011 to RMB24,714.2 million as at 31 December 2012 primarily because some of our existing purchase orders for MUs were delivered and our raw materials and work in progress decreased as a result. Our inventories decreased from RMB24,714.2 million as at 31 December 2012 to RMB18,636.8 million as at 31 December 2013 primarily because some of our existing major purchase orders were delivered. As at 31 March 2014, RMB5,834.7 million, or 30.6%, of our inventories as at 31 December 2013 were utilized.

The following table sets forth our average inventory turnover days for the years indicated:

	Year ended 31 December		
	2011	**2012**	**2013**
Inventory turnover days(1)	133	131	101

Note:

(1) Average inventory turnover days for the years ended 31 December 2011, 2012 and 2013 equal average inventory divided by cost of sales for the relevant year and multiplied by 365 days. Average inventory equals the average inventory at the beginning and the end of the year.

Our inventory turnover days remained relatively stable from the year ended 31 December 2011 to the year ended 31 December 2012. The decrease in our inventory turnover days from 131 days for the year ended 31 December 2012 to 101 days for the year ended 31 December 2013 was primarily because (i) our cost of sales increased for the year ended 31 December 2013 due to the increase of sales over the same year; and (ii) our inventory level as at 31 December 2013 decreased from that as at 31 December 2012 because some of our existing major purchase orders were delivered at the end of 2013 as scheduled.

Trade and Bills Receivables

Our trade and bills receivables mainly represent the credit sales of our products or services to be paid by our customers. As at 31 December 2011, 2012 and 2013, our trade and bills receivables were RMB16,737.9 million, RMB22,715.0 million and RMB31,922.6 million, respectively.

	At 31 December		
	2011	2012	2013
	RMB '000	RMB '000	RMB '000
Trade receivables for sale of goods and rendering of services due from:			
- related parties	249,728	223,372	422,386
- third parties	15,951,295	22,036,932	31,057,779
	16,201,023	22,260,304	31,480,165
Less: allowance for doubtful debts	314,487	446,823	1,095,199
	15,886,536	21,813,481	30,384,966
Bills receivable for sale of goods and rendering of services due from:			
- related parties	1,106	12,810	4,247
- third parties	838,208	876,520	1,530,053
	839,314	889,330	1,534,300
Gross Amounts due from customers for contract work	12,067	12,200	3,369
Total	**16,737,917**	**22,715,011**	**31,922,635**

The increase in our trade and bills receivables from 31 December 2012 to 31 December 2013 primarily due to the increase in number of purchase orders that we delivered in the last quarter of 2013 as scheduled. The increase in our trade and bills receivables from 31 December 2011 to 31 December 2012 primarily due to our increased sales to non-CRC customers in the PRC and overseas customers, who generally have a relatively longer payment cycle.

Our senior management regularly reviews the recoverability of our overdue balances and when appropriate, provides for impairment of these trade and bills receivables. Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless we are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly. We generally receive payments on time as our customers are primarily government authorities and large enterprises with good credit histories. As at 31 December 2011, 2012 and 2013, we had allowance of doubtful debt of approximately RMB314.5 million, RMB446.8 million and RMB1,095.2 million, respectively. The increase in allowance of doubtful debt over the Track Record Period was primarily due to our expansion of business operations, the increase in our trade and bills receivables and increased provisions that we made based on individual assessment of collectability.

The following table sets forth an aging analysis of trade and bills receivables, based on the invoice date and net of allowance for doubtful debts, as at the dates indicated:

	At 31 December		
	2011	2012	2013
	RMB '000	RMB '000	RMB '000
Within 6 months	12,744,470	15,620,247	25,087,470
6 to 12 months	2,703,512	4,587,754	3,389,604
Over 1 year	1,289,935	2,507,010	3,445,561
Trade and bills receivables, net of allowance for doubtful debts	**16,737,917**	**22,715,011**	**31,922,635**

The credit period of individual customers is considered on a case-by-case basis and set out in the relevant sales contracts. Our trade and bills receivables are generally due within an average credit period of generally approximately three to nine months.

