



中国铁建

中國鐵建高新裝備股份有限公司

CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 1786

GLOBAL OFFERING



Sole Sponsor



Sole Global Coordinator



Joint Bookrunners and Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



中国铁建

CRCC High-Tech Equipment Corporation Limited

中國鐵建高新裝備股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

Number of Offer Shares under : 531,900,000 H Shares (subject to the Over-allotment the Global Offering Option)

Number of Hong Kong Offer Shares : 53,190,000 H Shares (subject to adjustment)

Number of International Offer Shares : 478,710,000 H Shares (subject to adjustment and the Over-allotment Option)

Maximum Offer Price : HK\$5.76 per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)

Nominal value : RMB1.00 per H Share

Stock code : 1786

Sole Sponsor



Sole Global Coordinator



Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Appendix VIII – Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around December 8, 2015 (Hong Kong time) and, in any event, not later than December 10, 2015 (Hong Kong time). The Offer Price will be not more than HK\$5.76 and is currently expected to be not less than HK\$5.21 per Offer Share. If, for any reason, the Offer Price is not agreed by December 10, 2015 (Hong Kong time) between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$5.76 for each Hong Kong Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as to be finally determined is less than HK\$5.76.

The Sole Global Coordinator, on behalf of the Underwriters, with our consent may, where considered appropriate, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that is stated in this prospectus (which is HK\$5.21 to HK\$5.76) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of our Company at www.crce.com.cn and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in "Risk Factors," "Appendix V – Summary of Principal Legal and Regulatory Provisions" and "Appendix VI – Summary of Articles of Association" to this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" of this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or any state securities laws in the United States and may not be offered, sold, pledged or transferred within the United States except that Offer Shares may be offered, sold outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

December 3, 2015

EXPECTED TIMETABLE

Dated⁽¹⁾

Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Tuesday, December 8, 2015
Application lists open ⁽³⁾	11:45 a.m. on Tuesday, December 8, 2015
Latest time for (i) lodging WHITE and YELLOW Application Forms, (ii) completing payment for White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (iii) giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Tuesday, December 8, 2015
Application lists close ⁽³⁾	12:00 noon on Tuesday, December 8, 2015
Expected Price Determination Date ⁽⁵⁾	Tuesday, December 8, 2015
(1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Tuesday, December 15, 2015
(2) Results of allocations (with successful applicants' identification document numbers where appropriate) in the Hong Kong Public Offering to be available through a variety of channels as described in "How to Apply for the Hong Kong Offer Shares – Publication of Results" from	Tuesday, December 15, 2015
(3) Announcement containing (1) and (2) above to be published on the websites of the Company and the Hong Kong Stock Exchange at www.crce.com.cn ⁽⁶⁾ and www.hkexnews.hk ⁽⁷⁾ , respectively, from	Tuesday, December 15, 2015
Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a "search by ID" function	Tuesday, December 15, 2015
Despatch of H Share certificates or deposit of the H Share certificates into CCASS in respect of wholly or partially successful applications on or before ⁽⁸⁾	Tuesday, December 15, 2015
Despatch of White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications on or before ⁽⁸⁾⁽⁹⁾	Tuesday, December 15, 2015
Dealings in the H Shares on the Stock Exchange expected to commence on	Wednesday, December 16, 2015

EXPECTED TIMETABLE

Notes:

- (1) All dates and times refer to Hong Kong dates and times except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, December 8, 2015, the application lists will not open and close on that day. See “How to Apply for the Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists” for further details.
- (4) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares – Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Tuesday, December 8, 2015, and, in any event, not later than Thursday, December 10, 2015. If, for any reason, the Offer Price is not agreed among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Thursday, December 10, 2015, the Global Offering will not become unconditional and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) The announcement will be available for viewing on the Hong Kong Stock Exchange’s website at www.hkexnews.hk.
- (8) Applicants who apply for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering on **WHITE** Application Forms and have provided all information required by their Application Forms may collect refund cheque(s) and/or share certificate(s) in person from our Company’s H Share Registrar, from 9:00 a.m. to 1:00 p.m. on Tuesday, December 15, 2015. Applicants being individuals who are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Offer Shares or more and eligible for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporation’s chop. Identification and (where applicable) authorization documents acceptable to our Company’s H Share Registrar must be produced at the time of collection. Applicants who apply for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering on **YELLOW** Application Forms and have provided all information required by their Application Forms may collect their refund cheque(s) (if any) in person but may not elect to collect their share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant Application Forms. Further details are set out in the section headed “How to Apply for the Hong Kong Offer Shares – Despatch/Collection of H Share Certificates and Refund Monies” in this prospectus.
- (9) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.

Share certificates for the Hong Kong Offer Shares are expected to be issued on Tuesday, December 15, 2015 but will only become valid if the Global Offering has become

EXPECTED TIMETABLE

unconditional in all respects at any time prior to 8:00 a.m. and the right of termination as described in the section headed “Underwriting” in this prospectus has not been exercised on or before the Listing Date, which is expected to be Wednesday, December 16, 2015. Investors who trade the H Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see the sections headed “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus respectively.

CONTENTS

This prospectus is issued by CRCC High-Tech Equipment Corporation Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained on our website, located at www.crcce.com.cn, does not form part of this prospectus.

	<u>Page</u>
EXPECTED TIMETABLE	i
CONTENTS	iv
SUMMARY	1
DEFINITIONS	17
GLOSSARY OF TECHNICAL TERMS	30
FORWARD-LOOKING STATEMENTS	33
RISK FACTORS	35
WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES	64
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING	67
DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING	71

CONTENTS

CORPORATE INFORMATION	75
INDUSTRY OVERVIEW	77
REGULATORY ENVIRONMENT	89
HISTORY, REORGANIZATION AND CORPORATE STRUCTURE	94
BUSINESS	104
CONNECTED TRANSACTIONS	168
DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT	178
SHARE CAPITAL	199
SUBSTANTIAL SHAREHOLDERS	203
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS	205
FINANCIAL INFORMATION	214
FUTURE PLANS AND USE OF PROCEEDS	267
OUR CORNERSTONE INVESTORS	269
UNDERWRITING	273
STRUCTURE OF THE GLOBAL OFFERING	284
HOW TO APPLY FOR THE HONG KONG OFFER SHARES	295
APPENDIX I – ACCOUNTANTS’ REPORT	I-1
APPENDIX II – UNAUDITED PRO FORMA FINANCIAL INFORMATION ..	II-1
APPENDIX III – PROPERTY VALUATION REPORT	III-1
APPENDIX IV – TAXATION AND FOREIGN EXCHANGE	IV-1
APPENDIX V – SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS	V-1

CONTENTS

APPENDIX VI	-	SUMMARY OF ARTICLES OF ASSOCIATION	VI-1
APPENDIX VII	-	STATUTORY AND GENERAL INFORMATION	VII-1
APPENDIX VIII	-	DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION	VIII-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read this prospectus in its entirety including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in our H Shares.

There are risks associated with any investment. Some of the particular risks in investing in our H Shares are set out in “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in our H Shares.

OVERVIEW

We are the leading company in the large railway track maintenance machinery industry in China. Capitalizing on our leading market position, a comprehensive product portfolio, integrated industry value chain, strong R&D and product development capabilities, extensive business network, excellent customer services, leading manufacturing and maintenance technologies and an advanced quality management system, we provide customers with comprehensive and systemic solutions. Since we sold our first large railway track maintenance machine in 1989, as of December 31, 2014, we had sold approximately 2,200 large railway track maintenance machines in China, which accounted for approximately 81.5% of the total number of such machines in the PRC as of December 31, 2014, according to the CIC Report. According to the same source, in terms of sales volume in 2012, 2013 and 2014, we accounted for approximately 83.5%, 82.0% and 83.1%, respectively, of the total sales volume of large railway track maintenance machines in China for those periods, making us the largest developer, manufacturer and service provider of such machinery in China as of December 31, 2014. According to the same source, in terms of the sales revenue of manufacturers of such machinery in 2014, we ranked No.1 in Asia and No.2 globally.

OUR HISTORY AND THE SPIN-OFF

Our history dates back to 1954 and our predecessor is Mechanical Maintenance, Operation and Leasing Station of the 6th Engineering Division of Newly-built Railways Construction Central Bureau under the MOR (鐵道部新建鐵路工程總局第六工程局機械修理經租站) which was established in Baoji City, Shaanxi Province, the PRC. Our Company was converted into a joint stock limited company incorporated in the PRC on June 24, 2015, promoted by CRCC and its four wholly-owned subsidiaries, namely China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company. For details, see “History, Reorganization and Corporate Structure” starting on page 94 in this prospectus.

The Listing is a spin-off of our Group from CRCC Group by way of a separate Listing on the Stock Exchange. The Board believes that the Spin-off and separate Listing of our Company creates a more distinct business focus for our Group and allows the management of the Retained Group and our Group to more efficiently allocate their respective resources. For further information regarding the reasons for the Spin-off, see “History, Reorganization and Corporate Structure – The Spin-off” starting on page 102 in this prospectus.

SUMMARY

OUR PRODUCTS AND SERVICES

During the Track Record Period, we generated revenue through the following four business lines:

Manufacturing and Sales of Machines	We develop, manufacture and sell a broad range of large railway track maintenance machines that are used in the construction of new railway lines, modification of existing railway lines and maintenance of operating railway lines. As of the Latest Practicable Date, our machines were categorized into seven major series based on functions, namely, tamping machine series, stabilization machine series, ballast cleaning machine series, ballast regulator series, materials logistics machine series, rail processing machine series and other machinery. We are able to customize each series of machines according to the specifications requested by our customers.
Parts and Components Sales and Services	We leverage our industry expertise to manufacture, purchase and sell parts and components based on market demands, which primarily include bogies, electrical control systems, working devices, wheelsets, transmissions, pumps, valves, motors and drive shafts.
Overhaul Services	We provide repair, upgrade and remanufacture services for large railway track maintenance machines based on their repair cycles or customer requests.
Railway Line Maintenance Services	We provide maintenance services for newly constructed or existing railway lines.

During the Track Record Period, our major customers include CRC and its affiliated enterprises, local railway operators and railway construction companies. Capitalizing on our leading technical and market position, excellent product quality and the rapid growth of the PRC railway network, we experienced continual growth in recent years. In 2012, 2013, 2014 and the six months ended June 30, 2015, our revenue amounted to RMB2,863.6 million, RMB3,169.0 million, RMB3,476.7 million and RMB1,794.6 million, respectively.

SUMMARY

The following table sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2012		2013		2014		2014		2015	
	amount (RMB'000)	% of Total (%)	amount (RMB'000)	% of Total (%)	amount (RMB'000)	% of Total (%)	amount (RMB'000)	% of Total (%)	amount (RMB'000)	% of Total (%)
Revenue:										
Manufacturing and										
Sales of Machines										
Tamping machine										
series	900,920	31.5	1,348,806	42.6	1,908,238	54.9	1,006,973	57.7	780,184	43.5
Stabilization										
machine series . .	152,574	5.3	322,316	10.2	448,814	12.9	213,893	12.3	102,752	5.7
Ballast cleaning										
machine series . .	440,671	15.4	203,791	6.4	132,918	3.8	38,092	2.2	112,320	6.3
Ballast regulator										
series	121,437	4.2	107,922	3.4	140,603	4.0	114,697	6.6	17,886	1.0
Materials logistics										
machine series . .	196,273	6.9	240,137	7.6	63,044	1.8	35,482	2.0	155,340	8.7
Rail processing										
machine series . .	229,739	8.0	87,156	2.8	82,934	2.4	82,828	4.7	49,193	2.7
Other machinery . .	45,781	1.6	79,040	2.4	14,940	0.5	8,435	0.5	39,132	2.1
Subtotal	2,087,395	72.9	2,389,168	75.4	2,791,491	80.3	1,500,400	86.0	1,256,807	70.0
Parts and										
Components Sales										
and Services	535,978	18.7	548,790	17.3	440,097	12.7	173,007	9.9	326,448	18.2
Overhaul Services . .	210,728	7.4	199,270	6.3	215,018	6.2	64,007	3.7	198,594	11.1
Railway Line										
Maintenance										
Services	29,544	1.0	31,802	1.0	30,114	0.8	7,929	0.4	12,744	0.7
Total	2,863,645	100.0	3,169,030	100.0	3,476,720	100.0	1,745,343	100.0	1,794,593	100.0

We have two production plants located in Kunming and Beijing. Our Kunming plant is principally responsible for the manufacturing and overhaul of large railway track maintenance machines, production of parts and components and R&D. Our Beijing plant is principally responsible for the overhaul of large railway track maintenance machines. We operate flexible production lines and overhaul lines, which enable us to produce or overhaul different series and models of large railway track maintenance machines. We believe that our flexible production lines and overhaul lines have not only allowed us to enjoy flexibility in production and overhaul planning to quickly respond to changing market demands, but also reduced our capital expenditures and operating costs.

SUMMARY

The following table sets forth information on the utilization rates as well as the adjusted and planned production or overhaul volume of our production plants during the Track Record Period. To evaluate our production or overhaul capacity and utilization rates, actual production or overhaul volume of various products may not be representative, and we use our Standard Model as a basis. We designed the capacity for our flexible production or overhaul line on the basis of our Standard Model. We apply the conversion index assigned to each major model of our products as against the Standard Model in order to derive the adjusted production or overhaul volume of each model, for the purpose of comparison and discussion. Utilization rates are calculated by dividing the adjusted production or overhaul volume by the corresponding capacity.

	As of and for the year ended December 31,									As of and for the six months ended June 30,					
	2012			2013			2014			2014			2015		
	Utilization rate	Adjusted volume	Capacity ⁽¹⁾	Utilization rate	Adjusted volume	Capacity	Utilization rate	Adjusted volume	Capacity	Utilization rate	Adjusted volume	Capacity ⁽²⁾	Utilization rate	Adjusted volume	Capacity ⁽²⁾
(%)	(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	
Kunming plant															
- manufacturing	93.4	267	286	125.6	359	286	96.1	275	286	49.3	71	143	104.8	150	143
- overhaul	74.9	37	50	85.7	43	50	96.2	48	50	66.4	17	25	56.4	14	25
Beijing plant															
- overhaul	30.3	15	50	43.8	22	50	59.0	29	50	22.1	6	25	16.2	4	25

- (1) Capacity refers to designed production or overhaul capacity, which is a conservative estimate and assumes a flexible production or overhaul line operates for 246 days a year and eight hours a day for the production or overhaul of our Standard Model. Actual production may exceed capacity due to measures including (i) increasing the efficiency and skill level of our workers; (ii) optimizing the production layout and improving efficiency of production steps; and (iii) arranging additional shifts of workers during peak production periods.
- (2) Our capacity for the first half of the year is calculated by dividing our capacity for the full year by two.

For details of our production plants and a discussion of the utilization rates, see “Business – Our Production Facilities” starting on page 125 in this prospectus.

OUR SALES AND CUSTOMERS

Through years of effort, we have established an extensive business network throughout the PRC, which consists of four sales offices located in Beijing, Kunming, Shanghai and Xi’an as of June 30, 2015, with plans to establish new sales offices in Guangzhou, Wuhan, Shenyang and Chengdu, through which we could provide our products and services efficiently to our customers. Our business network is able to service the entire railway network in the PRC. During the six months ended June 30, 2015, we also extended our offering of large railway track maintenance products and services to Kazakhstan and Hong Kong.

We rely on our in-house sales team to sell our products. During the Track Record Period, we received purchase orders for large railway track maintenance machinery principally through the tender process.

SUMMARY

comprehensive evaluation model to control quality, delivery cycle and prices, and enter into annual or quarterly framework agreements with the selected suppliers. With respect to those components with specific technical requirements or use, we generally select our suppliers through competitive negotiations or individual negotiation due to the limited supply channels.

We select our suppliers based on various criteria, including price, product quality, function, production capacity, delivery cycle, credit history, after-sales service and guarantees, and we maintain long-term strategic relationships with them. We continually manage our suppliers and constantly monitor and evaluate our suppliers, reviewing and recording their performance in terms of delivery time, product quality, after-sales services and other aspects on a regular basis. In 2012, 2013 and 2014 and the six months ended June 30, 2015, the purchase costs attributable to our largest supplier amounted to approximately 15.8%, 20.4%, 17.9% and 23.8% of our total purchase costs, respectively. In 2012, 2013 and 2014 and the six months ended June 30, 2015, the purchase costs attributable to our five largest suppliers amounted to approximately 49.9%, 59.1%, 49.3% and 59.8% of our total purchase costs, respectively. See “Risk Factors – Risks Relating to Our Industry and Business Operations – We acquire a significant portion of our raw materials and parts and components from our five largest suppliers” starting on page 38 in this prospectus.

COOPERATION WITH THE KEY COOPERATION PARTNER

We have entered into various long-term cooperation agreements (the “Key Cooperation Agreements”) with a manufacturer of large railway track maintenance machinery, Plasser & Theurer (the “Key Cooperation Partner”), under which the Key Cooperation Partner has licensed us to use certain of its intellectual property rights (including its trademarks) and technologies and to manufacture and sell selected types of large railway track maintenance machinery in the PRC agreed by the parties from time to time (the “Licensed Machines”). The Key Cooperation Partner was our largest supplier in 2012, 2013 and 2014, respectively. In 2012, 2013 and 2014 and for the six months ended June 30, 2015, revenue contributed by the Licensed Machines amounted to RMB1,027.2 million, RMB1,662.8 million, RMB2,087.5 million and RMB1,000.2 million, respectively. In addition, under the Key Cooperation Agreements, we have agreed to purchase from the Key Cooperation Partner at no less than an agreed value of parts and components used in the manufacture of the Licensed Machines (the “Agreed Purchase Value”), and the sales of the Licensed Machines are subject to certain export restrictions. For further details of the Cooperation Agreements and business arrangement with the Key Cooperation Partner, see “Risk Factors – Risks Relating to Our Industry and Business Operations – Any significant changes to our long-term relationship with our Key Cooperation Partner may have a material adverse effect on our operations.” starting on page 37 and “Business – Raw Materials, Parts and Components and Suppliers – Reliance on the Key Cooperation Partner” starting on page 138 in this prospectus.

SUBCONTRACTING

During the Track Record Period, we engaged certain subcontractors for the non-critical, low value-added manufacturing procedures, such as polishing, to increase production efficiency and reduce manufacturing costs. We generally evaluate the performance of our subcontractors based on qualification, past performance, product quality, delivery time and subcontracting fee. We generally engage subcontractors through tenders. In 2012, 2013 and 2014 and the six

SUMMARY

months ended June 30, 2015, we incurred subcontracting fees of approximately RMB111.4 million, RMB127.0 million, RMB156.9 million and RMB76.3 million, respectively.

For more details of our subcontracting arrangement, see “Business – Subcontracting” on page 143 in this prospectus.

OUR RESEARCH AND DEVELOPMENT

We believe that our strong R&D capabilities are key to maintaining our leading industry position and sustainable development. We dedicate significant resources to enhance our R&D capabilities, in order to develop innovative and advanced technologies and products, and to enhance the quality of our products. In particular, we focus on developing proprietary technologies tailored to meet the market demand driven by various geographic and weather conditions, specific regulatory environments and international railway technical standards governing the international market.

We have a leading R&D platform pursuant to which we have been awarded multiple recognitions from the PRC government, mainly including our designation as (i) the “Key New Hi-Tech Enterprise of the National Torch Plan” (國家火炬計劃重點高新技術企業) in 2007; (ii) a “National Post-Doctoral Research Station” (國家級博士後科研工作站) in 2010; (iii) a “National Large Railway Track Maintenance Machinery High-Tech Industrialization Base” (國家鐵路大型養路機械高新技術產業化基地) in 2012; and (iv) the only “National Large Railway Track Maintenance Machinery Engineering Research Center” (國家鐵路大型養路機械工程技術研究中心) in China in 2013.