The following table sets forth our trade and bills receivables turnover days for the years indicated:

	Year ended 31 December		
	2011	2012	2013
Trade and bills receivables turnover days(1)	58	80	106

Note:

(1) Average trade and bills receivables turnover days for the years ended 31 December 2011, 2012 and 2013 equal average trade and bills receivables divided by revenue for the relevant year and multiplied by 365 days. Average trade and bills receivables equal the average trade and bills receivables at the beginning and the end of the year.

The increase in our trade and bills receivables turnover days from 58 days for the year ended 31 December 2011 to 80 days for the year ended 31 December 2012 was primarily attributable to our increased sales to non-CRC customers in the PRC and overseas customers, who generally have a relatively longer payment cycle. The increase in our trade and bills receivables turnover day from 80 days for the year ended 31 December 2012 to 106 days for the year ended 31 December 2013 was primarily attributable to the increase in trade and bills receivables due to the increase in number of purchase orders that we delivered in the last quarter of 2013 as scheduled. As at 31 March 2014, RMB13,173.4 million, or 39.9%, of our trade and bills receivables as at 31 December 2013 had been settled.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables mainly comprise prepayments for purchase of inventories and current portion of long-term receivables in relation to our finance leasing business and project management contracting services. As at 31 December 2011, 2012 and 2013, our prepayments deposits and other receivables were RMB8,387.5 million, RMB7,784.1 million and RMB10,828.7 million, respectively. The decrease in our prepayment, deposits and other receivables from 31 December 2011 to 31 December 2012 primarily reflected the settlement of the prepayment for the previous year; partially offset by an increase in the current portion of long-term receivables due to the expansion of our finance leasing business. The increase in our prepayment, deposits and other receivables from 31 December 2012 to 31 December 2013 primarily reflected increase in the current portion of long-term receivables due to the expansion of our finance leasing business and project management contracting services.

The following table sets forth the components of our prepayments, deposits and other receivables as at the dates indicated:

	At 31 December		
	2011	2012	2013
	RMB '000	RMB '000	RMB '000
Derivative financial instruments	30,918	19,650	4,907
Dividend receivables	62,270	24,204	20,694
Interest receivables	1,621	1,743	16,237
Current portion of long-term receivables	403,203	1,040,801	4,286,672
Prepayments for purchase of inventories			
—other related parties	70,453	24,712	14,120
—third parties	6,688,527	5,428,456	4,861,140
Advances to			
—other related parties	1,884	59	7,693
—third parties	230,348	447,708	934,503
Advances to staff	63,937	87,642	74,121
Other deposits	323,765	223,553	174,729
Others	618,601	586,328	815,963
Less: allowance for doubtful debts	107,985	100,726	382,107
Total	**8,387,542**	**7,784,130**	**10,828,672**

Trade and Bills Payables

Our trade and bills payables mainly comprise our payables to suppliers of our raw materials and components. As at 31 December 2011, 2012 and 2013, our trade and bills payables were RMB30,800.4 million, RMB33,347.5 million and RMB36,026.3 million, respectively. The increase of our trade and bills payables from 31 December 2011 to 31 December 2012 was primarily because some of our suppliers had extended our credit period. The increase of our trade and bills payables from 31 December 2012 to 31 December 2013 was generally in line of the increase of trade receivables over the same period as our major suppliers generally allow us to pay them after we collect our trade receivables from our major customers. As at 31 March 2014, RMB13,058.7 million, or 35.7%, of our trade and bills payables as at 31 December 2013 had been settled.

The following table sets forth an aging analysis of trade and bills payables, based on the invoice date, as at the dates indicated:

	At 31 December		
	2011	2012	2013
	RMB '000	RMB '000	RMB '000
Within 6 months	24,650,047	28,350,412	30,725,880
6 to 12 months	5,167,177	4,337,742	4,205,000
Over 1 year	983,178	659,340	1,095,376
Total	**30,800,402**	**33,347,494**	**36,026,256**

Our trade and bills payables are normally settled on terms of three to nine months. The following table sets forth our trade and bills payable turnover days for the years indicated:

	Year ended 31 December		
	2011	2012	2013
Trade and bills payables turnover days[(1)]	130	149	158

Note:

(1) Average trade and bills payables turnover days for the years ended 31 December 2011, 2012 and 2013 equal average trade and bills payables divided by cost of sales for the relevant year and multiplied by 365 days. Average trade and bills payables equal the average trade and bills payables at the beginning and the end of the year.

The increase in our trade and bills payable turnover days over the Track Record Period was primarily because some of our suppliers extended our credit period.

Other Payables and Accruals

Our other payables and accruals mainly comprise receipts in advance, payables for staff related costs, payables for taxes and surcharges and other accruals and payables. As at 31 December 2011, 2012 and 2013, our other payables and accruals were RMB15,346.5 million, RMB10,807.3 million and RMB16,063.1 million, respectively. The decrease in our other payables and accruals from 31 December 2011 to 31 December 2012 was primarily attributable to decrease in our receipts in advance as we delivered some of our purchase orders for our rapid transit vehicles. The increase in our other payables and accruals from 31 December 2012 to 31 December 2013 was primarily due to increase in our receipts in advance in relation to new purchase orders that we secured in 2013. The following table sets forth the components of our accruals and other payables as at the dates indicated:

	At 31 December		
	2011	2012	2013
	RMB '000	RMB '000	RMB '000
Interest payables			
—related parties	1,318	1,009	512
—third parties	222,818	205,007	280,978
Payables for staff related costs	687,898	683,706	619,555
Payables for other taxes and surcharges	783,610	1,021,926	1,691,172
Dividends payables	190,280	180,460	121,337
Others			
—related parties	65,761	56,346	515,362
—third parties	2,032,752	2,307,687	2,699,183
	3,984,437	4,456,141	5,928,099
Derivative financial liabilities	22,046	9,267	1,201
Receipts in advance			
—related parties	1,340	1,604	128,971
—third parties	11,338,640	6,340,281	10,004,859
	11,339,980	6,341,885	10,133,830
Total	**15,346,463**	**10,807,293**	**16,063,130**

Our Directors confirm that we had no material defaults in our trade and bills payables or other payables over the Track Record Period.

INDEBTEDNESS

As at 31 December 2013, we had total borrowings of approximately RMB22,024.4 million, out of which RMB20,985.8 million was denominated in Renminbi, RMB1,018.3 million was denominated in US dollar, and RMB20.3 million was denominated in Euro. As at 31 March 2014, the latest practicable date for the purpose of our indebtedness statement, we had RMB110,190.0 million banking facilities made available to us, of which RMB79,089.0 million was unutilized and unrestricted.

The following table sets forth the components of our long-term interest-bearing borrowings as at the dated indicated:

	At 31 December			At 31 March
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Entrusted loans				
—Unsecured	5,500	5,500	—	—
Bank loans				
—Secured	—	—	5,000	5,000
—Unsecured	319,660	370,033	1,410,277	1,950,378
Medium term note	—	—	—	3,968,537
	325,160	375,533	1,415,277	5,923,915
Less: Current portion of long-term borrowings	100,000	350,000	—	—
Total	**225,160**	**25,533**	**1,415,277**	**5,923,915**

The following table sets forth the components of our short-term interest-bearing borrowings as at the dates indicated:

	At 31 December			At 31 March
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Entrusted loans				
—Unsecured	1,200,000	20,000	601,980	601,980
Bank loans				
—Secured	565,516	50,000	1,243,132	1,246,776
—Unsecured	8,345,004	5,690,600	8,761,684	11,411,000
Others loans				
—Secured	—	—	8,000	8,000
Short-term inter-bank corporate bonds				
—Unsecured	7,987,852	13,984,474	9,994,357	13,979,175
Add: Current portion of long-term borrowings	100,000	350,000	—	—
Total	**18,198,372**	**20,095,074**	**20,609,153**	**27,246,931**

Our secured bank loans are mainly secured by our trade and bills receivables for the sale of our products and services. As at 31 December 2011, 2012 and 2013, the amount of our trade and bills receivables that we used to secure our bank loans was RMB574.9 million, RMB50.0 million and RMB1,296.2 million, respectively. Pursuant to the entrusted loan agreements (the "**Entrusted Loan Agreements**") dated 27 December 2013 and 31 December 2013, respectively, entered into by CNRG, China CITIC Bank Corporation Limited (中信銀行股份有限公司) and our Group, CNRG lent to our

Group 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 loan is one year. See "Relationship with Controlling Shareholder—Independence from the Controlling Shareholder—Financial Independence" in respect of the arrangements to repay the Entrusted Loans upon Listing. The increases in our borrowings over the Track Record Period were primarily due to our expansion of business. We expect to repay our borrowings through our cash flow generated from operating activities and a portion of the proceeds from the Global Offering.