For details of our research and development capacity, see “Business – Research and Development” starting on page 132 in this prospectus.

OUR COMPETITIVE STRENGTHS

- We are the leading company in the large railway track maintenance machinery industry in China
- Capitalizing on our comprehensive product portfolio and services covering the full industry value chain, we provide customers with comprehensive and systemic solutions
- We have strong R&D and product development capabilities
- We have an extensive business network and provide comprehensive customer service
- Our leading manufacturing and overhaul technologies and advanced management system enable us to provide our customers with safe and reliable products
- We have an excellent management team, professional talent and a sound corporate culture

SUMMARY

OUR BUSINESS STRATEGIES

- Further strengthen our leading position in the PRC large railway track maintenance machinery industry, explore new markets and new product areas and lead the future development of the industry
- Further enhance the value of our business, products and services to strengthen our industry value chain coverage and provide our customers with systemic solutions covering the entire life cycle of our products
- Promote our international strategy and enhance international operations
- Focus on R&D and innovation in order to enhance core competitiveness
- Develop a professional talent pool

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table sets forth our consolidated statements of comprehensive income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
REVENUE	2,863,645	3,169,030	3,476,720	1,745,343	1,794,593
Cost of sales	(2,152,881)	(2,366,612)	(2,658,016)	(1,383,202)	(1,373,827)
Gross profit	710,764	802,418	818,704	362,141	420,766
Other income and gains	50,470	54,365	66,926	26,722	12,835
Selling and distribution expenses	(58,099)	(58,088)	(71,554)	(28,679)	(25,144)
Administrative expenses	(384,990)	(411,188)	(357,152)	(145,691)	(144,256)
Other expenses	(6,843)	(21,491)	(17,893)	5,377	(864)
Finance costs	(57,479)	(47,578)	(23,488)	(12,765)	–
PROFIT BEFORE TAX	253,823	318,438	415,543	207,105	263,337
Income tax expense	(29,475)	(30,494)	(53,507)	(27,601)	(37,450)
PROFIT FOR THE YEAR/PERIOD	<u>224,348</u>	<u>287,944</u>	<u>362,036</u>	<u>179,504</u>	<u>225,887</u>
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Re-measurement gains/ (losses) on available- for-sale investments, net of tax ⁽¹⁾	51,293	(7,231)	74,514	(16,270)	54,794
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Re-measurement gains/ (losses) on defined benefit plans, net of tax	(119)	400	(17)	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	<u>51,174</u>	<u>(6,831)</u>	<u>74,497</u>	<u>(16,270)</u>	<u>54,794</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>275,522</u>	<u>281,113</u>	<u>436,533</u>	<u>163,234</u>	<u>280,681</u>

- (1) Other comprehensive income or losses mainly represent changes in the fair value of available-for-sale investments, net of tax. During the Track Record Period, we held certain equity interests in a Hong Kong listed company for investment purposes at an initial investment cost of RMB9.8 million in cash, the fluctuation in the share price of which would lead to the changes in fair value of our available-for-sale financial assets. For details, see “Financial Information – Description of Selected Components of Our Income Statements – Other Comprehensive Income/Losses.”

In 2012, 2013, 2014 and the six months ended June 30, 2015, our gross margin was 24.8%, 25.3%, 23.5% and 23.4%, respectively, and our net margin was 7.8%, 9.1%, 10.4% and 12.6%, respectively. Our gross margin increased to 23.4% for the six months ended June 30, 2015 compared to 20.7% for the six months ended June 30, 2014, mainly due to the increase in the gross profit of our parts and components sales and services business, overhaul services

SUMMARY

business and railway line maintenance services business, which was partially offset by the decrease in the gross profit of our manufacturing and sales of machines business. Our gross margin decreased from 25.3% in 2013 to 23.5% in 2014, mainly due to a decrease in gross margin of our manufacturing and sales of machines business, which contributed 64.7% of our gross profit in 2014. Such decrease was mainly due to changes in product mix. For a detailed analysis of our gross margin, see “Financial Information – Description of Selected Components of Our Income Statements” starting on page 225 in this prospectus.

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

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	1,597,771	1,534,403	1,802,168	1,833,610
Total current assets	2,947,071	4,260,728	2,428,263	2,379,299
Total current liabilities	2,571,492	3,214,841	1,288,943	1,171,355
Net current assets	375,579	1,045,887	1,139,320	1,207,944
Total assets less current liabilities	1,973,350	2,580,290	2,941,488	3,041,554
Total non-current liabilities	57,904	49,526	52,351	59,160
Net assets	1,915,446	2,530,764	2,889,137	2,982,394

The following table sets forth a summary of our cash flow for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash from/(used in) operating activities	(662,803)	1,456,073	(254,156)	(282,428)	(76,042)
Net cash from/(used in) investing activities	(89,684)	(82,816)	38,830	(7,755)	(13,729)
Net cash from/(used in) financing activities	401,893	(210,371)	(1,117,335)	(485,774)	(69,898)
Cash and cash equivalents at the beginning of year/period	846,131	495,294	1,657,225	1,657,225	320,902
Effect of foreign exchange rate changes, net	(243)	(955)	(3,662)	594	168
Cash and cash equivalents at the end of year/period	495,294	1,657,225	320,902	881,862	161,401

In 2012, 2014 and the six months ended June 30, 2015, we recorded net cash outflows from operating activities. For the six months ended June 30, 2015, we recorded net cash outflows from operating activities of RMB76.0 million, primarily because of (i) a decrease in other payables and accruals of RMB138.0 million mainly because our major customer typically makes its advance payments on its purchase orders collectively at the end of the year or at the beginning of the year, (ii) an increase in trade and bills receivables of RMB201.8 million primarily because our major customer typically settles the payments under its purchase orders collectively at the end of the year or at the beginning of the year, and (iii) a decrease in trade and bills payables of RMB87.3 million primarily as a result of the settlement of some of our

SUMMARY

outstanding invoices under our trade contracts. In 2014, we recorded net cash outflows from operating activities of RMB254.2 million, primarily as a result of a decrease in other payables and accruals, mainly because our major customer typically invites tenders of collective purchases at the end of the year and makes its advance payments collectively at the end of the year or at the beginning of the next year based on the deliveries of products, and we received collective advance payments from our major customer in early 2015 rather than at the end of 2014. In 2012, we recorded net cash outflows from operating activities of RMB662.8 million, principally as a result of a decrease in other payables, advances from customers and accruals because we received collective payments from our major customer at the end of 2011 but not in 2012. For details, see “Financial Information – Liquidity and Capital Resources – Net cash from/(used in) operating activities” starting on page 244 in this prospectus.

The table below sets forth a summary of our key financial ratios during the Track Record Period:

Financial ratio	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2012	2013	2014	2015
Current ratio ⁽¹⁾	115%	133%	188%	203%
Quick ratio ⁽²⁾	41%	75%	86%	90%
Gearing ratio ⁽³⁾	67%	31%	0%	0%
Return on total assets ⁽⁴⁾	5%	6%	7%	11%
Return on equity ⁽⁵⁾	12%	13%	13%	15%

- (1) Current ratio equals current assets divided by current liabilities as of the end of the year/period.
- (2) Quick ratio equals current assets (excluding inventory) divided by current liabilities as of the end of the year/period.
- (3) Gearing ratio equals total interest-bearing bank and other borrowings divided by total equity as of the end of the year/period.
- (4) Return on total assets equals annual/annualized profit divided by the average balance of our total assets for the beginning and the end of the year/period.
- (5) Return on equity equals annual/annualized profit divided by the average balance of our total equity for the beginning and the end of the year/period.

Our financial performance is dependent on a number of factors, including general economic and market conditions associated with the PRC railway industry, such as investments in the railway infrastructure and large railway track maintenance machinery. Our total revenue increased during the Track Record Period, mainly due to the increase in our sales of large railway track maintenance machinery as a result of increased orders from our customers.

PROPERTY VALUATION

JLL, an independent property valuer, has valued our property at No. 384 Yangfangwang, Jinma Town, Guandu District, Kunming, Yunnan Province, China as of September 30, 2015.

SUMMARY

For a summary of the valuation and the valuation certificate, see “Appendix III – Property Valuation Report” starting on page III-1 to this prospectus and “Financial Information – Property Valuation” on page 265 in this prospectus.

LISTING EXPENSES

By the completion of the Global Offering, we expect to incur listing expenses of approximately RMB129.4 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, including underwriting commissions, maximum discretionary incentive fees, where applicable), of which an estimated amount of approximately RMB11.6 million will be recognized as our administrative expenses and an estimated amount of approximately RMB117.8 million will be recognized directly in equity. As of June 30, 2015, we incurred approximately RMB5.0 million of listing expenses for the Global Offering, which was recognized as our administrative expenses. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our Directors do not expect such expenses to materially impact our results of operations for 2015.

SHAREHOLDING STRUCTURE AND CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering, CRCC will directly and indirectly control approximately 65.00% of the enlarged issued share capital of our Company (assuming that the Over-allotment Option is not exercised), and CRCCG will, through CRCC (which was owned approximately 55.73% by CRCCG as of the Latest Practicable Date), indirectly control approximately 65.00% of the enlarged issued share capital of our Company (assuming that the Over-allotment Option is not exercised). As such, CRCC and CRCCG will continue to be our controlling shareholders.

We entered into a non-competition agreement with CRCC and CRCCG on November 23, 2015, pursuant to which CRCC and CRCCG made non-competition undertakings. See “Relationship with the Controlling Shareholders and Directors” starting on page 205 in this prospectus for further details.

GLOBAL OFFERING STATISTICS

All statistics in the following table are based on the assumptions that: (i) the Global Offering has been completed and 531,900,000 H Shares are issued and sold in the Global Offering; (ii) the Over-allotment Option is not exercised; and (iii) 1,519,884,000 Shares are issued and outstanding following completion of the Global Offering.

	<u>Based on an Offer Price of HK\$5.21 per H Share</u>	<u>Based on an Offer Price of HK\$5.76 per H Share</u>
Number of Offer Shares	531,900,000	531,900,000
Market capitalization ⁽¹⁾	HK\$7,918.6 million	HK\$8,754.5 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$4.06	HK\$4.25

SUMMARY

- (1) The calculation of market capitalization is based on 1,519,884,000 Shares expected to be issued and outstanding following the Global Offering.
- (2) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in “Financial Information – Unaudited Pro Forma Adjusted Net Tangible Assets” of this prospectus and on the basis of 531,900,000 Shares in issue at the respective Offer Prices of HK\$5.21 per Share and HK\$5.76 per Share.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$2,760.4 million (assuming an Offer Price of HK\$5.485 per H Share, being the mid-point of the Offer Price range stated in this prospectus) (equivalent to approximately RMB2,274.8 million), after deducting the underwriting fees and commissions, maximum discretionary incentive fee, where applicable, and estimated expenses payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised.

Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

Intended use of net proceeds	Percentage of the total estimated net proceeds	Amount
	(%)	(HK\$ in millions)
Construction of our “National Large Railway Track Maintenance Machinery International Technology Cooperation Center” project	40	1,104.2
Development of business network platform	30	828.1
General mergers and acquisitions	20	552.1
Working capital	10	276.0

For details of our future plans and use of proceeds, see “Future Plans and Use of Proceeds” starting on page 267 in this prospectus.

DIVIDEND POLICY

In 2012, 2013 and 2014, our Company distributed dividends of approximately RMB70.6 million, RMB65.8 million and RMB70.0 million, respectively. In March 2015, we declared dividends of RMB69.9 million, which we paid to our Shareholders in April 2015 by cash. In addition, based on the resolutions of the Shareholders’ meeting on June 24, 2015 and November 16, 2015, respectively, our Company resolved to distribute (i) a dividend of RMB182.6 million, which amounted to the accumulated distributable profits of our Group as of March 31, 2015; and (ii) a special dividend of RMB115.6 million, which was determined based on our consolidated net profits for the period from April 1, 2015 to June 30, 2015, to the existing Shareholders. We paid such dividend and special dividend with bank borrowings and cash at hand on November 27, 2015. Further, our Company intends to reserve the accumulated profits from July 1, 2015 to the last day immediately prior to the Listing for the distribution of dividends to our existing and new Shareholders. The actual amount of such dividends will be determined upon the completion of the audit of our financial statements for the year ending

SUMMARY

December 31, 2015. See “Financial Information – Dividend Distribution Prior to the Listing” on page 263 in this prospectus for more information on the special dividend.

We expect that the profit to be distributed in cash every year will be approximately 20-40% of the distributable profit (being the lower of the amounts determined in accordance with PRC GAAP and the IFRSs). The amounts of dividends to be declared and paid after the Global Offering 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 flow and any other factors which our Board may deem relevant. Our historical dividends may not be indicative of future dividend payments. The declaration and payment of dividends may also be limited by legal restrictions or financing arrangements that we may enter into in the future. See “Financial Information – Dividend Policy” on page 262 in this prospectus for further details.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

For the four months ended October 31, 2015, we continued to experience stable growth in our revenue and gross profit compared to the corresponding period in the previous fiscal year, primarily as a result of the continual expansion of our business.

As of October 31, 2015 and the Latest Practicable Date, our interest-bearing bank and other borrowings amounted to RMB195.0 million and RMB545 million, respectively. For details of our newly-incurred bank borrowings, see “Financial Information – Indebtedness” starting on page 256 of this prospectus.

The following table sets forth our gearing ratio as of June 30, 2015:

- on an actual basis;
- as adjusted to give effect to the short-term interest-bearing bank loan incurred as of October 31, 2015; and
- as adjusted to give effect to the short-term interest-bearing bank loans incurred as of the Latest Practicable Date.

The as adjusted information below is illustrative only and does not take into account any changes in our interest-bearing bank and other borrowings and equity after June 30, 2015, other than to give effect to such bank loans incurred.

	As of June 30, 2015		
	Actual	As adjusted ⁽¹⁾	As adjusted ⁽²⁾
	(RMB'000 except for percentages)		
Interest-bearing bank and other borrowings	–	195,000	545,000
Total equity	2,982,394	2,982,394	2,982,394
Gearing ratio	0%	7%	18%

Notes:

- (1) as adjusted to give effect to the short-term interest-bearing bank loan incurred as of October 31, 2015
- (2) as adjusted to give effect to the short-term interest-bearing bank loans incurred as of the Latest Practicable Date

SUMMARY

On August 11, 2015, the PBOC announced to improve the central parity of RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange, as well as changes in major international currency exchange rates. On the same day, the central parity of RMB against the U.S. dollar depreciated nearly 2% as compared to August 10, 2015, and further depreciated nearly 1.6% on the next day. We purchase certain of our parts and components from overseas suppliers with payments in Euro or U.S. dollars. Devaluation of Renminbi may increase our purchase costs and reduce our profitability through foreign currency exchange losses. In 2012, 2013, 2014 and the six months ended June 30, 2015, our total purchase costs were RMB2,417.4 million, RMB2,509.1 million, RMB2,387.2 million and RMB1,267.9 million, respectively, of which approximately RMB477.2 million, RMB585.2 million, RMB523.9 million and RMB343.3 million, respectively, was denominated in foreign currencies, mostly in Euro. If such devaluation continues, it is estimated that with a decrease of 1% in the value of Renminbi and all other variables held constant (without regard to the impact from custom duties), our cost of raw materials, parts and components would have increased by approximately RMB4.8 million, RMB5.9 million, RMB5.2 million and RMB3.4 million, respectively, in 2012, 2013 and 2014 and the six months ended June 30, 2015.

Our Directors confirm that, save as disclosed in this prospectus, since June 30, 2015 and up to the date of this prospectus, (i) there has been no material adverse change in our financial or trading position, and (ii) there has been no material adverse change in our business, the industries in which we operate, and/or the market or regulatory environment to which we are subject.

RISK FACTORS

There are certain risks and considerations relating to an investment in our H Shares. These risks can be summarized into three categories: (i) risks relating to our industry and business operations; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and operating results.

We believe that the following are some of the major risks that we face:

- Our business and financial performance may be affected by changes in the PRC government policies in respect of the large railway track maintenance machinery industry; any decrease in public spending on, or any change in public procurement policies or industry standards relating to, rail transportation could impact our business.
- A significant portion of our revenue is derived from our major customers. As such, the loss of one or more of our major customers or customer groups or changes in their orders or the contract terms may have a material adverse effect on our business.
- Any significant changes to our long-term relationship with our Key Cooperation Partner may have a material adverse effect on our operations.
- We may face potential product liability claims or suffer losses due to defective products.

SUMMARY

- We acquire a significant portion of our raw materials and parts and components from our five largest suppliers.
- We may face uncertainties associated with our growth strategy.
- We have had, and may continue to have, negative operating cash flow.

For further information relating to these and other risks relating to an investment in our H Shares, see “Risk Factors” starting on page 35 of this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

“11th Five-Year Plan”	the Eleventh Five-Year Plan for National Economic and Social Development (2006-2010) approved by the fourth meeting of the State Council at the Tenth National People’s Congress in 2006
“12th Five-Year Plan”	the Twelfth Five-Year Plan for National Economic and Social Development (2011-2015) approved by the fourth meeting of the State Council at the Eleventh National People’s Congress in 2011
“Accountants’ Report”	the report on the financial information regarding the Company and its subsidiaries, audited by the independent auditors for the years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015, as set out in “Appendix I – Accountants’ Report” of this prospectus
“Agreed Purchase Value”	the minimum agreed value of parts and components used in the manufacture of the Licensed Machines which we are required to purchase from the Key Cooperation Partner, which is determined as a specific percentage of the agreed estimated value of each Licensed Machine
“Aotongda Company”	Kunming Aotongda Railway Machinery Co., Ltd. (昆明奧通達鐵路機械有限公司), a limited liability company incorporated in the PRC on June 11, 2010 and a wholly-owned subsidiary of our Company
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Applications Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix VI to this prospectus
“Board” or “Board of Directors”	the Board of Directors of our Company
“Business day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CAGR”	compound annual growth rate

DEFINITIONS

“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“China Civil Engineering Construction”	China Civil Engineering Construction Ltd. (中國土木工程集團有限公司), a limited liability company incorporated in the PRC on June 1, 1979, a wholly-owned subsidiary of CRCC, our promoter and a connected person of our Company
“China Insights Consultancy”	China Insights Consultancy Limited (灼識投資諮詢(上海)有限公司), an Independent Third Party
“China Railway Construction Investment Group”	China Railway Construction Investment Group Co., Ltd. (中國鐵建投資集團有限公司), a limited liability company incorporated in the PRC on May 4, 2011, a wholly-owned subsidiary of CRCC, our promoter and a connected person of our Company
“China Railway Corporation” or “CRC”	China Railway Corporation (中國鐵路總公司), a wholly state-owned enterprise established in the PRC on March 14, 2013, which has undertaken the railway operation assets and business of the former MOR and is the national railway operator of the PRC, an Independent Third Party

DEFINITIONS

“CIC Report”	an industry report commissioned by us and independently prepared by China Insights Consultancy in connection with the Global Offering
“CISA”	China Iron and Steel Association (中國鋼鐵工業協會)
“Companies (Winding up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “our Company” or “the Company”	CRCC High-Tech Equipment Corporation Limited (中國鐵建高新裝備股份有限公司), a joint stock limited company, which was converted from a limited liability company under the name of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. and was incorporated in the PRC on June 24, 2015, and its predecessor
“Company Law” or “PRC Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on December 28, 2013 to take effective on March 1, 2014
“CRCC”	China Railway Construction Corporation Limited (中國鐵建股份有限公司), a joint stock limited company incorporated in the PRC on November 5, 2007, our controlling shareholder and promoter. As of the Latest Practicable Date, 55.73% of its shares are held by CRCCG. Its H shares were listed on the Main Board of the Stock Exchange on March 13, 2008 (stock code: 01186) and its A shares were listed on the Shanghai Stock Exchange on March 10, 2008 (stock code: 601186)
“CRCCG”	China Railway Construction Corporation (中國鐵道建築總公司), a wholly PRC state-owned enterprise established in the PRC and was registered with SAIC on August 28, 1990. It is our indirect controlling shareholder and a connected person of our Company