The following table sets forth the interest rates per annum of our long-term and short-term borrowings as at the dates indicated:

	At 31 December		
	2011	**2012**	**2013**
	%	%	%
Long-term interest-bearing loans			
—Unsecured[1]	0.20-6.70	0.20-6.21	0.20-4.20
Short-term interest-bearing loans and borrowings			
Entrusted loans	4.66-5.24	6.00-6.31	4.40
Bank loans	1.99-8.10	4.20-6.69	3.90-7.00
Others loans	—	—	10.00
Short-term inter-bank corporate bonds	4.35-5.43	3.39-5.43	3.75-5.30

Note:

(1) The unsecured long-term interest-bearing loans included government loans and loans from Import and Export Bank of China for exportation of our products.

The following table sets forth the maturity profile of our long-term loans repayable as at the dates indicated:

	At 31 December		
	2011	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**
Loans			
—Within one year, inclusive or on demand	113,776	448,089	58,581
—In the second year, inclusive	13,776	382	1,411,508
—In the third to fifth year, inclusive	41,299	785	5,237
—Beyond five years	293,775	20,915	21,133
Total	**462,626**	**470,171**	**1,496,459**

On 24 January 2014, we issued short-term inter-bank corporate bonds in a principal amount of RMB2,000.0 million. The maturity of such bonds is 27 April 2014 and the interest rate is 5.83% per annum. On 27 January 2014, we issued another short-term inter-bank corporate bonds in a principal amount of RMB2,000.0 million. The maturity of such bonds is 27 July 2014 and the interest rate is 5.70% per annum. The issuance of such short-term inter-bank corporate bonds is a financing vehicle that we use for the purpose of diversifying our financing structure and reducing our financing cost. As the financing cost for obtaining bank loans is generally higher than the financing cost for short-term inter-bank corporate bonds, we issue short-term inter-bank corporate bonds on a rolling basis in order to reduce our overall financing cost. During the fourth quarter of 2013, approximately RMB4,000.0 million of our short-term corporate bonds were repaid at maturity and we had approximately RMB10,000.0 million of outstanding short-term corporate bonds as at 31 December

2013. In January 2014, approximately RMB4,000.0 million of our short-term corporate bonds were repaid at maturity but we also issued additional short-term corporate bonds of RMB4,000.0 million. As a result, the outstanding amount of our short-term corporate bonds remained RMB10,000.0 million as at 31 January 2014. The proceeds from the issuance of the RMB4,000.0 million short-term inter-bank corporate bonds in January 2014 were used to repay our bank loans.

On 19 February 2014 and 21 February 2014, we issued short-term inter-bank corporate bonds in a principal amount of RMB2,000.0 million and RMB3,000.0 million, respectively. The interest rates of both of such bonds are 5.50% per annum and the maturity of such bonds is 19 August 2014 and 24 February 2015, respectively. In February 2014, approximately RMB4,000.0 million of our outstanding short-term corporate bonds were repaid. On 26 March 2014, we issued additional short-term inter-bank corporate bonds in a principal amount of RMB3,000.0 million. The maturity of such bonds is 27 March 2015 and the interest rate is 5.30% per annum. The proceeds from the issuance of such short-term corporate bonds were mainly used to repay our bank loans. As at 31 March 2014, our outstanding amount of short-term corporate bonds was RMB13,979.2 million.

On 24 February and 17 March 2014, we issued medium-term notes in a principal amount RMB2,000.0 million and RMB2,000.0 million, respectively. The maturity of such medium-term notes is 25 February 2017 and 18 March 2019, respectively, and the interest rate is 5.50% and 5.75% per annum, respectively.

On 24 April 2014, we issued short-term inter-bank corporate bonds in a principal amount of RMB2,000.0 million. The interest rate of such bonds is 4.80% per annum and the maturity of such bonds is 19 January 2015.

There has been no material change to our indebtedness since 31 March 2014 to the Latest Practicable Date. As at the Latest Practicable Date, we do not have existing plans to make additional external debt financing.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that they are not aware of any material defaults in payment of our trade and non-trade payables and bank borrowing. The agreements under our banking loans do not contain any material covenants that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future.

Save as disclosed herein, we did not have any other material borrowings or indebtedness, hire purchase commitments, mortgages and charges, or other material contingent liabilities as at 31 March 2014.

COMMITMENTS

Commitments

Operating leases

We lease certain buildings under operating leases arrangement. The rent under such leases is generally fixed for a lease term. Our future minimum lease payments under non-cancellable operating leases as at the dates indicated are set forth below:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 1 year	18,285	43,526	53,964
After 1 year but within 3 years	17,368	39,733	18,874
After 3 years	43,180	37,062	34,672
Total	**78,833**	**120,321**	**107,510**

Capital commitments

In addition to the operating lease commitments, we had the following capital commitments for the acquisition of property, plant and equipment, purchase of performance, leasehold improvements and management as at the dates indicated:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Contracted for	2,424,045	3,570,634	4,172,358
Authorized but not contracted for	846,205	647,944	525,664
Total	**3,270,250**	**4,218,578**	**4,698,022**

There has been no material change to our commitments since 31 December 2013 to the Latest Practicable Date.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2013, being the date of our most recent financial statements, we did not have any material off-balance sheet arrangements.

FINANCIAL RATIOS

The following table shows certain of our financial ratios as at the dates and for the years indicated:

	At 31 December		
	2011	2012	2013
Current ratio[(1)]	95.5%	98.5%	95.6%
Quick ratio[(2)]	47.8%	60.6%	70.4%
Gearing ratio[(3)]	70.4%	55.5%	55.7%

	Year ended 31 December		
	2011	2012	2013
Return on total assets[(4)]	3.6%	3.5%	3.7%
Return on equity[(5)]	12.4%	11.5%	11.2%

Notes:

(1) Current ratio is calculated based on our total current assets divided by our total current liabilities at the respective dates and multiplied by 100%.

(2) Quick ratio is calculated by total current assets less inventories divided by total current liabilities at the respective dates and multiplied by 100%.

(3) Gearing ratio is calculated by total debt divided by total equity at the respective dates and multiplied by 100%. Total debt is defined as payables incurred not in the ordinary course of business.

(4) Return on total assets ratio is calculated based on our profit divided by average balance of our total assets for the beginning and end of the year and multiplied by 100%.

(5) Return on equity ratio is calculated based on our profit divided by the average balance of total equity for the beginning and end of the year and multiplied by 100%.

Current ratio

Our current ratio was 95.5%, 98.5% and 95.6% as at 31 December 2011, 2012 and 2013, respectively. The fluctuations of the current ratio over the Track Record Period were mainly due to the fluctuations of our net current liabilities.

Quick ratio

Our quick ratio was 47.8%, 60.6% and 70.4% as at 31 December 2011, 2012 and 2013, respectively. The increase in our quick ratio over the Track Record Period was mainly due to (i) fluctuations of our inventories; and (ii) fluctuations of our net current liabilities.

Gearing ratio

Our gearing ratio was 70.4%, 55.5% and 55.7% as at 31 December 2011, 2012 and 2013, respectively. Our gearing ratio decreased from 70.4% as at 31 December 2011 to 55.5% as at 31 December 2012 mainly due to our issuance of shares in 2012. Our gearing ratio remained relatively stable from 55.5% as at 31 December 2012 to 55.7% as at 31 December 2013.

Return on total asset ratio

Our return on total asset ratio was 3.6%, 3.5% and 3.7% for the years ended 31 December 2011, 2012 and 2013, respectively. Our return on total asset ratio remained relatively stable over the Track Record Period.

Return on equity ratio

Our return on equity ratio was 12.4%, 11.5% and 11.2% for the years ended 31 December 2011, 2012 and 2013, respectively. Our return on equity ratio decreased slightly from 12.4% for the year ended 31 December 2011 to 11.5% for the year ended 31 December 2012 primarily due to the issuance of our shares in 2012. Our return on equity ratio remained relatively stable from 11.5% for the year ended 31 December 2012 to 11.2% for the year ended 31 December 2013.