DEFINITIONS

“CRCC China-Africa Company”	CRCC China-Africa Construction Limited (中鐵建中非建設有限公司), a limited liability company incorporated in the PRC on February 24, 2010, a wholly-owned subsidiary of CRCC, our promoter and a connected person of our Company
“CRCC Finance”	CRCC Finance Company Limited (中國鐵建財務有限公司), a limited liability company incorporated in the PRC on March 28, 2012. It is owned as to 94% by CRCC and a connected person of our Company
“CRCC Group”	CRCC and its subsidiaries
“CRCC International Group”	CRCC International Group Co., Ltd, (中國鐵建國際集團有限公司), a limited liability company incorporated in the PRC on October 25, 2004, a wholly-owned subsidiary of CRCC, our promoter and a connected person of our Company
“CSPI”	China Steel Price Index
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company
“Domestic Shares”	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“EIT Law”	Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
“Exchange Participant(s)”	a person: (a) who, in accordance with the Hong Kong Listing Rules, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering

DEFINITIONS

“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group,” “our Group,” “we” or “us”	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)
“Guangweitong Company”	Kunming Guangweitong Machinery Co., Ltd. (昆明廣維通機械設備有限公司), a limited liability company incorporated in the PRC on December 3, 2013 and a wholly-owned subsidiary of our Company
“H Share(s)”	overseas listed foreign shares in the share capital of our Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hengyuan Business Company”	Kunming China Railway Hengyuan Business Service Co., Ltd. (昆明中鐵恒源商務服務有限公司), a limited liability company incorporated in the PRC on June 1, 2012 and a wholly-owned subsidiary of our Company
“HK\$” or “HK dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Offer Shares”	the 53,190,000 H Shares initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation

DEFINITIONS

	as described in “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies and Hong Kong Stock Exchange trading fees), on and subject to the terms and conditions described in this prospectus and on the Application Forms as further described in “Structure of the Global Offering – Hong Kong Public Offering” in this prospectus
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated December 2, 2015 relating to the Hong Kong Public Offering and entered into by, among others, our Company and the Hong Kong Underwriters, as further described in “Underwriting – Underwriting Arrangements and Expenses” in this prospectus
“IFRSs”	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
“Independent Third Party(ies)”	party(ies) not connected with our Company and our connected persons (as defined in the Hong Kong Listing Rules) as far as our Directors are aware after having made all reasonable enquires
“Independent Valuer” or “JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, the property valuation report of which is set out in Appendix III to this prospectus
“International Offering”	the offer of the International Offer Shares by the International Underwriters at the Offer Price outside the

DEFINITIONS

	United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act, as further described in “Structure of the Global Offering” in this prospectus
“International Offer Shares”	the 478,710,000 H Shares initially offered by our Company for subscription pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option (subject to reallocation as described in “Structure of the Global Offering” in this prospectus)
“International Underwriters”	the group of international underwriters, led by the Sole Global Coordinator, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around December 8, 2015 by, among others, our Company and the International Underwriters in respect of the International Offering, as further described in “Underwriting – International Offering” in this prospectus
“Joint Bookrunners”	CLSA Limited, Deutsche Bank AG, Hong Kong Branch and China International Capital Corporation Hong Kong Securities Limited
“Joint Lead Managers”	CLSA Limited, Deutsche Bank AG, Hong Kong Branch and China International Capital Corporation Hong Kong Securities Limited
“Key Cooperation Agreements”	cooperation agreements between the Key Cooperation Partner and us from time to time regarding the licensing by the Key Cooperation Partner to us to use certain of its intellectual property rights (including its trademarks) and technologies and to manufacture and sell selected types of large railway track maintenance machinery agreed by the parties in the PRC
“Key Cooperation Partner”	Plasser & Theurer, a manufacturer of large railway track maintenance machinery
“Kunweitong Company”	Beijing Kunweitong Railway Mechanization Engineering Co., Ltd. (北京昆維通鐵路機械化工程有限公司), a limited

DEFINITIONS

	liability company incorporated in the PRC on May 10, 2010 and a wholly-owned subsidiary of our Company
“Latest Practicable Date”	November 23, 2015 being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Licensed Machines”	selected types of large railway track maintenance machines that we are licensed to manufacture under the cooperation agreements that we have entered into with the Key Cooperation Partner, as agreed between the Key Cooperation Partner and us from time to time
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or around December 16, 2015, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Mandatory Provisions”	the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on August 27, 1994
“Manufacturing Inspection Department”	Manufacturing Inspection Department for Industrial Machinery of Kunming Railway Bureau (昆明鐵路局工務機械車監選項目部), the on-site acceptance office of the former MOR (原鐵道部駐廠驗收室)

DEFINITIONS

“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Ministry of Finance” or “MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOR”	former Ministry of Railway of the PRC (原中華人民共和國鐵道部)
“NBSC”	National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國發展與改革委員會)
“NPC”	National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NRA”	National Railway Administration of the PRC (中華人民共和國國家鐵路局), the regulatory authority of the PRC rail transportation
“NSSF”	National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) of not more than HK\$5.76 and expected to be not less than HK\$5.21, at which Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in “Structure of the Global Offering – Pricing and Allocation” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares, together with, where relevant, any additional H Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“One Belt, One Road”	the initiative related to the “New Silk Road Economic Belt” and “Maritime Silk Road of the 21st Century” which was initially proposed by Mr. Xi Jinping, the President of the PRC, in September 2014 and was formally proposed by the NDRC, Ministry of Foreign Affairs of the PRC and MOFCOM on March 28, 2015

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 79,785,000 additional H Shares at the Offer Price to, among other things, cover over-allocations in the International Offering, if any, further details of which are described in “Structure of the Global Offering” in this prospectus
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC GAAP”	generally accepted accounting principles of PRC
“Price Determination Date”	the date, expected to be on or around December 8, 2015, but no later than December 10, 2015, on which the Offer Price is fixed for the purpose of the Global Offering
“Promoters”	the promoters of our Company, namely, CRCC, China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“province”	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
“R&D”	research and development
“Railway Engineering Corps”	The former Railway Engineering Corps of the People’s Liberation Army
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization of the group of companies now comprising our Company as described in “History, Reorganization and Corporate Structure” in this prospectus
“Reporting Accountants”	Ernst & Young (安永會計師事務所)

DEFINITIONS

“Restricted Countries”	the countries and jurisdictions in which the Key Cooperation Partner and its subsidiaries or affiliates are located or in which the Key Cooperation Partner has other licensed partners and agents, as specified in the cooperation agreements that we have entered into with the Key Cooperation Partner
“Retained Group”	CRCC and its subsidiaries (excluding our Group)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Ruiweitong Company”	Beijing Ruiweitong Engineering Machinery Co., Ltd. (北京瑞維通工程機械有限公司), a limited liability company incorporated in the PRC on June 5, 2009 and a wholly-owned subsidiary of our Company
“SAFE”	State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中國國家工商行政管理總局)
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	State Administration of Taxation of the PRC (中國國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Securities Law”	the Securities Law of the People’s Republic of China (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each
“Shareholders(s)”	holder(s) of the Share(s)

DEFINITIONS

“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“SOE(s)”	state-owned enterprise(s)
“Sole Global Coordinator”	CLSA Limited
“Sole Sponsor”	CITIC CLSA Capital Markets Limited
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994
“Spin-off”	the spin-off of our Group from CRCC Group by way of the Global Offering and the Listing
“Stabilizing Manager”	CLSA Limited
“State Council”	State Council of the People’s Republic of China (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it in section 2 of the Companies Ordinance
“Supervisor(s)”	member(s) of our Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States

DEFINITIONS

“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	value added tax
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s own name
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	percent

In this prospectus, the terms “associate,” “connected person,” “connected transaction,” “controlling shareholder,” “holding company” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“4S”	sales, service, spare parts and survey
“ballast”	broken rocks placed on road beds, bridges, tunnel floors and between railway sleepers and tracks to fix the track, sustain weight and reduce traffic-induced noise
“bogie”	a framework that carries the wheels attached to a coach, freight wagon or locomotive
“cu.m.”	cubic meter
“cu.m./h”	cubic meters per hour
“drive shaft(s)”	a mechanical component for transmitting torque and rotation, usually used to connect other components of a drive train that cannot be connected directly because of distance or the need to allow for relative movement between them
“ERP system”	Enterprise Resource Planning, refers to a management platform that provides the means of decision-making for the decision-makers and employees through thoughts of systematic management on the basis of information technology
“fast-speed railway(s)”	railways with a designed operating speed ranging from 160km/h to 250km/h
“heavy-haul railway”	a type of railway that meets at least two of the following three conditions: (i) the hauling weight of the train is no less than 8,000 tons; (ii) the axle weight of the train reaches 27 tons or more; and (iii) the mileage of the railway is no less than 150 km, and the annual carrying capacity is no less than 40 million tons
“high-speed railway(s)”	passenger railway trains with a designed operating speed not less than 250km/h and initial operating speed not less than 200km/h
“km”	kilometer
“km/h”	kilometer per hour

GLOSSARY OF TECHNICAL TERMS

“local railway(s)”	the generic term for localized railways and special railways. Localized railways refer to railways managed by local governments while special railways refer to railways managed by enterprises or other units to provide transportation services specially for such enterprises or units
“m”	meter(s)
“narrow gauge”	a track gauge less than the standard gauge of 143.5 centimeters
“national railway(s)”	railway managed and operated by CRC and its affiliated enterprises
“normal-speed railway(s)”	railways with normal operating speed, where normal operating speed currently means a maximum operating speed below 160km/h
“overhaul”	the repairing, upgrading and remanufacturing of large railway track maintenance machinery in order to restore performance
“overhead contact”	a special form of overhead power transmission lines set up along railway lines for the purpose of supplying power for electric locomotives
“turnout(s)”	a mechanical installation enabling railway trains to be guided from one track to another, such as at a railway junction or where a spur or siding branches off
“remanufacturing”	a process using used machines or equipment as the base on which a process of repair, replacement and upgrade is carried out with specific procedures and latest advanced technologies. The remanufactured machines or equipment will not be inferior to its brand new status in terms of function and quality.
“rolling stock”	refers to all types of rail vehicles and rapid transit vehicles, including without limitation, passenger coaches, freight wagons, multiple units (a fixed arrangement of cars which are equipped with driving coaches, non-powered trailers, and occasionally, controlling coaches), light rail vehicles and metro cars
“sleeper(s)”	rectangular support(s) under the steel tracks
“sq.m.”	square meter

GLOSSARY OF TECHNICAL TERMS

“Standard Model”	DC-32 tamping machine, the first kind of large railway track maintenance machinery manufactured and sold by us. We use Standard Model in calculation and conversion of our manufacturing and overhaul capacities and utilization rates
“standard parts and components”	common parts and components manufactured in professional factories that have been fully standardized in various aspects, including structure, size, specifications, and marking
“track gauge” or “gauge”	the spacing of the rails on a railway track and is measured between the inner faces of the load-bearing rails
“urban rail transit system”	the electricity-powered public transportation operating on rails, which has high carrying capacity, including metro, light rail, intercity rapid transit, tram, and maglev
“wheelset”	the contacting part to the steel axle on products, generally were composed of two wheels press-fitted on one axle
“wide gauge”	a track gauge greater than the standard gauge of 143.5 centimeters
“working device”	a mechanism used in building, maintenance and repair of large railway track maintenance machines to conduct mechanized operations with respect to tracks, track beds, overhead contact lines

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- general political and economic conditions, including those related to the PRC and other relevant jurisdictions in which we have or intend to have business operations;
- various business opportunities that we may pursue;

FORWARD-LOOKING STATEMENTS

- macro-economic measures adopted by the PRC government to manage economic growth; and
- changes in the global economic conditions and material volatility in the global financial markets.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

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

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

RISKS RELATING TO OUR INDUSTRY AND BUSINESS OPERATIONS

Our business and financial performance may be affected by changes in the PRC government policies in respect of the large railway track maintenance machinery industry; any decrease in public spending on, or any change in public procurement policies or industry standards relating to, rail transportation could impact our business.

During the Track Record Period, we provided substantially all of our large railway track maintenance machines and services in the PRC. The development of China’s large railway track maintenance machinery industry is dependent upon the construction of railway projects. The nature, extent and timing of these projects are, however, determined by a combination of factors, including, but not limited to, the overall spending on railway infrastructure in China and approval of new railway construction projects, over which the PRC government exerts significant influence. The expansion of the railway network in China is expected to improve market demand for large railway track maintenance machines and services. In addition, the PRC government also formulates and implements large railway track maintenance machinery industry-related policies, plans and other economic measures, such as those relating to technology and safety requirements, utilization frequency and standards of railway maintenance equipment and services, and foreign investment restriction in the large railway track maintenance machinery industry. These industry policies and economic measures may significantly reduce the level of construction activities and capital expenditures of the PRC railway, which in turn could have a material and adverse effect on our business and financial performance.

In recent years, the PRC government implemented a systematic upgrade of China’s existing transportation infrastructure and plans to increase overall investment in transportation infrastructure by implementing measures such as accelerating the development of railway and

RISK FACTORS

urban rail transit systems. Accordingly, it has promulgated a number of laws and regulations to support and encourage the development of the PRC railway and other related industries. The railway transportation industry in the PRC has historically been receiving, and is expected to continue to receive, support from the PRC government in the near future. However, the PRC government may change its industry policies from time to time by adopting new policies and measures to further regulate this industry due to changes in macroeconomic trends or certain unexpected events. As such, there can be no assurance that the specific favorable policies that are currently available will continue to exist.

The PRC government's spending on railway and other related projects and procurement of large railway track maintenance machines has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in China's economy and changes in the PRC government authorities' policies. Any decrease or delay in public spending on, or any change in the public procurement policies or industrial standards relating to, rail transportation may have a negative impact on us, and materially and adversely affect our business and financial performance.

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

Our customer base is relatively concentrated. Historically, revenue from a few major customers accounted for a significant portion of our revenue. In 2012, 2013, 2014 and the six months ended June 30, 2015, revenue derived from CRC and its affiliated enterprises, our largest customer group, amounted to RMB1,602.2 million, RMB2,483.8 million, RMB2,804.1 million and RMB1,266.1 million, representing approximately 56.0%, 78.4%, 80.7% and 70.5% of our total revenue for the same period, respectively. Although we continually seek to expand our customer base, we believe we will continue to rely on a limited number of customers to generate the majority of our revenue due to the nature of our business.

A large proportion of China's railway lines are operated by CRC and its affiliated enterprises. We generally win purchase orders for our large railway track maintenance machines and services from CRC and its affiliated enterprises through public tenders. However, as our largest customer and the operator of China's railway industry, CRC has a relatively strong influence over the procurement of large railway track maintenance machines in the PRC, and has strong pricing power, which may allow it to change the payment terms. See "Business – Customers – Reliance on CRC and its affiliated enterprises." During the Track Record Period, we did not experience any cancellation of orders from CRC or any of its affiliated enterprises, nor did we experience any change in the contract terms by CRC after we entered into such contracts upon completion of the bidding process. However, during the Track Record Period, CRC used its strong bargaining power to request additional configuration of our products while restricting any price adjustment, which adversely affected our financial condition. Further, if CRC and/or any of its affiliated enterprises materially reduce, revise, delay or cancel their purchase orders with us, we might not be able to obtain replacement orders from other customers on similar terms, in a timely manner, or at all. In addition, if we fail to win CRC's bids and generate many purchase orders as expected or enter into contracts with terms that are favorable to us, or at all, our business and financial condition could be materially and adversely affected.

RISK FACTORS

Any significant changes to our long-term relationship with our Key Cooperation Partner may have a material adverse effect on our operations.

We have entered into various long-term cooperation agreements with the Key Cooperation Partner, principally of a term of 13 years, under which the Key Cooperation Partner has licensed us to use certain of its intellectual property rights and technologies and to manufacture and sell the Licensed Machines in the PRC. To secure a stable supply of quality parts and components for the manufacture of the Licensed Machines, we have agreed to purchase parts and components used in the manufacture of the Licensed Machines from the Key Cooperation Partner at no less than the Agreed Purchase Value. During the Track Record Period, we had satisfied our purchase obligations under the Key Cooperation Agreements. We may lose the opportunity to obtain parts and components at more competitive prices from other suppliers due to our purchase obligations under the Key Cooperation Agreements.

According to the Key Cooperation Agreements, sales of the Licensed Machines are subject to certain export restrictions. For details, see “Business – Raw Materials, Parts and Components and Suppliers – Reliance on the Key Cooperation Partner.” During the Track Record Period, we did not have any material disputes with the Key Cooperation Partner in relation to our cooperation arrangements. However, there can be no assurance that disputes will not occur in the future between us and the Key Cooperation Partner under the Key Cooperation Agreements. In addition, we intend to expand our business in the overseas market with products developed with our proprietary technologies which are not subject to such export restrictions, and the competition between us and the Key Cooperation Partner in the overseas markets may affect our cooperation relationship with it.

Furthermore, as of the Latest Practicable Date, of the 13 types of Licensed Machines, the cooperation agreements for five types of Licensed Machines have expired (the “Expired Agreements”) and those in respect of the remaining eight types of Licensed Machines will expire in the next 13 years (the “Remaining Agreements”). In addition, according to the termination provisions in the Key Cooperation Agreements, our Reorganization and our plan to expand into overseas markets through setting up joint ventures and mergers and acquisitions may trigger such termination provisions, and the Key Cooperation Partner is then entitled to terminate the Key Cooperation Agreements or to negotiate modifications thereto. According to the Key Cooperation Agreements, upon the expiry of such agreements, we may continue to use the know-how provided by the Key Cooperation Partner, as long as we continue to comply with the terms of the Key Cooperation Agreements. If the Key Cooperation Partner ceases to supply us with the parts and components necessary for the manufacture of the Licensed Machines, or if our cooperation relationship with our Key Cooperation Partner is terminated or the Key Cooperation Partner terminates our license to use its intellectual property rights and technologies and for the manufacture and sale of the Licensed Machines, we may need to adjust our production plans to manufacture alternative products with parts and components from alternative suppliers. Such adjustment of our production plans may have a material adverse effect on our business and financial condition.

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

Due to the nature of our business, we are exposed to the risk of product liability claims that is inherent in the R&D, manufacture, overhaul and sales of our large railway track

RISK FACTORS

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

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

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

We acquire a significant portion of our raw materials and parts and components from our five largest suppliers.

Our supplier base is relatively concentrated. In 2012, 2013, 2014 and the six months ended June 30, 2015, our purchase costs attributable to our five largest suppliers represented approximately 49.9%, 59.1%, 49.3% and 59.8% of our total purchase costs for the same periods, respectively, and our purchase costs attributable to our largest supplier represented approximately 15.8%, 20.4%, 17.9% and 23.8% of our total purchase costs for the same periods, respectively. During the Track Record Period, we did not experience any material disruptions to our production and operations due to any delay in delivery or issue with the quality of the parts and components provided by our five largest suppliers. If there occurs any adverse change in our relationship with any of our major suppliers, or if any major supplier fails to deliver products that meet the required standards according to the delivery schedule, and we are unable to procure parts and components from other suppliers under acceptable commercial terms and in a timely manner, our manufacturing operations and financial results may be materially and adversely affected.

RISK FACTORS

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

Our successful operation depends on our ability to obtain from suppliers sufficient quantities of raw materials, key components and parts and energy at acceptable prices, in satisfactory quality and in a timely manner. We are exposed to price fluctuations in raw materials, parts and components, as well as electricity, that we use to manufacture our large railway track maintenance machines.