CERTAIN UNAUDITED INTERIM FINANCIAL INFORMATION OF OUR GROUP

As a company having A Shares listed on the Shanghai Stock Exchange, we are required to publish quarterly financial information prepared in accordance with PRC GAAP in compliance with applicable PRC securities regulatory requirements. We have included the unaudited condensed consolidated financial statements of our Group as at and for the three months ended 31 March 2014 prepared in accordance with IFRS, together with selected explanatory notes, in "Appendix II— Unaudited Interim Financial Information" to this prospectus. The unaudited condensed consolidated financial statements have been reviewed by our reporting accountants, in accordance with Hong Kong Standard on Review Engagements 2410.

Results of Operations

The following table sets forth our summary results of operations for the periods indicated.

	Three months ended 31 March	
	2013	2014
	RMB '000 (unaudited)	RMB '000 (unaudited)
Revenue	**17,420,448**	**14,628,752**
Cost of sales	(14,758,107)	(11,621,446)
Gross profit	**2,662,341**	**3,007,306**
Other revenue	69,912	145,552
Other net (loss)/gain	(18,206)	13,201
Selling and distribution expenses	(297,484)	(262,937)
Administrative expenses	(1,345,452)	(1,515,200)
Profit from operations	**1,071,111**	**1,387,922**
Finance costs	(182,780)	(326,454)
Share of profits of associates	30,961	29,673
Share of profits of joint ventures	12,145	20,721
Profit before taxation	**931,437**	**1,111,862**
Income tax	(168,481)	(211,447)
Profit for the period	**762,956**	**900,415**
Profit attributable to:		
Equity shareholders of the Company	735,392	876,237
Non-controlling interests	27,564	24,178
Profit for the period	**762,956**	**900,415**

Selected Certain Items from Consolidated Statements of Profit or Loss

The following discussion compares the major selected components of our consolidated statements of profit or loss for the three months ended 31 March 2013 and 2014.

Revenue. Our revenue decreased by RMB2,791.7 million, or 16.0%, from RMB17,420.5 million for the three months ended 31 March 2013 to RMB14,628.8 million for the three months ended 31 March 2014. Such decrease was primarily due to a decrease in revenue generated from manufacturing and refurbishment of rolling stock products, primarily reflecting decreased number of products that we delivered as scheduled during the first quarter of 2014, and a decrease in revenue generated from modern service business, primarily reflected decreased revenue from project management contracting service in the first quarter of 2014 as we have completed the construction of the Hunnan Project in 2013, as a result of which we have recognized substantially all of the revenue derived from such project in the same year.

Gross profit. Our gross profit increased by RMB345.0 million, or 13.0%, from RMB2,662.3 million for the three months ended 31 March 2013 to RMB3,007.3 million for the three months ended 31 March 2014. Such increase was primarily because an increased proportion of our revenue was generated from our manufacturing and refurbishment of high-speed MUs in the first quarter of 2014, which in general had a higher gross profit margin.

Selling and distribution expenses. Our selling and distribution expenses decreased by RMB34.6 million, or 11.6%, from RMB297.5 million for the three months ended 31 March 2013 to RMB262.9 million for the three months ended 31 March 2014, primarily in line with our decreased revenue generated from manufacturing and refurbishment of rolling stock products.

Administrative expenses. Our administrative expenses increased by RMB169.7 million, or 12.6%, from RMB1,345.5 million for the three months ended 31 March 2013 to RMB1,515.2 million for the three months ended 31 March 2014, primarily due to an increase in our research and development expenses as a result of our increased research and development activities an increase in our staff cost.

Finance costs. Our finance costs increased by RMB143.7 million, or 78.6%, from RMB182.8 million for the three months ended 31 March 2013 to RMB326.5 million for the three months ended 31 March 2014, primarily due to an increase in interest expenses on our bank borrowings as a result of increases in the average balance of our bank borrowings and our average financing interest rate.

Selected Certain Items from Consolidated Statements of Financial Position

Inventories. Our inventories increased by RMB5,079.5 million, or 27.3%, from RMB18,636.8 million as at 31 December 2013 to RMB23,716.3 million as at 31 March 2014, primarily due to our increased purchase of raw materials and components for use in our manufacturing process in anticipation of increased delivery of rolling stock products in 2014.