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

In 2012, 2013, 2014 and the six months ended June 30, 2015, the cost of raw materials we consumed and the parts and components we purchased from third-party suppliers accounted for 80.6%, 80.0%, 77.2% and 79.4% of our cost of sales, respectively. The prices and availabilities of such raw materials and parts and components may vary significantly from period to period due to factors such as consumer demand, supply, market conditions and cost of raw materials. In particular, steel and major raw materials may be subject to pricing cyclicity and periodic shortages in China from time to time. In addition, any unavailability of or interruption in electricity supply could materially and adversely affect our production and business operations.

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

Our operations and growth prospects may be adversely affected by constraints in production capacity. In addition, we may be negatively affected if we fail to upgrade or procure new equipment at a reasonable cost or maintain a sufficiently skilled labor force.

As of June 30, 2015, our Kunming plant was able to manufacture a total of 286 Standard Models annually and our Kunming plant and Beijing plant collectively were able to overhaul a total of 100 Standard Models annually. However, our production capacity needs may change over time. If we are unable to upgrade and expand our facilities, attract experienced personnel and purchase equipment effectively and in a timely manner, our growth plans may be adversely affected.

RISK FACTORS

In addition, we strive to ensure that our manufacturing facilities are competitive in order to maintain and expand our market share. The competitiveness of our manufacturing facilities will also depend on our ability to optimize the product mix at each facility and increase the overall efficiency of each facility and its labor force. Our inability to maintain or improve our competitiveness to compete with other players in the large railway track maintenance machinery industry may reduce our market share and profitability.

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

Technology in the large railway track maintenance machinery industry evolves rapidly to meet changing customer needs and demands for more reliable functions in different working conditions, better operational efficiencies and higher safety standards. With the upgrading of technologies and increasing innovation of similar products on the market, as well as to satisfy the diversified geological and climate conditions faced by the PRC railway industry, we are required to continue our product innovation. To maintain our leading position in the large railway track maintenance machinery industry, we will be required, on an ongoing basis, to design and develop new products and/or upgrade existing products that closely follow the technology development trend and customer needs in order to meet the evolving demands of our customers. As such, we have devoted substantial resources to our R&D activities to improve our ability to cater to market needs. In 2012, 2013, 2014 and the six months ended June 30, 2015, our R&D expenses amounted to RMB193.5 million, RMB209.4 million, RMB167.0 million and RMB47.0 million, respectively, or 6.8%, 6.6%, 4.8% and 2.6%, respectively, of our revenue for the same periods. However, we cannot guarantee that our R&D activities will always keep pace with market demand and technological advances or yield the anticipated results. If we encounter delays in technology development, fail to meet changing market demands, underestimate or fail to follow the technological trend, or our competitors respond more quickly than we do, our business or operating results may be materially and adversely affected. Failure to develop and introduce new products in accordance with the large railway track maintenance machinery industry trends on a timely basis or at all could reduce our competitiveness and profitability.

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

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

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

RISK FACTORS

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

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

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

Any failure to raise sufficient capital for our business and operations in a timely manner may adversely affect our financial condition and results of operations.

We may make significant capital expenditures to develop our business. We invest in areas such as R&D, overhaul, maintenance and upgrading of facilities, and improvement of process efficiency using the cash generated from our operations and financing activities. However, we cannot assure you that these sources of funding will continue to adequately meet our business needs, particularly in regard to our growth and expansion plans. We may also require further funding for working capital, investments, potential acquisitions, joint ventures, debt servicing and other corporate requirements. In particular, we are constructing the “National Large Railway Maintenance Machinery International Technology Cooperation Center” (國家鐵路大型養路機械國際科技合作中心). If we are unable to secure sufficient external funds when required, we may not be able to fund the necessary capital expenditures. In addition, our future investments in business projects and expansion of our Company may not generate the profit we expect. The availability of external funding is subject to various factors beyond our control, including governmental approval, prevailing capital market conditions, credit availability, interest rates and our business performance. If the PBOC increases interest rates in the future, our funding costs will increase accordingly and our access to funding may be reduced. Our inability to arrange additional financing in a timely manner on terms that are satisfactory to us could materially and adversely affect our business, results of operations and expansion plans.

RISK FACTORS

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

For the sale of large railway track maintenance machines, we generally require a prepayment of 10% to 30% to be made by the customer upon entering into the contract, and the rest upon delivery. Generally, we will issue a letter of quality guarantee, which will be effective for one year, guaranteeing up to 10% of the contract value of the machinery. For our overhaul services, we generally conduct a preliminary investigation and provide a fee quote before the machine is brought in for overhaul, and may provide a supplementary fee quote after disassembling the machine for further inspection. Similar to the sales of large railway track maintenance machines, we generally require a prepayment of 10% to 30% to be made by the customer before overhaul begins, and the rest upon delivery of the overhauled machine. For our railway line maintenance services, we generally require a certain monthly prepayment to be made by customers based on the workload.

We bear the risk that customers may delay or even be unable to make payment as scheduled. As of December 31, 2012, 2013 and 2014 and June 30, 2015, the carrying amounts of trade and bills receivables (before provision for impairment) were RMB451.8 million, RMB473.7 million, RMB584.4 million and RMB786.2 million, respectively. The increase in trade and bills receivables during the Track Record Period was due to the increase of our sales. In addition, our trade and bills receivables turnover days were 54 days, 50 days, 52 days and 66 days as of the same dates, respectively. For details, see “Financial Information – Liquidity and Capital Resources – Trade and Bills Receivables.” Delays in receiving payments or non-payment by our customers may put pressure on our cash flow position and our ability to meet our working capital requirements. Furthermore, defaults in payments to us on projects for which we have already incurred significant costs and expenses can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available to fund other projects. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our provision for impairment of trade and bills receivables was RMB21.0 million, RMB28.6 million, RMB32.2 million and RMB28.8 million, respectively, representing 4.6%, 6.0%, 5.5% and 3.7% of our trade and bills receivables before impairment, respectively. However, we cannot assure you that such provision may be sufficient in the future. We cannot assure you that payments from customers will be made in a timely manner, or at all, or that delays or defaults in payments will not affect our financial condition and results of operations.

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

Backlog represents our estimate of the contract value of work that remains to be completed as of a certain date. The contract value of a project represents the amount that we expect to receive under the terms of the contract, assuming the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles and may not be indicative of future operating results. For further details, see “Business – Backlog and Inventories.” As of October 31, 2015, our aggregate backlog was approximately RMB1,233.4 million. However, this figure is based on the assumption that our relevant contracts will be performed in full in accordance with their terms. The termination or modification of any one or more major contracts may have a substantial and immediate effect on our backlog. During the Track Record Period, we did not experience any incident where the

RISK FACTORS

material contract amounts reported in our backlog did not result in actual revenue and profits. However, we cannot guarantee that the amount estimated in our backlog will be realized in full, in a timely manner, or at all, or that, even if they are realized, such backlog will result in profits as expected. As a result, you should not rely on our backlog information presented in this prospectus as an indicator of our future earnings.

Our levels of indebtedness and interest payment obligations may adversely affect our business.

Historically, we relied upon connected party borrowings and bank borrowings to fund certain portions of our capital expenditures and operations. As of June 30, 2015 and October 31, 2015, our interest-bearing borrowings was nil and RMB195.0 million, respectively. As of the Latest Practicable Date, our interest-bearing bank and other borrowings was RMB545 million. For further details, see “Financial Information – Indebtedness.”

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

In 2012, 2013 and 2014, we paid interest in the amount of RMB57.5 million, RMB47.6 million and RMB23.5 million, respectively, on our borrowings. In the six months ended June 30, 2015, we did not record any interest on our borrowings because our interest-bearing borrowing balance as of December 31, 2014 was nil, and we did not incur any borrowings in the six months ended June 30, 2015. Our interest payments may reduce our amount of funds available for working capital, capital expenditures, acquisitions and other business purposes. Our results of operations may also be materially and adversely affected by increases in interest rates. If we are unable to service our debt, such inability could result in an event of default which, if not cured or waived, could have an adverse effect on our business, financial condition and results of operations.

We have had, and may continue to have, negative operating cash flow.

In 2012, 2014 and the six months ended June 30, 2015, we recorded net cash outflows from operating activities. We recorded net cash outflows from operating activities of RMB662.8 million, RMB254.2 million and RMB76.0 million, respectively, for such periods. For details of our negative cash flow in operating activities during the Track Record Period, see “Financial

RISK FACTORS

Information – Liquidity and Capital Resources – Cash Flow.” There can be no assurance that we will not continue to record negative operating cash flow in the future.

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

We have benefited from tax incentives and have also received government grants. Currently, our Company and a number of our subsidiaries are entitled to a preferential income tax rate of 15% (compared to the 25% standard income tax rate) available to high technology businesses or businesses qualified for the preferential tax treatment under the Western Development Plan (“西部大開發”) of the PRC government. In addition, our Company and a number of our subsidiaries are entitled to other various preferential tax treatments, such as the R&D expense super-deduction. According to the Enterprise Income Tax Law of the People’s Republic of China and its implementation rules, which became effective as of January 1, 2008, for R&D expenditures incurred by enterprises in the development of new technology, new products and new skills, if these expenditures have not been reflected in the comprehensive income statement as intangible assets, they are allowed to make a super-deduction of 50% of the R&D expense on an actual deduction basis; if these expenditures have been reflected as intangible assets, they are allowed to make amortization of 150% of the cost of intangible assets. Our other subsidiaries were subject to the normal income tax rate of 25% applicable to Chinese enterprises during the Track Record Period.

Our effective income tax rate in 2012, 2013, 2014 and the six months ended June 30, 2015 was 11.6%, 9.6%, 12.9% and 14.2%, respectively. Our qualification as a high and new technology enterprise is subject to annual evaluation and a three-year review by the relevant authorities in China. In order to maintain such qualifications and the preferential tax rates, our subsidiaries shall submit a review application to the relevant science and technology commission agencies. We plan to apply for the extension of this preferential tax treatment before expiration. In 2015, the preferential income tax incentive of two of our subsidiaries under the high and new technology enterprise scheme is due for renewal and these two subsidiaries will apply for the renewal for another three years from 2015 to 2017. We do not believe there is any legal impediment for us to extend such qualifications. However, we cannot assure you that our subsidiaries that are currently qualified as high and new technology enterprises will continue to qualify for such status in the future. If our subsidiaries fail to maintain their high and new technology enterprise qualifications or renew these qualifications when the relevant term expires, their applicable income tax rates would increase to 25%, which could have a material adverse effect on our financial condition and results of operations. Moreover, the PRC government could terminate any of these preferential tax treatments before their scheduled expiration. Furthermore, one of our subsidiaries, which currently enjoys a 15% preferential income tax rate under the Western Development Plan, is applying for qualification as a high and new technology enterprise. We do not believe there is any legal impediment for such subsidiary to obtain such qualification and enjoy the corresponding preferential tax rate. However, we cannot assure you that such subsidiary will be able to obtain the qualification as a high and new technology enterprise, or that it will continue to be eligible for the preferential income tax treatment under the Western Development Plan in the future, failing which the tax expenses of the relevant subsidiary may increase.

In addition, in 2012, 2013 and 2014 and the six months ended June 30, 2015, government grants recognized in our consolidated statements of comprehensive income were RMB26.8

RISK FACTORS

million, RMB22.6 million, RMB25.1 million and RMB3.2 million, respectively, which included government support for R&D, compensation for demolition and tax rebate. The amounts of, and conditions attached to, such grants were determined at the sole discretion of the relevant governmental authorities. We cannot assure you that we will be eligible to continue to receive such government grants or that the amount of any such grants will not be reduced in the future, and even if we continue to be eligible to receive such grants, we cannot guarantee that any conditions attached to the grants will be as favorable to us as they have historically been.

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

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

We may face uncertainties associated with our growth strategy.

Our growth strategy includes organic growth and potential acquisitions. There are uncertainties and risks associated with our growth strategy, including whether we will be able to:

- obtain sufficient funding for our expansion and the enlarged operations;
- obtain necessary permits, licenses and approvals from relevant PRC government authorities on a timely basis;
- recruit, train and retain sufficient qualified personnel;
- identify attractive acquisition targets;
- negotiate acquisitions on favorable terms; and
- integrate the acquired assets or business successfully.

In addition, there are inherent risks with acquisitions and business expansions, and there can be no assurance that we will be able to achieve the strategic purpose of any organic growth or acquisition. For details, see “– We may be unable to consummate or successfully integrate acquisitions and strategic alliances.”

RISK FACTORS

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

We operate in a cyclical industry that is sensitive to general economic conditions in China. Rapid growth in China's economy and urban population could lead to an increased demand for railway and urban rail transit transportation, which could in turn foster demand for the manufacture and overhaul of large railway track maintenance machines. Changes in market supply and demand could also have a substantial effect on our product prices, business, revenue and financial condition. Macroeconomic conditions, cyclical trends in end-user markets, supply and demand imbalances, policies of the PRC government (particularly investment plans for the railway industry and its implementation schedules) and other factors beyond our control, including export policies, value-added tax and export taxes could have a major impact on our market share, and the demand for and prices of our products. Increased demand for railway and urban rail transit transportation, higher capacity utilization and increased operating margins may result in a larger amount of new investments and increased production in the overall industry until supply exceeds demand, which is subsequently followed by periods of declining prices and declining utilization rates of capacity, and the cycle repeats. Any of these cyclical factors may adversely impact our business, financial condition and results of operations and prospects. In addition, the demand for our large railway track maintenance machines and services may be reduced if there are unexpected events, such as terrorist attacks, environmental and other safety concerns, which would result in the decreased use of railway or rapid transit systems, which in turn may cause fluctuations in our financial condition within a short period of time.

Increased competition from foreign and PRC domestic competitors within the PRC large railway track maintenance machinery industry could negatively impact our market share in such industry.

Although we are currently a leading company in the large railway track maintenance machinery industry in China, if the relevant authorities change the industry entry barriers and regulations (such as the administrative permits) for the large railway track maintenance machinery industry, we may face even more intense competition from current players and new entrants in the large railway track maintenance machinery industry. Moreover, we may also encounter intensified competition from domestic competitors in the large railway track maintenance machinery manufacturing and overhaul sector. We cannot assure you that we will continue to maintain our leading position in the PRC large railway track maintenance machinery industry.

Our operations and plans for overseas business development are subject to risks and restrictions associated with our international businesses and operations.

We plan to enter into the overseas market with products developed by us with our proprietary technologies, as a result of which we are exposed to various risks and restrictions associated with conducting business in foreign countries and regions, including:

- compliance with foreign laws, regulatory requirements and local industry standards, in particular, those related to large railway track maintenance machines;
- exposure to litigation risks outside of China;

RISK FACTORS

- political and economic instabilities;
- the export restriction on Licensed Machines to the Restricted Countries. See “– Any significant changes to our long-term relationship with our Key Cooperation Partner may have a material adverse effect on our operations”;
- high-entry barriers in certain developed foreign markets;
- foreign exchange rate exposure;
- unfamiliarity with local operating and market conditions;
- cultural and language difficulties;
- trade restrictions, technology barriers, protectionism and economic sanctions;
- competition from other international large railway track maintenance machinery manufacturing companies;
- local practices on contract bidding and payments;
- difficulties with staffing and managing overseas operations after localization, including managing an increasing number of employees and complying with various labor regulatory requirements of different jurisdictions;
- stringent environment, safety and labor standards; and
- managing relationships with, and collecting payments from, foreign customers.

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

We cannot predict the effect that current conditions affecting various foreign economies or future changes in economic or political conditions abroad could have on the feasibility and costs of the projects we intend to invest in or acquire. Any of the above factors may have a material adverse effect on our overseas plans and, consequently, our business, prospects, financial condition and results of operations.

We may be unable to consummate or successfully integrate acquisitions and strategic alliances.

We may from time to time pursue acquisitions and strategic alliances to complement our current business by expanding into new business areas, diversifying our customer base and enabling us to specialize in, expand or enhance technological capabilities. We cannot assure you that we will be able to find suitable acquisition targets or partners with whom to form

RISK FACTORS

strategic alliances, and failure to do so in a timely manner or at all may affect our ability to realize our growth objectives. In addition, there are risks and uncertainties related to these activities, including the difficulty of integrating acquired operations, technology and products, diversion of our management's attention from other business concerns, potential unknown liabilities associated with an acquired company, undisclosed risks affecting an acquired company and potential adverse effects on existing business relationships with current customers and suppliers. In addition, any acquisitions could involve the incurrence of substantial additional indebtedness or dilution of the equity interests of our shareholders. We cannot assure you that we will be able to successfully integrate any acquisitions that we undertake or that such acquisitions will perform as planned or prove to be beneficial to our operations and cash flow. Each of these factors could have a material adverse effect on our business, results of operations and financial condition.

We are subject to litigation risks.

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

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

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

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

We purchase and maintain insurance policies in accordance with the needs of our business. However, we cannot guarantee that our insurance policies will provide adequate coverage should we face extraordinary occurrences that result in losses. We do not carry any insurance for business interruption or loss of profit arising from accidents at any of our manufacturing facilities or other disruptions of our operations. In addition, we do not carry product liability insurance for any of our products. We may not obtain certain insurance

RISK FACTORS

coverage or may experience difficulties in obtaining the insurance coverage we need, which could negatively affect our business, financial condition and results of operations.

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

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

Our operations are subject to environmental laws and regulations relating to, among others, gas and water emissions, hazardous substances and waste management. We must obtain clearances and authorizations from governmental authorities for the treatment and disposal of any discharge. In addition, the construction and operation of our production facilities may have an impact on the environment. We cannot assure you that our facilities and equipment will maintain a condition that continuously meets at all times all the standards under applicable environmental laws and regulations. Any violation of these laws and regulations may result in substantial fines, revocations of operating permits, shutdown of our facilities and obligations to take corrective measures. Moreover, the PRC government may take steps towards the adoption of more stringent environmental regulations. Due to the possibility of unanticipated regulatory or other developments, the amount and timing of environmental expenditures may vary substantially from those originally anticipated. If there is any change in the environmental regulations, we may need to incur substantial capital expenditures to comply with environmental protection laws and regulations, including the costs of installing, replacing or upgrading our equipment related to pollution control and the costs of operational changes to limit any adverse impact of our operations on the environment.

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

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

We are required to obtain and maintain valid permits, licenses, certificates and approvals from various governmental authorities or institutions under relevant laws and regulations for some of our businesses, including, without limitation, our manufacturing and overhaul operations of large railway track maintenance machines. We must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain our permits, licenses, approvals and certificates. For our licenses and permits, see “Business – Licenses and

RISK FACTORS

Permits.” If we fail to comply with any of the regulations or satisfy any of the conditions required for the maintenance of our permits, licenses, approvals and certificates, our permits, licenses, approvals and certificates could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely impact our business, financial condition and results of operations.

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

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

We rely on a combination of patents, trademark registrations, non-competition and trade secret laws and confidentiality agreements with our employees to protect our intellectual property rights. As of June 30, 2015, we had seven registered trademarks, 197 registered patents and 65 pending patent applications in the PRC. Further, we own other intellectual properties such as non-registered trade secrets, and proprietary technologies, procedures and processes. See “Business – Intellectual Properties” in this prospectus for further details. We cannot assure you that the measures that we have taken will be sufficient to prevent any misappropriation of our intellectual property or that our competitors will not independently develop, or obtain through licensing, alternative technologies that are substantially equivalent or superior to ours. Furthermore, we cannot assure you that all of our registration applications will be successful, or our registered intellectual property rights will not be subject to any objection. In the event that the steps we have taken and the protection afforded by law do not adequately safeguard our intellectual property rights, or we are not able to register or defend our intellectual property rights, or our competitors exploit our intellectual property in the manufacture and sale of competing products in the markets we operate, our business could be materially and adversely affected.

Intellectual property laws in the PRC are still evolving and the level of protection and means of enforcement of intellectual property rights in the PRC differ from those in other jurisdictions. Enforcement of our intellectual property rights could be costly, and we may not be able to immediately detect unauthorized use of our intellectual properties and take the necessary steps to enforce our rights over such properties. In the event that the measures taken by us or the protection afforded by law do not adequately safeguard our intellectual property

RISK FACTORS

rights, we could suffer losses in revenue and profits due to competing sales of products and services that exploit our intellectual properties.

We use intellectual property in our operations that is owned by others and we also develop (independently or with other parties) intellectual property from such intellectual property for use in our operations and licensing to our clients. There can be no assurance that our use or licensing of any of such intellectual property, or of new intellectual property developed from such intellectual property, will not be challenged or that we would be able to successfully defend ourselves if challenged. If any such challenge by third parties is successful, we may not be able to use or license such intellectual property, which may have a material and adverse effect on our operations if such intellectual property involved is critical to our business.

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

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

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

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

RISK FACTORS

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

Upon completion of the Global Offering, our largest Shareholder, CRCC, will directly and indirectly hold approximately 65.00% of our Company's issued share capital, assuming the Over-allotment Option is not exercised. As the controlling shareholder and pursuant to our Articles of Association, it will be able to influence our significant operational and financial decisions (including dividend plans and investment decisions) that require a vote by our Shareholders. In addition, CRCC will be able to influence the composition of our Board of Directors, will have the power to indirectly influence the selection of our senior management and will have influence over the management of our Company through its representatives on our Board of Directors. It is possible that differences in opinion may arise between CRCC and our remaining Shareholders from time to time. We cannot guarantee that the influence CRCC has on our Company is in the best interests of our remaining Shareholders.

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

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

In addition, we may incur significant losses or costs relating to the transportation of our large railway track maintenance machines by sea. The vessels and their shipments are subject to risks relating to maritime operations, including capsizing, grounding, collision and loss or damage from severe weather or storms. Late delivery of our products resulting from such events may have an adverse effect on our business and financial condition if such late delivery is not covered by the relevant insurance policies, or at all.

Moreover, we operate in an industry that involves occupational hazards. We may experience difficulties in operations as a result of factors including, but not limited to, adverse weather conditions, and failure of employees to follow proper safety procedures when using large railway track maintenance machines.

RISK FACTORS

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

For some of the properties we occupy in the PRC, we, or our landlords, have not yet obtained sufficient title certificates that allow us to freely use or transfer the properties that we own and occupy. For example, with respect to our owned buildings, as of June 30, 2015, we had 12 buildings, with an aggregate gross floor area of approximately 11,029.5 sq.m., for which we have not yet obtained the building ownership certificates; with respect to our leased properties, we had 16 buildings, with an aggregate gross floor area of approximately 19,250.7 sq.m., for which our landlords have not yet obtained the building ownership certificates. These properties are used for industrial, operational and office purposes. See “Business – Properties” for more information. We cannot predict how our rights as owner or lessee of these properties and our business operations and financial condition may be materially and adversely affected as a result of the absence of legal title to these properties. We cannot assure you that ownership disputes or claims will not occur or that third parties will not assert any claims against us for compensation in respect of any illegal and/or unauthorized use of their properties.

The appraised value of our properties may be different from their actual realizable value and is subject to change.

The appraised value of our properties located at No. 384, Yangfangwang, Jinma Town, Kunming, Yunnan Province, China, as contained in the property valuation reports included in Appendix III to this prospectus, is based on multiple assumptions that include elements of subjectivity and uncertainty, and may be subject to substantial fluctuations. Therefore, the appraised value of these properties should not be taken as their actual realizable value or a forecast of their realizable value. Unforeseeable changes to our operation, as well as national and local economic conditions, may affect the value of our property holdings. In particular, the fair value of our investment properties could decrease in the event that the market for comparable properties in the PRC experiences a downturn as a result of, among other factors, PRC government policies aimed at cooling-off the PRC property market, the continued effect of the recent global economic downturn or the gradual slowdown of China’s economic growth.

The appraised value of our properties and of our land is based on many assumptions, including that:

- the ownership certificates we obtained are real;
- the property-related rights we owned are without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest; and
- our land and properties are free from any charge, mortgage or amount owned, which could affect its value.

If any of these assumptions proves to be incorrect and/or the actual realizable value of any of our properties is significantly lower than its appraised value, our business, results of operations and financial condition may be materially adversely affected.

RISK FACTORS

We held certain equity interests in a Hong Kong listed company. Any decline in the share price of this listed company may result in a recognition of impairment loss.

During the Track Record Period, our available-for-sale investments included certain equity interests in a Hong Kong listed company for investment purpose at an initial investment cost of RMB9.8 million in cash. The value of these available-for-sale investments is marked to market. Therefore, any fluctuation in the share price of this listed company would lead to changes in the fair value of this available-for-sale investment. A decline in the value of our available-for-sale investments below their cost can result in the recognition of impairment losses if our management determines that the decline in fair value of these equity interests is significant or prolonged. The determination of what is “significant” or “prolonged” requires judgment. In making this judgment, our management evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. If an available-for-sale investment is impaired, an amount comprising the difference between its acquisition cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss. If there is a decline in the share price of this listed company, our management may exercise its judgment to recognize an impairment loss on this available-for-sale investment. Any such recognition of asset impairment loss may have a material adverse effect on our results of operations.

The large railway track maintenance machinery industry in the PRC is continuously evolving and has uncertainties, and any negative development in the PRC large railway track maintenance machinery industry may have an adverse effect on our business operations.

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

RISK FACTORS

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

The five main transportation modes for passenger and freight transportation in China are aviation, railway, road, waterway and pipeline. Within China, passengers travel mainly on railway and road networks; freight is transported mostly on railway, road and waterway networks. Liquid and gases are usually delivered through pipelines. In the event that changes occur to passenger and freight transportation traffic patterns that lead to reduced overall transportation volumes on railways, our business, financial condition and results of operations could be adversely affected.

RISKS RELATING TO THE PRC

PRC economic, political and social conditions, as well as government policies, could adversely affect our business, financial condition, results of operations and prospects.

During the Track Record Period, substantially all of our revenue came from sales of products and services in the PRC. As a result, our financial condition, results of operations and prospects can be substantially affected by developments in PRC economic, political and legal conditions. The PRC government exerts substantial control over the growth of the domestic economy by the means of resource allocation, setting policy on foreign exchange and payment of debts denominated in foreign currencies, setting monetary policy and giving preferential treatment to specific industries or companies. In recent years, the PRC government has implemented market-oriented reforms. Such economic reform measures could be adjusted or revised and may differ between industries or various regions in the PRC. As such, we may not benefit from such measures.

As calculated by GDP, China is one of the fastest growing economies in the world in recent years. However, China may fail to sustain its growth rate. In order to maintain economic growth in China, the PRC government has taken and may continue to implement a range of monetary policies and other economic measures to expand the investment in infrastructure projects, increase the liquidity of credit markets and encourage employment. But there can be no assurance that such monetary or economic measures will be successful. If there is slow growth or even a recession in the PRC economy, the demand in the PRC for large railway track maintenance machinery may be affected, our interest expenses may increase or we may face reduced access to credit. Such changes in the PRC economy and relevant markets in the future may adversely affect our business, financial condition and results of operations.

The interpretation and enforcement of PRC laws and regulations involves significant uncertainties and PRC laws differ from the laws of common law jurisdictions.

We are formed and exist under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new, and due to the limited number of published cases and judicial interpretations

RISK FACTORS

and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties. As the PRC legal system is under development, there can be no assurance that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material and adverse effect on our business operations.

Furthermore, certain important aspects of PRC corporate law are different from the corporate laws of common law jurisdictions such as Hong Kong and the United States, particularly with respect to investor protection, such as shareholder class-action suits and measures protecting the non-controlling shareholders, restrictions on directors, disclosure requirements, different rights of classified shareholders, general meeting procedure and disbursement of dividends. These aspects of PRC corporate law can, to some extent, be mitigated through the application of mandatory provisions and certain other provisions of the Hong Kong Listing Rules, including the inclusion of mandatory provisions in the listing company's articles of association. This process decreases the discrepancies between Hong Kong and PRC corporate law and strengthens investor protection. Our Articles of Association include the provisions required under the Hong Kong listing rules. Although such provisions have been included, we cannot assure you that no discrepancy exists between the protections given to our investors and those given to investors in companies formed in common law jurisdictions.

The PRC government's control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares.

Currently, RMB still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to conduct foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

Under the existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy other foreign exchange requirements. If we fail to obtain approval from SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans and our business, operating results and financial condition may be materially and adversely affected.

RISK FACTORS

Holders of H Shares may experience difficulties in effecting service of legal process and enforcing judgments against us, our Directors, Supervisors or senior management and in taking action on the basis of violations of the Listing Rules. The interpretation and implementation of PRC laws and regulations could limit the protections available to you.

We are a company incorporated under the laws of the PRC and substantially all of our assets and all of our subsidiaries are located in the PRC. Most of our Directors, Supervisors and senior management reside within the PRC. Most of the assets of these Directors, Supervisors and senior management may also be located within the PRC. As a result, it may not be possible to effect service of process outside of the PRC upon most of our Directors, Supervisors and senior management. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. On July 14, 2006, the Supreme People's Court of the PRC and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Under this arrangement, where any designated People's Court of the PRC or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement remain uncertain.

Our Articles of Association provide that disputes between holders of our H Shares and our Company, our Directors, Supervisors or senior management, arising out of our Articles of Association, the PRC Company Law and related regulations, concerning the affairs of our Company, are to be resolved through arbitration by the CIETAC or the HKIAC. Awards made by PRC arbitral authorities recognized under the Hong Kong Arbitration Ordinance can be enforced in Hong Kong. Hong Kong arbitral awards are also enforceable in the PRC, subject to the satisfaction of certain PRC legal requirements. However, we are uncertain whether any action brought in the PRC to enforce an arbitral award made in favor of holders of H Shares would succeed.

Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares.

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us and the gains realized upon the sale or other disposition of H Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China's Individual Income Tax Law (《中華人民共和國個人所得稅法》). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties

RISK FACTORS

between China and the jurisdiction in which the applicable foreign individual resides reduce or provide an exemption for the relevant tax obligations. Generally, a withholding tax rate of 10% shall apply to the dividends paid by a company listed in Hong Kong to foreign individuals according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall: (a) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (b) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%; and (c) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in China, and for those which have establishments or premises in China but whose income is not related to such establishments or premises, under the EIT Law, dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders Which are Overseas Non-resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) issued by the SAT, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

Despite the arrangements mentioned above, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and regulations due to several factors, including whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders will be subject to PRC individual income tax at a flat rate of 20%.

In addition, there remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and regulations by the PRC's tax authorities, including the taxation of capital gains by the non-PRC resident enterprises, individual income tax on dividends to non-PRC resident shareholders of our H Shares and on gains realized on sale or other disposition of our H Shares. The PRC's tax laws and regulations may also change. If there is any change to applicable tax laws and regulations or in the interpretation or application of such laws and regulations, the value of your investment in our H Shares may be materially affected.

Future fluctuations in the value of the Renminbi could have a material adverse effect on our financial condition and results of operations.

During the Track Record Period, we generated substantially all of our revenue in the PRC. Meanwhile, we purchase certain of our parts and components from overseas suppliers, and our supply contracts are generally denominated in Euro or U.S. dollars. In addition, we expect to generate more revenue denominated in foreign currency in the future due to the expansion of our overseas business. As a result, fluctuations in exchange rates, particularly between the Renminbi, Euro and U.S. dollar, could increase our purchase costs and reduce our profitability through foreign currency exchange losses.

The exchange rate of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and

RISK FACTORS

economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of the Renminbi into foreign currencies, including the U.S. dollar, has been based on rates set daily by the PBOC based on the previous business day's inter-bank foreign exchange market rates and exchange rates in global financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. On June 19, 2010, the PBOC announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. In April 2012, the PBOC enlarged the floating band for the trading price of Renminbi against the U.S. dollar on the inter-bank spot exchange market to 1.0% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of the Renminbi against the U.S. dollar on the inter-bank spot exchange market to 2.0% around the central parity rate. On August 11, 2015, the PBOC announced to improve the central parity of RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. On the same day, the central parity of RMB against the U.S. dollar depreciated nearly 2% as compared to August 10, 2015, and further depreciated nearly 1.6% on the next day. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right ("SDR") and decided that effective as of October 1, 2016, the RMB is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the euro, the Japanese yen and the British pound. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system.

Currently, we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk. As a result, any significant increase in the value of the Renminbi against foreign currencies could increase our purchase costs and reduce our profitability.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases in the PRC may have a material adverse effect on our business operations, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza caused by the H1N1 virus, H5N1 influenza or Ebola virus, may materially and adversely affect our business and results of operations. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, adversely affect our business. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our customers, which may have a material and adverse effect on our business and results of operations.

RISK FACTORS

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares and their liquidity and market price may be volatile. If the price of the H Shares declines or fluctuates, this could result in substantial losses for investors purchasing H Shares in the Global Offering.

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price for our H Shares to the public will be agreed by us and the Underwriters, and the Offer Price may differ significantly from the market price of the H Shares following the Global Offering. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares. A listing on the Hong Kong Stock Exchange, however, does not guarantee that an active and liquid trading market for the H Shares will develop, or if it does develop, that it will be sustained. In addition, the trading price and trading volume of the H Shares may be subject to significant volatility as a result of various factors, including:

- variations in our operating results or differences between our operating results and those expected by investors and analysts;
- changes in securities analysts' estimates of our financial performance;
- announcements made by us or our competitors;
- regulatory developments or market changes in the PRC affecting us or our industry;
- any business interruptions resulting from natural disasters or accidents;
- investors' perception of us and of the investment environment in Asia, including Hong Kong and the PRC;
- announcements of or completions of acquisitions, strategic alliances or joint ventures by us or our competitors;
- additions or departures of our key personnel;
- release or expiration of lock-up or other transfer restrictions on our H Shares;
- liability claims brought against us;
- involvement in litigation; and
- general political, economic, financial, social development and stock market conditions and other factors.

Moreover, in recent years, stock markets in general, and the H Shares issued by other issuers in the PRC and listed on the Hong Kong Stock Exchange, both have experienced price

RISK FACTORS

and volume fluctuations, some of which were unrelated or did not fully correspond to the operating performance of related companies. These broad market and industry fluctuations may adversely affect the market price of our H Shares in a similar manner.

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

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

Future sales or perceived sales or conversion of substantial amounts of our securities in the public market, including any future public offering in the PRC, conversion of our unlisted Shares into H Shares or re-registration of Shares held on our Domestic Share register into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future, and may result in dilution of your shareholdings.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings. A certain amount of our Shares currently outstanding will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. See “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Undertakings to the Stock Exchange pursuant to the Listing Rules.” After these restrictions lapse or if they are waived or breached, future sales, or perceived sales, of substantial amounts of our Shares, or the possibility of such sales, by us could negatively impact the market price of our H Shares and our ability to raise equity capital in the future.

Our Domestic Shares immediately after the Global Offering will amount to 987,984,000 Domestic Shares, representing approximately 65.00% of our total issued share capital assuming the Over-allotment Option is not exercised (or 987,984,000 Domestic Shares, representing approximately 61.76% of our total issued share capital assuming the Over-allotment Option is exercised in full). The H Shares issued under the Global Offering will amount to 531,900,000 H Shares, representing approximately 35.00% of our total issued share capital assuming the Over-allotment Option is not exercised (or 611,685,000 H Shares, representing approximately 38.24% of our total issued share capital assuming the Over-allotment Option is exercised in full).

RISK FACTORS

In addition, subject to the approval of the State Council securities regulatory authority, all of our Domestic Shares may be converted into H Shares, and such converted Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the converted Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchange. No class shareholder voting is required for the listing and trading of the converted Shares on an overseas stock exchange. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, shares currently held on our domestic share register may be traded, after the conversion, in the form of H Shares on the Hong Kong Stock Exchange after one year of the Global Offering, which could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

Dividends distributed in the past may not be indicative of our dividend policy in the future.

In 2012, 2013 and 2014, we resolved and distributed dividends of approximately RMB70.6 million, RMB65.8 million and RMB70.0 million, respectively. In addition, we resolved to distribute certain dividends prior to the Listing. For details, see “Financial Information – Dividend Policy” and “Financial Information – Dividend Distribution Prior to the Listing.” A declaration of dividends is proposed by our Board of Directors and the amount of any dividends will depend on various factors, including, without limitation, our results of operations, financial condition, future prospects and other factors which our Board of Directors may determine are important. Accordingly, our historical dividend distributions are not indicative of our future dividend distribution policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

Facts and other statistics in this document derived from official government publications or public database sources may not be fully reliable.

This prospectus, particularly “Industry Overview”, contains information and statistics, including, but not limited to, information and statistics relating to the PRC, the PRC economy and the large railway track maintenance machinery industry in the PRC. Such information and statistics have been derived from various official government and other publications and from a third-party report commissioned by us. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as the case may be, in other jurisdictions. Therefore, you should not unduly rely upon the industry facts and statistics contained in this prospectus.

RISK FACTORS

Because the Offer Price is higher than our net tangible book value per Share, you will incur immediate dilution. If we issue additional equity securities in the future, purchasers of H Shares may experience further dilution in their ownership percentage.

The Offer Price of our H Shares is higher than the net tangible book value per Share issued to existing holders of our Shares. Therefore, all investors and purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value and existing holders of our Shares will receive an increase in net tangible book value per Share of their Shares. If we issue additional equity securities or equity-linked securities in the future, investors and purchasers of Shares may experience further dilution in their ownership percentage.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are forward looking and uses forward-looking terminology such as “anticipate,” “believe,” “could,” “going forward,” “intend,” “plan,” “project,” “seek,” “expect,” “may,” “ought to,” “should,” “would” or “will” and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

CONNECTED TRANSACTIONS

Members of our Group have entered into, and may after the Listing enter into, certain transactions, which will constitute non-exempt continuing connected transactions of the Company under the Listing Rules upon Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement and independent shareholders' approval requirements in respect of such non-exempt continuing connected transactions under Chapter 14A of the Listing Rules. The details of such waiver are set out in the section entitled "Connected Transactions" in this prospectus.

MANAGEMENT PRESENCE

According to Rules 8.12 and 19A.15 of the Listing Rules, except as otherwise permitted by the Stock Exchange at its discretion, the Company must have sufficient management presence in Hong Kong, which normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since our head office and substantially all of our business operations are based, managed and conducted in the PRC, we do not, and for the foreseeable future, will not, have executive Directors who are ordinarily resident in Hong Kong, for the purposes of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules. We have made arrangements to maintain regular and effective communication between the Stock Exchange and us as follows:

- (i) both of the Company's authorized representatives, Mr. Yu Yuanlin and Mr. Law Chun Bui, will act as our principal channel of communication with the Stock Exchange. Mr. Law Chun Bui, one of the authorized representatives and the joint company secretaries of the Company, is a Hong Kong resident. Although Mr. Yu Yuanlin resides in the PRC, he possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Accordingly, the authorized representatives of the Company will be able to meet with the relevant members of the Stock Exchange on short notice;
- (ii) both of the authorized representatives of the Company have means for contacting all Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact a Director on any matters;
- (iii) each Director has provided his mobile phone number, office phone number, fax number and e-mail address to the authorized representatives of the Company and the Stock Exchange, and in the event that any Director expects to travel or otherwise be out of office, he will provide the phone number of the place of his accommodation to the authorized representatives of the Company;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (iv) each Director who does not ordinarily reside in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant officers of the Stock Exchange within a reasonable period of time after the receipt of a reasonable notice from the Stock Exchange; and
- (v) we have retained the services of a compliance adviser in compliance with Rule 3A.19 of the Listing Rules. The compliance adviser will, among other things and in addition to the Company's authorized representatives, act as an additional channel of communication of the Company with the Stock Exchange and be available to answer enquiries from the Stock Exchange. We will ensure that there are adequate and efficient means of communication among the Company, the Company's authorized representatives, Directors, other officers and the compliance adviser.