Trade and bills receivables. Our trade and bills receivables increased by RMB1,857.2 million, or 5.8%, from RMB31,922.6 million as at 31 December 2013 to RMB33,779.8 million as at 31 March 2014, primarily because an increased amount of payments for the rolling stock products we delivered to customers in the fourth quarter of 2013 were not due as at 31 March 2014 according to the payment schedule agreed between our customers and us, mainly reflecting an increase in the rolling stock products we delivered to customers in the fourth quarter of 2013 as compared with the same period in 2012.

Prepayment, deposits and other receivables. Our prepayment, deposits and other receivables increased by RMB2,107.5 million, or 19.5%, from RMB10,828.7 million as at 31 December 2013 to

RMB12,936.2 million as at 31 March 2014, primarily due to our increased purchase of raw materials and components for use in our manufacturing process in anticipation of increased delivery of rolling stock products in 2014.

Publication of Interim Financial Information

As a company having A Shares listed on the Shanghai Stock Exchange, we are required to publish quarterly financial information. We confirm that our quarterly financial information (in both English and Chinese) will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our Listing on the Hong Kong Stock Exchange. We will publish annual, semi-annual and quarterly financial information under PRC GAAP for A Share disclosure purpose and will publish annual and semi-annual financial information under IFRS for H Share disclosure purpose simultaneously.

LISTING EXPENSES

By the completion of the Global offering, we expect to incur listing expenses of approximately RMB226.2 million (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised and without taking into account any discretionary incentive fees, where applicable), of which an estimated amount of approximately RMB77.6 million will be recognized as our administrative expenses and an estimated amount of approximately RMB148.6 million will be recognized directly in equity.

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including credit risk, liquidity risk, interest rate risk and currency risk. We manage our exposure to these and other market risks through regular operating and financial activities.

Credit risk

Our credit risk is primarily attributable to cash at bank and in hand, trade and bills receivables, consignor advances, deposits, prepayments and other receivables and other non-current assets. We have a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. Substantially all of our cash at bank and in hand are deposited in state-owned/controlled PRC banks which we assessed the credit risk to be insignificant.

At the respective statements of financial position dates, we have certain concentration of credit risk. The trade receivables from our five largest debtors as at 31 December 2011, 2012 and 2013 represented 55.7%, 50.7% and 60.0% of our total trade receivables, respectively, while 41.1%, 36.6% and 47.0% of our total trade receivables were due from our largest debtor as at the same dates, respectively.

Liquidity risk

Our objective is to ensure continuity of sufficient funding and flexibility by utilizing a variety of bank and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that our outstanding borrowing obligation is not exposed to excessive repayment risk in any one year. We regularly monitor current and expected liquidity requirements to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and long term.

In addition, we actively and regularly review and manage our capital structure to maintain a balance between higher equity shareholder returns that might be associated with higher levels of borrowings and the advantages and security provided by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011, 2012 and 2013.

Interest rate risk

We are exposed to the risk of changes in market interest rates relates primarily to our interest bearing bank borrowings with a variable interest rate. We review and monitor the mix of fixed and variable rate borrowings in order to manage our interest rate risks. During the Track Record Period, we did not consider it necessary to use interest rate swaps to hedge our exposure to interest rate risk.

On 31 December 2011, 2012 and 2013, it is estimated that a general increase of 40 basis points in interest rates of net floating borrowings, with all other variables held constant, our profit after tax and retained profits would have decreased by approximately RMB32.1 million, RMB20.4 million and RMB23.6 million, respectively. Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

Currency risk

Our functional currency is the Renminbi with most of our transactions settled in Renminbi. We normally use, however, foreign currencies, to settle our invoices from overseas operations, to settle our purchases of machinery and equipment from overseas suppliers and for certain expenses. RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Fluctuations in foreign exchange currency rates could adversely affect us by decreasing any revenues from our sales which are denominated in foreign currency. See “Risk Factors—Risks Relating to the PRC—Government control over the conversion of foreign exchange may affect our results of operations and financial condition, value of the investment in shares and our ability to pay dividends”. For details of our recognized assets or liabilities as at 31 December 2011, 2012 and 2013 denominated in foreign currencies, primarily the Euros, United States dollars, Japanese Yen and Hong Kong dollars, see Notes 34 in the Accountants’ Report included in Appendix I.