COMPANY SECRETARY

According to Rule 8.17 of the Listing Rules, the issuer must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules.

Rule 3.28 of the Listing Rules requires that a company secretary must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. Note 2 to Rule 3.28 of the Listing Rules further states that in assessing "relevant experience," the Stock Exchange will consider the individual's:

- (i) length of employment with the issuer and other issuers and the roles he played;
- (ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, the Companies Ordinance and the Takeovers Code;
- (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules, which requires the company secretary of an issuer to take no less than 15 hours of relevant professional training in each financial year; and
- (iv) professional qualifications in other jurisdictions.

The Company has appointed Mr. Ma Changhua ("Mr. Ma") and Mr. Law Chun Biu ("Mr. Law") as joint company secretaries of the Company. Mr. Ma joined the Company in July 1996 and has been working with the Company for nearly 20 years. He possesses extensive knowledge about and abundant experience in the business and operation of the Company. However, since Mr. Ma may not possess sufficient relevant experience as required by Rule 3.28 of the Listing Rules, the Company has made following arrangements to enable Mr. Ma to discharge the functions as a joint company secretary of the Company over a period of three years from the Listing Date:

- (i) Mr. Ma will endeavor to attend relevant trainings on the Listing Rules and the relevant Hong Kong laws and regulations, including briefings on the latest

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

amendments to the Hong Kong laws, regulations and the Listing Rules organized by the Company's Hong Kong legal advisers on invitation basis and seminars organized by the Stock Exchange for the issuers from time to time.

- (ii) Mr. Ma will take no less than 15 hours of relevant professional training in each financial year.
- (iii) Mr. Ma will be assisted by (a) the compliance adviser of the Company for the first full financial year from the date of Listing of the Shares of the Company on the Stock Exchange, particularly in relation to Hong Kong corporate governance practices and compliance issues; and (b) the Hong Kong legal advisers of the Company, on matters concerning the Company's on-going compliance with the Listing Rules and the applicable laws and regulations.
- (iv) The Company has engaged the services of Mr. Law, as the joint company secretary, to assist Mr. Ma in discharge of his duties as the joint company secretary for an initial period of three years. Mr. Law is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and therefore, possesses the professional qualifications as required under Rule 3.28 of the Listing Rules to serve as a company secretary. As part of the arrangement, Mr. Law will familiarize himself with the affairs of the Company and will communicate regularly with Mr. Ma on matters relating to corporate governance, the Listing Rules as well as the applicable laws and regulations and other affairs of the Company.
- (v) Mr. Ma, with the assistance of the compliance adviser, the Company's Hong Kong legal advisers and Mr. Law, will facilitate induction and professional development of the Directors.

We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Mr. Ma as our joint company secretary, provided that he shall be assisted by Mr. Law for a period of three years from the date of the Listing. Upon the expiry of the initial period of three years, the situation of Mr. Ma will be re-evaluated by the Stock Exchange and if it can be demonstrated that Mr. Ma has then acquired the relevant experience within the meaning of Rule 3.28 of the Listing Rules, a further waiver would not be necessary.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

APPROVAL OF THE CSRC

The CSRC has given its approval for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange on September 22, 2015. In granting such approval, the CSRC accepts no responsibility for the financial soundness of the Company, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Sole Global Coordinator. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis. The International Underwriting Agreement is expected to be entered into on or about December 8, 2015, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, the Global Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this prospectus.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Restrictions on Offer and Sale of the Offer Shares

Each person acquiring the Hong Kong Offer Shares will be required to, or be deemed by his/her/its acquisition of the Hong Kong Offer Shares to, confirm that he/she/it is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and the related Application Forms.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and the related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for the Hong Kong Offer Shares, see the sections headed “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus and the relevant Application Forms.

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee for the listing of, and permission to deal in, the H Shares, including (i) the Offer Shares; and (ii) any H Shares which may be issued by us pursuant to the exercise of the Over-allotment Option. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on December 16, 2015. Save as disclosed in this prospectus, no part of our share capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H Share Register and Stamp Duty

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on the H Share register to be maintained in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC. Dealings in the H Shares registered on the H Share register will be subject to Hong Kong stamp duty. See “Appendix IV – Taxation and Foreign Exchange” to this prospectus for further details.

Professional Tax Advice Recommended

Applicants for the Hong Kong Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in H Shares. It is emphasized that none of us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective directors, officers, employees, advisers, agents or representatives, nor any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposing of, or dealing in the H Shares or exercising any rights attached to them.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Registration of Subscription, Purchase and Transfer of H Shares

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and senior officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and senior officers, agree with each of our Shareholders to refer all disputes and claims concerning the Company's business on the basis of the rights or obligations provided in the Company Law or other relevant laws and administrative regulations to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive. See "Appendix VI – Summary of Articles of Association" to this prospectus for further details;
- (iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorizes us to enter into a contract on his behalf with each of our Directors and senior officers whereby such Directors and senior officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the sections headed "Structure of the Global Offering – Over-allotment Option" and "Structure of the Global Offering – Stabilization" in this prospectus, respectively.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set forth in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus and in the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the H Shares and the Company complying with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, Renminbi amounts into US dollars and Hong Kong dollars into US dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any Hong Kong dollar or US dollar amounts, or the Hong Kong dollar amounts could actually be converted into any US dollar amounts (as the case may be) at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi into Hong Kong dollars, Renminbi into US dollars and Hong Kong dollars into US dollars have been made at the rate of RMB0.82406 to HK\$1.00, the PBOC Rate prevailing on the Latest Practicable Date, RMB6.3890 to US\$1.00 and HK\$7.7502 to US\$1.00, the noon buying rate in effect on the Latest Practicable Date as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States, respectively. Further information on exchange rates is set forth in “Appendix IV – Taxation and Foreign Exchange” to this prospectus.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of the PRC nationals, entities (including our subsidiaries), departments, facilities, certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name shall prevail.

ROUNDING

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions or hundred millions, certain amounts of less than one hundred, one thousand, ten thousand, one million or a hundred million, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million or hundred million, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth or hundredth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN
THE GLOBAL OFFERING**

DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Ren Yanjun (任延軍)	Room 402, Unit 3, Block 12 Section 44, No. 384, Yangfangwang Jinma Town Kunming City Yunnan Province PRC	Chinese
Ma Yunkun (馬雲昆)	Room 401, Unit 2, Block 12 Section 44, No. 384, Yangfangwang Jinma Town Kunming City Yunnan Province PRC	Chinese
Jiang He (江河)	Room 502, Unit 1, Block 12 Section 44, No. 384, Yangfangwang Jinma Town Kunming City Yunnan Province PRC	Chinese
Yu Yuanlin (余園林)	Room 602, Unit 2, Block 3 Vanke Baisharun Garden Panlong District Kunming City Yunnan Province PRC	Chinese
<i>Non-executive Directors</i>		
Li Xuefu (李學甫)	East Wing of 1 st Floor, Unit 1 Block 38, No. 40, Fuxing Road Haidian District Beijing PRC	Chinese
Wu Zhixu (伍志旭)	Room 1905, Shuncheng Block E No. 9, Chongren Street Wuhua District Kunming City Yunnan Province PRC	Chinese

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN
THE GLOBAL OFFERING**

Name	Residential Address	Nationality
<i>Independent non-executive Directors</i>		
Sun Linfu (孫林夫)	Block 8, No. 13 Qunxing Road Jinniu District Chengdu City Sichuan Province PRC	Chinese
Yu Jiahe (于家和)	Room 4, Unit 3, No. 601 Building, Jinsong 6 th Estate Chaoyang District Beijing PRC	Chinese
Wong Hin Wing (黃顯榮)	Room D, 13 th Floor No. 1, Homantin Hill Homantin Hill Road Kowloon Hong Kong	Chinese (Hong Kong)
SUPERVISORS		
Lyu Jianming (呂檢明)	Room 301, Unit 2, Block 15 Camellia Garden, Beichen Estate Beichen Middle Road Panlong District Kunming City Yunnan Province PRC	Chinese
Zhang Zhumin (張主民)	No. 1 Northern Yinhe Road Beilun Town Beichen District Tianjin PRC	Chinese
Wang Huaming (王華明)	Basement level, No. 10 Sanjiaoxian Road Yaohai District Hefei City Anhui Province PRC	Chinese

For further information, see “Directors, Supervisors and Senior Management.”

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN
THE GLOBAL OFFERING**

PARTIES INVOLVED

Sole Sponsor

CITIC CLSA Capital Markets Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Sole Global Coordinator

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Joint Bookrunners and Joint Lead Managers

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

China International Capital Corporation Hong Kong
Securities Limited
29th Floor
One International Finance Center
1 Harbour View Street
Central
Hong Kong

Reporting Accountants and Independent Auditor

Certified Public Accountants
Ernst & Young
22/F, Citic Tower
1 Tim Mei Avenue
Central
Hong Kong

Industry Consultant

China Insights Consultancy Limited
Room 1203, Shanghai International Group Building
511 Weihai Road
Jing'an District
Shanghai, PRC

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN
THE GLOBAL OFFERING**

Legal Advisers to the Company

as to Hong Kong law

Baker & McKenzie
14th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

as to PRC law

Jia Yuan Law Offices
F408, Ocean Plaza
158 Fuxing Men Nei Street
Xicheng District
Beijing, China

**Legal Advisers to the Sole Sponsor and the
Underwriter(s)**

as to Hong Kong law

Clifford Chance
27/F, Jardine House
One Connaught Place
Central
Hong Kong

as to PRC law

Guantao Law Firm
17th Floor, Tower 2
Yingtai Center
28 Financial Street
Xicheng District
Beijing
PRC

Property Valuer

Jones Lang LaSalle Corporate Appraisal and Advisory
Limited
6/F, Three Pacific Place
1 Queen's Road East
Hong Kong

Receiving Bank

Bank of Communications Co., Ltd. Hong Kong Branch
20 Pedder Street
Central
Hong Kong

CORPORATE INFORMATION

Registered Office	No. 384, Yangfangwang Jinma Town Kunming City Yunnan Province PRC
Head Office in the PRC	No. 384, Yangfangwang Jinma Town Kunming City Yunnan Province PRC
Principal Place of Business in Hong Kong	23/F, Railway Plaza 39 Chatham Road South Tsim Sha Tsui Kowloon Hong Kong
Company's Website	www.crcce.com.cn <i>(This website and the information contained on this website do not form part of this prospectus)</i>
Joint Company Secretaries	Ma Changhua (馬昌華) Room 501, Unit 2, Block 20 Camellia Garden, Beichen Estate Beichen Middle Road Panlong District Kunming City Yunnan Province PRC Law Chun Bui (羅振彪) <i>a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants</i> Room A, 23/F, Railway Plaza 39 Chatham Road South Tsim Sha Tsui Kowloon Hong Kong
Authorized Representatives	Yu Yuanlin (余園林) Room 602, Unit 2, Block 3 Vanke Baisharun Garden Panlong District Kunming City Yunnan Province PRC Law Chun Bui (羅振彪) Room A, 23/F, Railway Plaza 39 Chatham Road South Tsim Sha Tsui Kowloon Hong Kong

CORPORATE INFORMATION

Strategy and Investment Committee	Ren Yanjun (任延軍) (<i>Chairman</i>) Sun Linfu (孫林夫) Yu Jiahe (于家和)
Audit and Risk Management Committee	Yu Jiahe (于家和) (<i>Chairman</i>) Wong Hin Wing (黃顯榮) Sun Linfu (孫林夫)
Nomination Committee	Ren Yanjun (任延軍) (<i>Chairman</i>) Sun Linfu (孫林夫) Yu Jiahe (于家和)
Remuneration and Assessment Committee	Yu Jiahe (于家和) (<i>Chairman</i>) Ren Yanjun (任延軍) Sun Linfu (孫林夫)
Compliance Adviser	Alliance Capital Partners Limited Room 318, Shui On Centre 6-8 Harbour Road Wan Chai, Hong Kong
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal Bankers	Industrial & Commercial Bank of China Ltd. Kunming Huguo Sub-branch No. 10, Huguo Road, Kunming City Yunnan Province, PRC Bank of Communications Co., Ltd. Kunming Zhengyi Sub-branch No. 166, Renmin Middle Road Wuhua District, Kunming City Yunnan Province, PRC Bank of China Kunming North Railway Station Sub-branch No. 759, Beijing Road, Kunming City Yunnan Province, PRC China Construction Bank Corporation Kunming Guandu Sub-branch No. 1220, Guomao Road Guandu District, Kunming City Yunnan Province, PRC China CITIC Bank Corporation Limited Kunming Baita Road Sub-branch No. 115, Renmin East Road Panlong District, Kunming City Yunnan Province, PRC

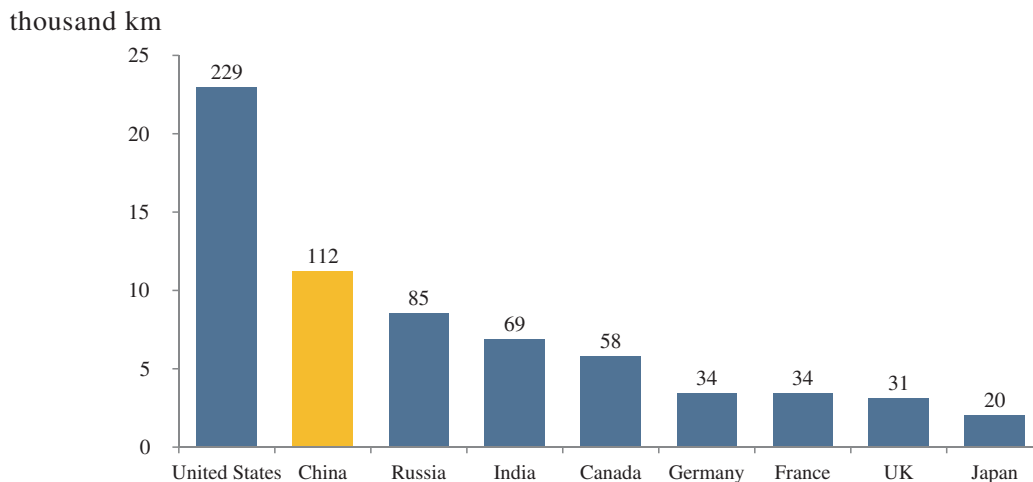
INDUSTRY OVERVIEW

Unless otherwise indicated, the information presented in this section is derived from various official government publications and other publications and from the industry report prepared by China Insights Consultancy (“**CIC Report**”), which was commissioned by us. We believe that the sources of such information are appropriate and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of our or their respective directors, officers, representatives or any other persons involved in the Global Offering, and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon. Such information and statistics may not be consistent with other information and statistics compiled within or outside the PRC.

OVERVIEW OF GLOBAL RAILWAY TRANSPORT NETWORK AND LARGE RAILWAY TRACK MAINTENANCE MACHINERY INDUSTRY

Global Railway Transport Network

As of December 31, 2014, the total operation mileage of the world’s railways amounted to approximately 1.2 million km. The chart below sets forth the operation mileage of railways of major countries as of December 31, 2014.



Source: World Bank, China Railway Corporation, NBSC, China Insights Consultancy

High-speed railway is a type of railway transport system that operates at a designed operating speed not less than 250 km/h and an initial operating speed not less than 200 km/h. As of December 31, 2014, China had the longest high-speed railway transport network in the world, with an operation mileage of 16,000 km.

INDUSTRY OVERVIEW

Global Large Railway Track Maintenance Machinery Industry

The large railway track maintenance machinery that is used to construct new railways, repair existing railways and maintain operating railways generally includes: (i) tamping machine series; (ii) stabilization machine series; (iii) ballast cleaning machine series; (iv) ballast regulator series; (v) materials logistics machine series; (vi) rail processing machine series; and (vii) other machinery, such as overhead contact line integrated operating machines, track snow removers, railway ballast suction-type sewer scavenger and track operation measuring machines.

The global large railway track maintenance machinery market is relatively concentrated, including major companies such as Plasser & Theurer, the Company, Loram, Harsco, and Speno. In 2014, in terms of sales revenue, Plasser & Theurer ranked No.1 in the world, while the Company ranked No.1 in Asia and only second to Plasser & Theurer in the global market. The following table sets forth the top five large railway track maintenance machinery companies worldwide in terms of sales revenue in 2014:

<u>Company Name</u>	<u>Ranking</u>	<u>Location of headquarters</u>	<u>Revenue (US\$ million)</u>	<u>Market share (%)</u>
Plasser & Theurer	1	Austria	610	24.1
The Company	2	China	570	22.6
Loram	3	United States	330	13.1
Harsco	4	United States	280	11.1
Speno	5	Switzerland	170	6.7
Others	—	—	566	22.4
Total	—	—	2,526	100.0

Source: Annual reports and websites of the relevant companies, China Insights Consultancy

According to the CIC report, the Company is the only company with operations that cover the entire industry value chain of the large railway track maintenance machinery industry, from design and R&D to manufacturing, sales and marketing of machinery, to provision of after-sales service, overhaul services, railway line maintenance services, operator training and other services that cover the entire life-cycle of its products.

PRC RAILWAY TRANSPORT NETWORK AND LARGE RAILWAY TRACK MAINTENANCE MACHINERY INDUSTRY

PRC Railway Transport Network

China's railways feature high operating speed, short interval and heavy-haul usage. Since 2008, China has successively developed a series of high-speed railways, such as the Beijing-Shanghai Railway and the Beijing-Tianjin Railway, with a design speed of 350 km/h and train interval time as short as four minutes. In addition, the tonnage for freight transportation has increased significantly, with certain railway sectors reaching 6,500 tonnes. Accordingly, to safeguard the safety and efficiency of railway transportation, the PRC railway

INDUSTRY OVERVIEW

system requires advanced railway maintenance technologies and high-quality standards. China's railways have been following the technical principles as "advance, maturity, economy, practicability and reliability."

CRC's Involvement in the PRC Railway Transport Network and Large Railway Track Maintenance Machinery Industry

CRC was established in 2013 upon the restructuring conducted by the MOR in accordance with "State Council Institutional Reform and Transformation of Government Functions" (《國務院機構改革和職能轉變方案》) to segregate the MOR's administrative and enterprise functions. CRC assumes the enterprise responsibilities of the MOR, which include controlling the unified dispatch of railway transport, operating the business of transportation of passenger and cargo by railway, undertaking specified transport and special transport tasks, constructing railways and assuming principal responsibility for the safety of production operations in the railway industry. The NRA assumes the administrative responsibilities of the MOR, undertaking various responsibilities including the supervision and management of the safety of railway transport, the safety and quality of railway engineering projects and the safety and quality of railway transport equipment and products.

In respect of large railway track maintenance machinery industry, CRC is responsible for formulating the relevant industry standards, as well as specific procurement plans, while the relevant railway bureaus under CRC also participate to a certain extent in the purchase, operation, and overhaul of large railway track maintenance machines. Accordingly, the policies and instructions of CRC will directly affect various aspects of the large railway track maintenance machinery industry, including the technology requirements, supply and demand and the regulations governing the conduct of overhaul of large railway track maintenance machinery.

Main Categories of the PRC Large Railway Track Maintenance Machinery

Large railway track maintenance machinery is a high-tech product that integrates mechanical, electric, hydraulic, pneumatic, computer and automation technologies, and provides specialized functions that can meet railway track maintenance specifications and standards. Large railway track maintenance machinery principally comprises the following parts: power transmission system, walking system, electric system, hydraulic system and working system.

Currently, the key product series of machines available in the PRC large railway track maintenance machinery market are tamping machine series, stabilization machine series, ballast cleaning machine series, ballast regulator series, materials logistics machine series, rail processing machine series and other machinery. These machines are applied towards normal-speed railways, fast-speed railways, high-speed railways and urban rail transit.

Development of the PRC Large Railway Track Maintenance Machinery Industry

The PRC railway track maintenance machinery industry experienced three stages of historical development, from mainly relying on manual labor, to importing large railway track

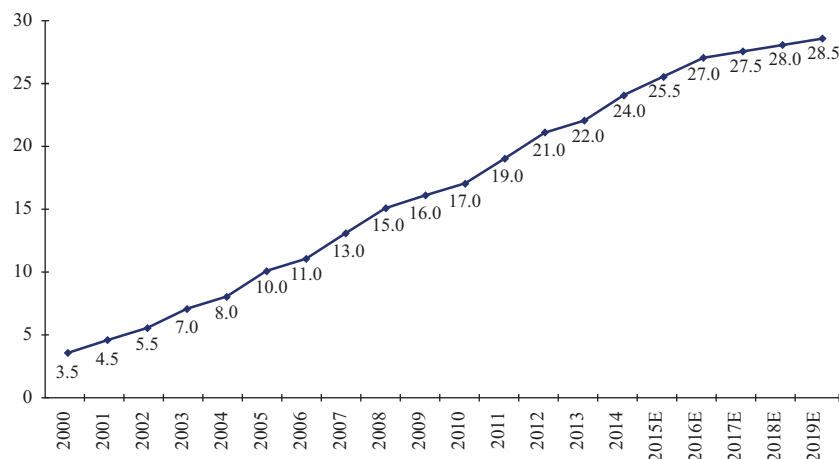
INDUSTRY OVERVIEW

maintenance machinery from overseas, and further to domestic self-development and manufacturing of large railway track maintenance machinery.

- From 1949 to 1990, railway track maintenance was mainly conducted by manual labor. With the rapid development of the PRC railway transport network from 1980 to 1990, such method was not able to meet the demands of mechanized maintenance construction work.
- From 1990 to 2000, the railway track maintenance machinery industry entered the stage of importing large railway track maintenance machinery from overseas. In addition, MOR appointed the Company as the designated large railway track maintenance machinery manufacturing enterprise.
- From 2000 to the present, the large railway track maintenance machinery industry entered into the stage of assimilating advanced technology and making further innovations. Meanwhile, the PRC manufacturers and research institutions strengthened their cooperation and developed machines with high quality and functions specifically suitable to the PRC railway transport industry.

The following chart sets forth the installed unit per thousand km operation mileage of railway of large railway track maintenance machines in China from 2000 to 2019 (estimated):

Unit per thousand km



Source: CRC, China Insights Consultancy

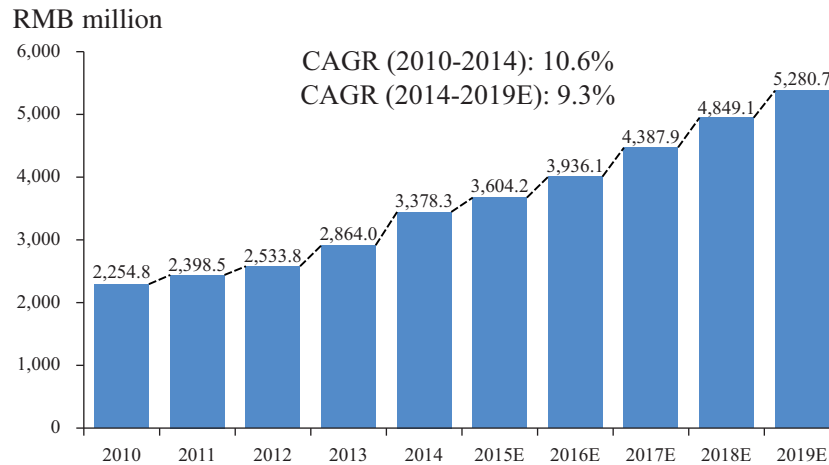
Note: The railway operation mileage above includes national and local railways in China.

PRC Large Railway Track Maintenance Machinery Market

With the development of the PRC railway industry and large railway track maintenance machinery industry, China is implementing a modernization strategy of the facilities and equipment for its railway transport network, accelerating the upgrade and the development of the PRC large railway track maintenance machinery market.

INDUSTRY OVERVIEW

The following chart sets forth the market size of the PRC large railway track maintenance machinery industry from 2010 to 2019 (estimated):



Source: China Insights Consultancy

Note: Market size refers to the sum of the annual sales revenue of the PRC large railway track maintenance machinery companies.

The forecast growth in the market size of the PRC large railway track maintenance machinery industry shown in the chart above is based on the following assumptions:

- the railway operation mileage in China is expected to increase from 112,000 km in 2014 to 155,000 km in 2019. It is expected that investment in fixed assets in the PRC railway industry would reach approximately RMB3.9 trillion during the five years ending December 31, 2019;
- the operation mileage of urban rail transit in China is expected to increase from 3,173 km in 2014 to approximately 7,295 km in 2020;
- the average useful life of large railway track maintenance machinery is approximately 20 to 26 years, and such machines are scrapped and replaced at the end of their useful lives;
- large railway track maintenance machinery is expected to be increasingly utilized, as the mileage of railway lines with high traffic volume is expected to increase. Such a development is expected to increase the number of large railway track maintenance machines in operation per kilometer of railway operation mileage in China; and
- the possible increase in the construction of overseas railway projects⁽¹⁾ capitalizing on the PRC government's "One Belt, One Road" initiative.

(1) The application of large railway track maintenance machines in the construction of a new railway line typically involves two stages, namely, the preliminary calibration stage where the new railway line has been constructed to satisfy the basic operational requirements for the railway line, including meeting the basic specifications relating to railway track width, track alignment to ensure the railway line is able to support line speeds of at least 80km/h, and the precision calibration stage where the precision of the new railway line has been further improved to satisfy the prescribed operating conditions. Operating groups of large railway track maintenance machines are applied at both stages to ensure the smooth construction and quality of the new railway lines. In accordance with the relevant regulations of competent authorities, for all construction of new railway lines, railway line maintenance (including tamping, formation and rehabilitation) must be conducted before the inspection and acceptance of such railway lines.

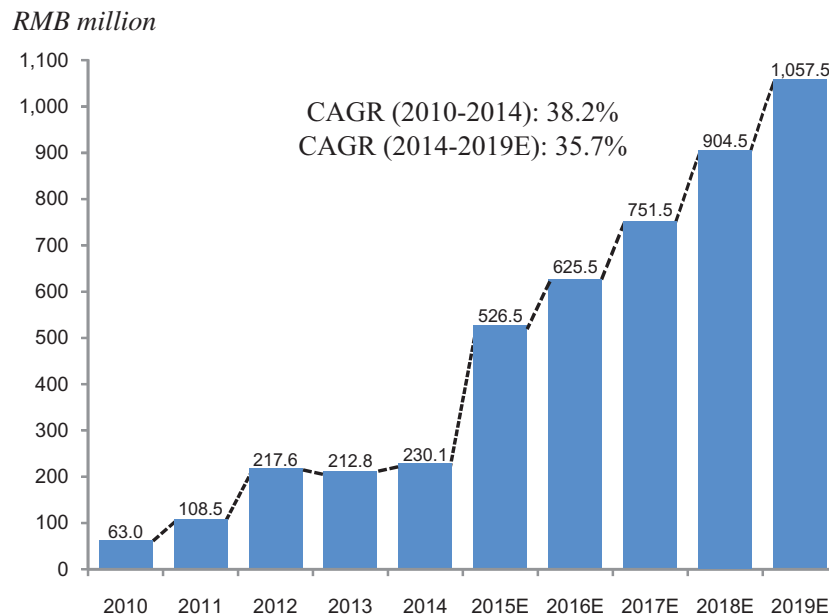
INDUSTRY OVERVIEW

PRC Large Railway Track Maintenance Machinery Overhaul Service Market

Based on the data from CRC and the estimates of China Insights Consultancy, the total installed units of large railway track maintenance machinery in China reached approximately 2,700 units as of December 31, 2014, of which approximately 2,500 units are owned by CRC and its affiliated enterprises. According to the relevant regulations enacted in 2014, the large railway track maintenance machinery is due for overhaul after 10 to 13 years of service, or after completing a certain workload amount.

According to the CIC Report, in the next five years, around 1,300 units of large railway track maintenance machines sold from 2000 to 2010 would have reached the above-mentioned limits of working life or workload amount, and require overhaul services, which is expected to bring in approximately RMB3.5 billion to RMB4.0 billion potential revenue for the PRC large railway track maintenance machinery overhaul services market from 2015 to 2019. In addition, according to the CIC Report, the overhaul service of large railway track maintenance machinery is typically provided by the original machine manufacturers. Therefore, company with significant sales volume would also be expected to dominate the overhaul services market.

The following chart sets forth the market size of overhaul services for the PRC large railway track maintenance machinery from 2010 to 2019 (estimated):



Source: China Insights Consultancy

The estimate was made in consideration of a) the prescribed conditions for one large railway track maintenance machine to be due for overhaul in consideration of its useful life and the workload and b) the number of machines sold from 2000 to 2010.

INDUSTRY OVERVIEW

PRC Railway Line Maintenance Services Market

In China, the operation, management and maintenance of the railway line are primarily conducted by CRC and its affiliated enterprises. This is significantly different from the operating model adopted in most developed countries in Europe and the United States, where operation and management are separated and all of the maintenance and repair functions are performed by independent professional contractors. Such a model facilitates the improvement of railway maintenance quality and the development of railway maintenance technologies, and it is expected that the PRC railway line maintenance industry would gradually adopt such a model.

Drivers for the PRC Large Railway Track Maintenance Machinery Industry

Development of the PRC Railway Industry

Based on the 12th Five-Year Plan on the Development of China Railway Industry (《國家鐵路「十二五」發展規劃》) issued by MOR in May 2012, China has experienced a significant increase in railway operation mileage, from approximately 91,000 km in 2010 to approximately 112,000 km in 2014, and is expected to reach approximately 120,000 km by 2015, and approximately 155,000 km by 2019. In particular, the operation mileage of high-speed railways in China increased from approximately 700 km in 2008 to approximately 16,000 km in 2014, and is expected to reach approximately 18,000 km by 2015. China's existing railway network, as well as newly-constructed railways, is expected to bring strong demand for the large railway track maintenance machinery industry.

In addition, the PRC government has issued a number of policies and measures regarding ongoing reforms, investment and financing and construction on the railway industry, such as establishing a railway development fund to attract capital and explore capital resources for railway construction, issuing innovative and diverse railway construction bonds, and implementing preferential income tax policies regarding investment income from railway bonds.

Development of the Urban Rail Transit Industry and Ballastless Tracks

The PRC urban rail transit system is believed to have substantial growth potential. The PRC government has been investing significantly in the urban rail transit system since 2006. During the period of the 11th Five-Year Plan (2006-2010), the total nationwide investment in the urban rail transit system amounted to approximately RMB500.0 billion. During the period of the 12th Five-Year Plan (2011-2015), the Chinese government plans to invest approximately RMB1,200 billion in the urban rail transit system, which is more than twice the amount invested under the 11th Five-Year Plan. The operation mileage of urban rail transit systems in China has grown from approximately 621 km in 2006 to approximately 3,173 km in 2014. According to the China Association of Metros, there were 22 cities with urban rail transit operations in the PRC, reaching an operation mileage of approximately 3,173 km at the end of 2014. According to the China Association of Metros, it is expected that the construction of urban rail transit systems will continue to grow rapidly in the future. According to the CIC Report, by 2020, total mileage of urban rail transit systems is expected to reach approximately 7,295 km, with approximately 6,891 km being light rail and metros; and by 2050, the total

INDUSTRY OVERVIEW

mileage of urban rail transit systems is expected to reach approximately 11,700 km, with approximately 10,886 km being light rail and metros. As of December 31, 2014, the total operation mileage of the world's urban rail transit systems amounted to approximately 14,000 km and the operation mileage of the world's urban rail transit systems is also expected to grow and develop to varying degrees.

The increase in the operation mileage in railways and urban transit systems is expected to generate substantial demand for the large railway track maintenance machinery market.

Ballastless track technology is widely used in high-speed railways globally. According to the International Union of Railways (UIC), an international rail transport industry body based in France, the advantages of ballastless tracks include enabling high-speed, high carriage capacity, smooth and stable railway operations, long service life and durability and low maintenance requirements. As of December 31, 2014, the global operation mileage of high-speed railways reached 42,700 km, of which ballastless tracks accounted for 25,200 km. As of December 31, 2014, the operation mileage of high-speed railways in China amounted to approximately 16,000 km, of which ballastless tracks accounted for approximately 11,000 km. Other major countries and areas including Europe, Japan and the United States adopt ballast track and ballastless track technology for their high speed railways.

Development of the PRC High-end Equipment Manufacturing Industry

Large railway track maintenance machinery is classified as railway transport equipment, and this industry is one of the high-end equipment manufacturing industries.

According to the *Decision of the State Council on Accelerating the Fostering and Development of Strategic Emerging Industries* (《國務院關於加快培育和發展戰略性新興產業的決定》) issued by the State Council in October 2010, the high-end equipment manufacturing industry is considered as one of the “pillar industries” of the PRC national economy and is one of the seven strategic emerging industries in China.

According to the *12th Five-Year Plan on the Development of the High-end Equipment Manufacturing Industry* (《高端裝備製造業「十二五」發展規劃》) issued by the MIIT in 2012, the high-end equipment manufacturing industry is expected to grow at a CAGR of up to 20% by 2020. The plan also stated that the large railway track maintenance machinery industry needs to make breakthroughs in key railway track maintenance machinery technologies, to improve performance and efficiency and to deliver environmentally friendly operations.

According to the *Made in China 2025* (《中國製造2025》) issued by the State Council in 2015, China plans to speed up the transformation and upgrade of its manufacturing industry by focusing on high-end equipment, including advanced railway transport equipment. The upgrade of the PRC manufacturing industry is expected to provide a favorable environment for the development of large railway track maintenance machinery industry.

INDUSTRY OVERVIEW

Overseas Expansion of the PRC Railway Industry

The PRC government has been encouraging the overseas expansion of the PRC railway industry. In 2013, China advocated the “One Belt, One Road” initiative to strengthen the policy communications among countries along the “Belt and Road,” expand infrastructure cooperation (primarily in the transportation infrastructure and energy industries) and increase trade. Railway is the core infrastructure of this strategic proposition.

For high-speed railways, the PRC government has been proactively promoting the “High-speed Railway Going-out” strategy and has started cooperation or negotiations with at least 20 countries, including Brazil, Cambodia, India, Iran, Laos, Libya, Malaysia, Mexico, Myanmar, Poland, Romania, Russia, Saudi Arabia, Singapore, Thailand, Turkey, the UK, the United States, Venezuela and Vietnam.

The table below sets forth the potential overseas high-speed railway projects under the “One Belt, One Road” initiative from 2015 to 2030 as estimated.

Project Name	Estimated Mileage (km)
Eurasian High-speed Railway (passing countries and regions such as Mongolia, Russia, Eastern Europe and Germany)	12,000
Central Asian High-speed Railway (passing countries and regions such as Central Asia, Iran, Turkey and Germany)	8,000
Trans-Asian High-speed Railway (passing countries and regions such as Cambodia, Thailand, Malaysia and Singapore)	4,000
China-Russia-Canada-United States High-speed Railway (passing countries and regions such as Siberia, Alaska, Canada, and the United States)	12,000
Total	36,000

Source: China Insights Consultancy

Among the above-mentioned railways, according to the CIC Report, the railway construction work for the Trans-Asian High-speed Railway is likely to proceed under the “One Belt, One Road” initiative, with Kunming, Yunan taking a vital position in the construction plan. The construction of the Trans-Asian High-Speed Railway is expected to boost the development of Kunming’s railway and railway equipment industries, and improve Kunming’s position in the Asia-Pacific railway industry.

The need for large railway track maintenance machinery during the construction of overseas railway projects and the strong demand for railway maintenance after the completion of such railways will foster the development of the PRC large railway track maintenance machinery industry. According to the CIC Report, the demand from the overseas markets is expected to generate revenue of approximately RMB2.5 billion to RMB3.0 billion in aggregate for the PRC large railway track maintenance machinery industry over the next 10 years. Regions such as Southeast Asia, Africa, Central Asia, Western Asia and Eastern Europe, with underdeveloped large railway track maintenance machinery industries, are expected to be the key target markets for export of large railway track maintenance machinery under the “One Belt, One Road” initiative.

INDUSTRY OVERVIEW

Competitive Landscape of the PRC Large Railway Track Maintenance Machinery Industry

Major Market Participants and Their Respective Market Share

As of December 31, 2014, there were a total of approximately 2,700 units of large railway track maintenance machines in operation in the PRC railway industry and urban rail transit system, according to the CIC Report. From 1989 to 2014, the Company manufactured and sold around 2,200 units of large railway track maintenance machines in aggregate, amounting to 81.5% of the total number of such machines in the PRC as of December 31, 2014, ranking No.1 in the PRC.

In addition, according to the CIC Report, in terms of sales volume, the Company represented approximately 83.5%, 82.0% and 83.1% in 2012, 2013 and 2014, respectively, of the total sales volume of large railway track maintenance machines in the PRC, making the Company the largest large railway track maintenance machinery manufacturer and service provider in China as of December 31, 2014.

The following table sets forth the ranking of Chinese large railway track maintenance machinery companies in terms of sales volume indicated:

Company Name	2012		2013		2014	
	Sales		Sales		Sales	
	Volume (Unit)	Ranking	Volume (Unit)	Ranking	Volume (Unit)	Ranking
The Company	223	1	233	1	250	1
Gemac Engineering Machinery Co., Ltd.	35	2	40	2	40	2
Beijing Feb. 7 th Railway Transportation Equipment Co., Ltd.	7	3	8	3	8	3
Baoji CSR Times Engineering Machinery Co., Ltd. . .	2	4	3	4	3	4
Total	267		284		301	

Source: China Insights Consultancy

Note: Sales volume includes domestic sales and exports.

INDUSTRY OVERVIEW

Market competition of the PRC large railway track maintenance machinery market

The entry barriers for the large railway track maintenance machinery industry in the PRC are high. The PRC large railway track maintenance machinery enterprises mainly compete in the following aspects:

Qualification	The PRC large railway track maintenance machinery industry imposes strict requirements on the entrance qualification and manufacturing and overhaul licensing of the enterprises. Each company must obtain a series of professional administrative permits from NRA before being entitled to commence mass production and sell each type of product and provide overhaul services.
Technical Capability	Large railway track maintenance machinery integrates a wide range of technologies and services, such as cutting-edge electromechanical R&D and design, large-sized machinery manufacturing, intelligent automation, high-end equipment processing, assembly, debugging and after-sales services.
Production Quality	Large railway track maintenance machinery is used to safeguard the operational safety of railway transportation. Manufacturers are obliged to ensure the quality of their products by strictly controlling the manufacturing process, otherwise the manufacturers will run the risk of license suspension.
Human resources	Large railway track maintenance machinery manufacturing covers multiple disciplines. It requires the effective cooperation of specialists in technical processing, mechanics, automation, computer technologies and business administration.
Quick response and support capability	There are strict requirements on the performance, safety and reliability of the large railway track maintenance machinery. In the event of equipment malfunction, suppliers must be able to respond quickly and resolve the problem remotely or onsite.
Capital base	The capital needs for R&D, production and raw materials preparation in the large railway track maintenance machinery manufacturing industry are significant.