DIVIDEND POLICY

For the years ended 31 December 2011, 2012 and 2013, our Company resolved to make a dividend distribution of approximately RMB516.0 million, RMB1,032.0 million and RMB2,064.0 million, respectively. Our Articles of Association provide that dividends may be paid by cash, stock or other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board and be subject to Shareholders’ approval. The amounts of dividends actually declared and paid will depend on the following factors, including our general business conditions and results of operations, our financial results/conditions, our working capital, our capital requirements, our future prospects, our cash flows and any other factors which our Board may deem relevant. In principle, we distribute our dividend once a year. We may declare interim dividend distribution taking into account the factors that our Board deems relevant.

Subject to the above factors and our Articles of Association, the profits distributed in cash every year will be no less than 10% of the distributable profits for that year, and the accumulated profits distributed in cash every three years will be no less than 30% of the annual average distributable profits for the last three years. After the Listing of our H Shares on the Hong Kong Stock Exchange, the net profit after tax of our Company for the purpose of dividends payment will be the lesser of (i) the net profit determined in accordance with the accounting rules and regulations of the PRC; and (ii) the net profit determined in accordance with IFRS. However, we cannot assure you that we will be able to declare or distribute dividends in any amount each year or in any year. The declaration and payment of dividends may be limited by legal restrictions or financing arrangements that we may enter into in the future.

DISTRIBUTABLE RESERVES

As at 31 December 2013, our aggregate amount of distributable reserves was approximately RMB2,794.1 million.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following of unaudited pro forma statement of adjusted net tangible assets attributable to the equity shareholders of our company has been prepared in accordance with Rule 4.29 of the Listing Rules, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the equity shareholders of our Company as at 31 December 2013 as if the Global Offering had taken place on 31 December 2013.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at 31 December 2013 or at any future date.

	Consolidated net tangible assets attributable to the equity shareholders of the Company as at 31 December 2013[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of the company	
	RMB'000	RMB'000	RMB'000	RMB[3]	HK$[4]
Based on an Offer Price of HK$5.00 per Share	37,126,980	7,022,288	44,149,268	3.64	4.58
Based on an Offer Price of HK$6.20 per Share	37,126,980	8,724,987	45,851,967	3.78	4.76

Notes:

(1) The consolidated net tangible assets attributable to the equity shareholders of our Company as at 31 December 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the consolidated net assets attributable to the equity shareholders of our Company as at 31 December 2013 of RMB37,780.3 million after deducting intangible assets of RMB639.8 million and goodwill of RMB13.6 million.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$5.00 and HK$6.20, after deduction of the underwriting fees and other related expenses payable by the Company, without taking into account the exercise of the Over-allotment Option. The estimated net proceeds of the Global Offering have been converted to Renminbi at the PBOC rate of HK$1.00 to RMB0.7942 prevailing on 25 April 2014.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at by dividing the unaudited pro forma adjusted net tangible assets by 12,141,256,303 Shares, being the number of shares in issue assuming that the Global Offering has been completed on 31 December 2013 but takes no account of the exercise of the Over-allotment Option.

(4) The unaudited pro forma adjusted net tangible assets per Share amounts in RMB are converted to HK$ with the exchange rate at RMB0.7942 to HK$1.00 prevailing on 25 April 2014.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules, with respect to advance to an entity, financial assistance and guarantees to affiliated companies of an issuer, pledging of shares by the controlling shareholder, covenants in loan agreements relating to specific performance of the controlling shareholder, and breach of loan agreement by an issuer.

RELATED-PARTY TRANSACTIONS

Our related party transactions are set out in Note 37 in the Accountants' Report included in Appendix I to this prospectus and it is the view of our Directors that each of such related party transactions was conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties or terms not less favorable than terms available from independent third parties, which are considered fair, reasonable and in the interest of our Shareholders as a whole, and would not distort our track record results or make the historical results not reflective of our future performance.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2013 (being the date to which our Company's latest consolidated financial results were prepared) and there is no event since 31 December 2013 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.