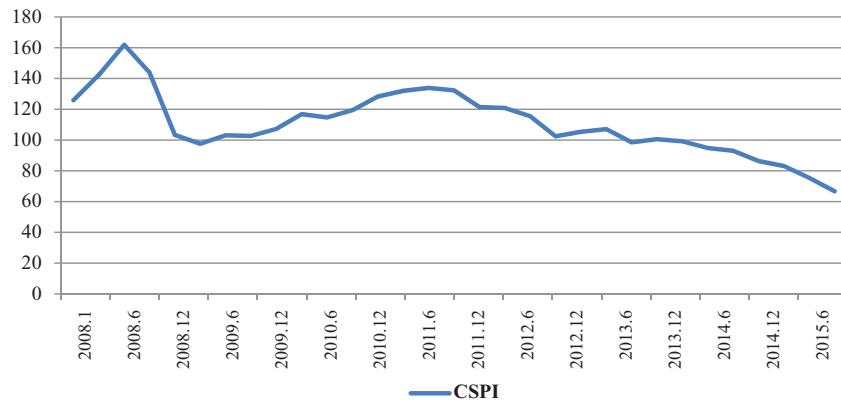
Market price trend of major raw materials

The major raw material used in the manufacture of large railway track maintenance machinery is steel.

According to the steel price from the CISA, steel prices have experienced sharp fluctuations in China since 2008. CSPI peaked at 161.9 in mid-2008, but dropped to 97.5 by the end of March 2009. Subsequently, the CSPI increased gradually to reach another peak at 133.8 by mid-2011 before falling gradually to 66.7 by the end of June 2015.

INDUSTRY OVERVIEW

CSPI, January 2008 to June 2015



Source: CISA

SOURCE OF INFORMATION

We commissioned China Insights Consultancy, an independent consulting firm, to conduct an analysis of, and to report on, the global and PRC large railway track maintenance machinery industry.

Investors should note that China Insights Consultancy was engaged to prepare the large railway track maintenance machinery industry report for use in this prospectus.

Certain information and data presented in this section was provided by China Insights Consultancy. China Insights Consultancy has advised that the statistical and graphical information contained herein is drawn from its database and other sources. In connection therewith, China Insights Consultancy has advised that:

- all the information about the Company is sourced from the Company's audited financial reports or management interviews; while China Insights Consultancy has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures;
- all statistics are reliable and are based on information available as of the date of this report; other sources of information, including government, industry associations or market participants, may have provided some of the information on which the analysis or data is based; and
- this section also contains forward-looking statements which are based on assumptions and current expected market dynamics; the actual figures may vary as the market dynamics are ever changing; China Insights Consultancy cannot be held liable for the realization of its forecasts.

The Company is expected to pay an aggregate amount of RMB550,000 to China Insights Consultancy for the preparation and updating of this report. The Directors confirm that after taking reasonable care, there has been no adverse change in the market information since the date of the report prepared by China Insights Consultancy, which may qualify, contradict or have an impact on the information set forth in this section.

REGULATORY ENVIRONMENT

REGULATORY FRAMEWORK

Most of the Company's core businesses, including manufacturing and sales of machines, parts and components sales and services, overhaul services and railway line maintenance services, are governed by relevant national laws, regulations, and policies, and regulated by the government. The foregoing laws, regulations and policies specify the investment, manufacture, sales, maintenance and other related categories. In addition, all the businesses of the Company operated in China are governed by the laws and regulations on taxation, safety and environmental protection.

Major Regulators

- The State Council of the People's Republic of China, as the highest-ranking administrative organization in China, is responsible for the review and approval of several specific industries and development projects listed in the "Encouraged" category of *Guiding Catalog for Industrial Structure Adjustment*.
- The National Development and Reform Commission is responsible for the formulation and implementation of major policies on China's economic and social development; review and approval of investment projects exceeding a certain capital amount or attributed to special industry sector (including review and approval of foreign investment projects); supervision of the reform of state-owned enterprises; and formulation of industry policy and investment guidelines for all industries, including the railway industry.
- The Ministry of Transport of the People's Republic of China is responsible for the planning and development of the comprehensive transport system consisting of railways, highways, waterways and civil aviation.
- The Ministry of Environmental Protection of the People's Republic of China (formerly known as the State Environmental Protection Administration) is responsible for the supervision and control of environmental protection, and monitoring of the environmental systems throughout the country.
- The State-owned Asset Supervision and Administration Commission of the State Council directly regulates state-owned enterprises such as China Railway Construction Corporation Limited – the actual controller of the Company. For this reason, the State-owned Asset Supervision and Administration Commission of the State Council shall also have an impact on the Company's business.
- The National Railway Administration of the People's Republic of China is responsible for drafting the laws, regulations and rules of railway supervision and management, participating in research on the development planning of railway policy reform and structural reform, organizing the preparation of and supervising the implementation of railway technical standards. The Administration is additionally responsible for the supervision and management of railway safety in production, formulation and implementation of the supervision and management measures for railway transportation safety, engineering quality and safety, and equipment quality and safety, and the implementation of the administrative license established in accordance with the law.

REGULATORY ENVIRONMENT

Main Regulations in Connection with the Research, Development, Manufacture and Repair of Large Railway Track Maintenance Machinery

In accordance with the *Railway Law of the People's Republic of China* promulgated by the Standing Committee of the National People's Congress on September 7, 1990 and revised on August 27, 2009 and April 24, 2015, the competent railway departments under the State Council shall be in charge of the railway work nationwide, implementation of the highly centralized transportation management system with unified command on national railways, and formulation of the technical management specification for national railways.

In accordance with the *Regulation on Administration of Railway Safety* promulgated by the State Council on August 17, 2013 and enforced on January 1, 2014, the design, manufacture and maintenance of new railway vehicles shall meet the national and industrial standards and are separately subject to the type certificate, manufacturing license, maintenance permit or import license issued by the railway supervisory and administrative departments under the State Council as being applied. The specific measures will be formulated by the railway supervisory and administrative departments under the State Council. The units engaged in the manufacture, maintenance, and use of railway vehicles shall abide by the laws, administrative rules and regulations in connection with product quality and other relevant national regulations to ensure that the locomotives and vehicles in use satisfy the requirement of safe operation.

In accordance with the *Measures for License for Design, Manufacture, Maintenance and Import of Railway Locomotives and Vehicles* promulgated by the Ministry of Transport of the People's Republic of China on December 24, 2013 and enforced since January 1, 2014, as well as the *Rules for the Implementation of License for Design, Manufacture, Maintenance and Import of Railway Locomotives and Vehicles* promulgated and enforced by the National Railway Administration of the People's Republic of China on April 3, 2014, the design, manufacture, maintenance or import of new railway locomotives and vehicles refer to the railway locomotives, CRH trains, passenger or freight trains or other mobile devices directly undertaking the public transport and tests check of railway, as well as the rail cars, wreck cranes, rail layer, bridge erecting machine (set), catenary operation vehicle, large machinery for maintenance of railway and other self-movement special equipment running on railway and undertaking the construction, maintenance, rescue and other operations. The catalog for licensed locomotives and vehicles will be formulated, adjusted and promulgated by the National Railway Administration of the People's Republic of China and shall be separately subject to the type certificate, manufacturing license, maintenance permit or import license issued by the National Railway Administration of the People's Republic of China. To design the new railway locomotives and vehicles, the design enterprise shall obtain the type certificate. For products with the type certificate, the manufacturing enterprise shall obtain the manufacturing license before mass production. The maintenance enterprise that is engaged in the overall performance recovery and repair of railway locomotives and vehicles shall obtain the maintenance permit before putting the repaired prototype into operation. To import the new railway locomotives and vehicles, the domestic enterprise shall obtain the import license before putting the imported railway locomotives and vehicles into operation.

In accordance with the *Measures for Examination and Approval of Railway Transport Infrastructure Manufacture* and *Regulation on Administration of Railway Safety* promulgated by the Ministry of Transport on December 24, 2013 and enforced on January 1, 2014, the

REGULATORY ENVIRONMENT

manufacturers of rail traffic equipment and other railway equipment that fail to recall defective products or eliminate defects shall rectify defects under the instruction of the National Railway Administration of the People's Republic of China. Manufacturers that reject the rectification will be penalized with more than 1% and less than 5% of the defective product value, or with more than 5% and less than 10% of the defective product value for resulting railway traffic accidents. In the event of serious circumstances, the corresponding certificates of the manufacturer will be revoked.

According to the requirements under the *Railway Law of the People's Republic of China* published on September 7, 1990 and modified on August 27, 2009 and April 24, 2015 by Standing Committee of the National People's Congress, *Regulations on Administration of Railway Safety* published on August 17, 2013 and entered into effect on January 1, 2014 by the State Council and *Administration Measures of the Safe Operation of Joint Venture Railways and Local Railways* published and implemented by the former MOR on October 1, 2000, railway transportation enterprises must enhance their administration and maintenance of railroads, conduct regular inspection and maintenance of railway transportation facilities to ensure that they are in good condition and guarantee the safety of passengers and cargo. Railroad bridges are regularly inspected and jointly maintained by the local railway transportation enterprises and road administration departments or road operation enterprises to ensure that the bridges are in safe technological condition. Joint and local railway enterprises should develop road safety management systems and establish specialized road safety supervisory bodies. Joint and local railway enterprises should regularly analyze and research the road safety works and timely handle problems regarding road safety works. Joint and local railway enterprises should enhance the administration of railway equipment and facilities, and conduct regular inspection and maintenance in accordance with the maintenance rules of the equipment, to ensure that they are in good technological condition.

According to the requirements under the *Measures for Operation Management of Urban Rail Transit* published on June 28, 2005 and implemented on August 1, 2005 by the Ministry of Construction, the construction department of the State Council is responsible for the supervision and administration of nationwide urban transportation while the urban rail transit operation company is responsible for the management and maintenance of urban railway transportation facilities. The company should also perform regular maintenance, inspection on civil engineering, vehicles and operation equipment, as well as timely repair and upgrades to ensure its safety. The maintenance and repair records should be kept until the expiration of the useful life of equipment for civil engineering, vehicles and operation equipment.

According to the *Regulation on Licensing the Design, Manufacture, Maintenance and Import of Railway Locomotives and Rolling Stock* published on December 16, 2013 and implemented on January 1, 2014 by the Ministry of Transport of the PRC and the *Implementing Rules of Licensing the Design, Manufacture, Maintenance and Import of Railway Locomotives and Rolling Stock* published on April 4, 2014, each company obtaining a product type certificate needs to meet the requirements in connection with, among others, (i) minimum design management experiences of its senior management; (ii) minimum number of senior and mid-level technicians; (iii) design and development capabilities; (iv) passing the type test of key components and sample product; (v) passing the application test and disassembly inspection of the sample products; and (vi) complying with the relevant laws and regulations on the special equipment, if applicable. Each company obtaining a manufacturing permit needs to meet the requirements in connection with, among others, (i) obtaining a product type certificate

REGULATORY ENVIRONMENT

for the relevant product; (ii) minimum manufacturing management experiences of its senior management; (iii) teams of employees that can satisfy mass production requirements with quality products and minimum number of senior and mid-level technicians; (iv) excellent product quality assurance system and management system, including excellent after-sales system; (v) technical capabilities to sustain continuous mass production of quality products; (vi) measures to test product quality; (vii) passing the type test of the sample products; and (viii) complying with the relevant laws and regulations on the special equipment, if applicable, and providing the relevant manufacturing permits of special equipment. Each company obtaining a repair permit needs to meet the requirements in connection with, among others, (i) contracts, agreements or relevant documents with the railway car owners for the repair; (ii) minimum manufacturing or repair management experiences of its senior management; (iii) teams of employees that can satisfy mass repair requirements with quality products and minimum number of senior and mid-level technicians; (iv) excellent product quality assurance system and management system, including excellent after sales system; (v) technical capabilities to sustain continuous mass repair with quality products; (vi) measures to test product repair quality; (v) passing the routine test of the sample repaired products; and (vi) complying with the relevant laws and regulations on the special equipment, if applicable, and providing the relevant manufacturing or repair permits for special equipment.

REGULATIONS ON HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

Environmental Protection

The Chinese government has formulated and implemented a number of laws and regulations on environmental protection, which mainly cover *Environmental Protection Law of the People's Republic of China*, *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution*, *Law of the People's Republic of China on the Prevention and Control of Water Pollution*, and *Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution*.

Wherein, the *Environmental Protection Law of the People's Republic of China* promulgated by the Standing Committee of the National People's Congress and enforced on December 26, 1989 and revised on April 24, 2014 specifies that organizations producing environmental pollution shall establish appropriate measures to prevent the pollution and hazards to the environment in the process of production and construction activities.

The *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution* promulgated by the Standing Committee of the National People's Congress on April 29, 2000 and enforced on September 1, 2000 specifies that the organizations discharging atmospheric pollutants must declare their pollutant discharging facilities and processing facilities, as well as type, quantity and concentration of pollutant under the regular operating conditions to the local administrative department of environmental protection in accordance with the requirements of the Ministry of Environmental Protection of the People's Republic of China.

The *Law of the People's Republic of China on the Prevention and Control of Water Pollution* promulgated by the Standing Committee of the National People's Congress on

REGULATORY ENVIRONMENT

May 11, 1984, enforced on November 1, 1984, and revised on May 15, 1996 and February 28, 2008, specifies that enterprises and institutions discharging pollutants into any water body shall obtain a pollutants discharge license and must pay the sewage treatment fee.

The *Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution* promulgated by the Standing Committee of the National People's Congress on October 29, 1996 and enforced on March 1, 1997 specifies that the industries and enterprises producing environmental noise pollution shall take effective measures to mitigate the effects of noise on the surrounding environment.

Production Safety

In accordance with the *Production Safety Law of the People's Republic of China* promulgated by the Standing Committee of the National People's Congress on June 19, 2002, enforced on November 1, 2002 and revised on August 27, 2009 and August 31, 2014, production and business entities shall have the conditions for safe production as prescribed by laws, administrative laws and regulations, and national standards or industrial standards. Those entities without conditions for safe production cannot engage in production and business activities. The principal supervisor of the production and business entities assumes the responsibility for the production safety of the entity, including the establishment and perfection of its production safety accountability, and the formulation of rules, regulations and operation procedures on production safety. The production and business entities shall also provide the employees thereof with labor protection articles conforming to the national or industrial standards, and supervise and educate the employees to wear and use these articles in accordance with rules.

Occupational Health

In accordance with the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases* promulgated by the Standing Committee of the National People's Congress on October 27, 2001 and revised on December 31, 2011, the employer must adopt effective facilities for the prevention and control of occupational diseases, and provide laborers with individual articles for the prevention and control of occupational diseases. The employer shall detect and assess the occupational-disease-inductive factors in the workplace on a regular basis, as required. The detection and assessment result shall be archived in the occupational health file of the employer, and be regularly reported to local production safety supervision and management departments and announced to the laborers.

In our industry, the research, development, manufacture and repair of large machinery for railway maintenance shall also be subject to the preceding regulatory requirements on environmental protection, production safety and occupational health.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

BACKGROUND

We are the leading company in the large railway track maintenance machinery industry in China. According to the CIC Report, in terms of the sales revenue of manufacturers of large railway track maintenance machinery in 2014, we ranked No. 1 in Asia and No. 2 globally.

The H shares and A shares of CRCC, the direct holding company of our Company, have been listed on the Main Board of the Stock Exchange (stock code: 01186) and the Shanghai Stock Exchange (stock code: 601186), respectively, since March 2008. After completion of the Spin-off and separate Listing of our Company, our Group will be principally engaged in our established business, i.e., (i) development, manufacturing and sales of a broad range of large railway track maintenance machines; (ii) manufacturing, purchase and sales of parts and components of large railway track maintenance machines; (iii) overhaul services; and (iv) railway line maintenance services, whilst the Retained Group will continue to be principally engaged in (i) construction operations; (ii) survey, design and consultancy operations; (iii) manufacturing operations (except the business of our Group); (iv) real estate development operations; and (v) logistics and materials trading.

MILESTONES

The following events are the key corporate and business development milestones of our Group:

<u>Year</u>	<u>Events</u>
1954	<ul style="list-style-type: none">• Our predecessor, Mechanical Maintenance, Operation and Leasing Station of the 6th Engineering Division of Newly-built Railways Construction Central Bureau under the MOR (鐵道部新建鐵路工程總局第六工程局機械修理經租站), was established in Baoji City, Shaanxi Province, the PRC.
1988	<ul style="list-style-type: none">• Our Company was recognized by the MOR as operating the only production plant for large railway track maintenance machinery in China at that time, thus becoming the first designated enterprise in China to engage in the industry.
1989	<ul style="list-style-type: none">• Our first large railway track maintenance machine was sold.
1990	<ul style="list-style-type: none">• Our Company successfully commenced production of the first 08-32 tamping machine that met international advanced standards in China, accomplishing a breakthrough in the domestic production of large railway track maintenance machinery in China.
1991	<ul style="list-style-type: none">• Our SPZ-160 ballast regulator was awarded the “Key Technological Equipment Achievement Award” by the State Council.
1994	<ul style="list-style-type: none">• Our Company successfully commenced production of the WD-320 stabilizing machine.
1996	<ul style="list-style-type: none">• Our Company successfully commenced production of RM80 ballast cleaning machine.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Events
2006	<ul style="list-style-type: none">• Our Company successfully commenced production of the WY-100 material conveyor.
2007	<ul style="list-style-type: none">• The technical equipment, technology and application project for large railway track maintenance machinery on rail tracks was awarded the “Second Class Prize of National Science and Technology Progress Award.”• Our Company was accredited as a “Key National High-tech Enterprise” by the Ministry of Science and Technology of China.
2008	<ul style="list-style-type: none">• Our Company was listed on the Main Board of the Stock Exchange under CRCC as a whole.
2010	<ul style="list-style-type: none">• The phase one work of the Kunming National Large Railway Track Maintenance Machinery Industry Base was accepted and put into operation.• Our Company was awarded the title of “National Post-Doctoral Research Station.”• Our Company successfully commenced production of YHG-1200 mobile flash-butt rail welding machine and QJ-280 bridge inspection machine.
2011	<ul style="list-style-type: none">• Our Company successfully commenced production of TX-65 track sewage suction machine, HFX constant tension cable drum carriage machine and GZC-120 track measurement machine.
2012	<ul style="list-style-type: none">• Our Company was accredited as a “National Large Railway Track Maintenance Machinery High-Tech Industrialization Base” and “International Science and Technology Cooperation Demonstrator Base.”• Our DWL-48 continuous movement tamping and stabilizing machine won the “First Prize of Science and Technology Progress Award” issued by the Yunnan Provincial Government and Kunming Municipal Government, respectively.
2013	<ul style="list-style-type: none">• Our Company was accredited as a “National Large Railway Track Maintenance Machinery Engineering Research Center” by the Ministry of Science and Technology of China.• Our Company successfully commenced production of the GCX-1000 track snow remover and the XM-1800 rail milling machine.
2014	<ul style="list-style-type: none">• As of December 31, 2014, our Company has cumulatively sold approximately 2,200 large railway track maintenance machines in China, which, according to the CIC Report, accounted for approximately 81.5% of the total number of such machines in China as of December 31, 2014.
2015	<ul style="list-style-type: none">• Our Company successfully commenced production of JDZ-160 catenary inspection and maintenance vehicle.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

The establishments and major changes of our Company and our subsidiaries are set out below.

Establishment and Development of our Company

Predecessor of our Company

Our history dates back to 1954 and our predecessor is Mechanical Maintenance, Operation and Leasing Station of the 6th Engineering Division of Newly-built Railways Construction Central Bureau under the MOR (鐵道部新建鐵路工程總局第六工程局機械修理經租站) which was established in Baoji City, Shaanxi Province, the PRC. In 1991, our Company was renamed “Kunming Machinery Factory of CRCCG” (中國鐵道建築總公司昆明機械廠).

Reformed into a limited liability company

Pursuant to an approval issued by CRCCG on August 8, 2002, our Company was reformed into a state-owned limited liability company, and was renamed “Kunming China Railway Large Maintenance Machinery Group Co., Ltd.” (昆明中鐵大型養路機械集團有限公司). The then shareholding structure of our Company was: CRCCG held 55.66% of equity interest in our Company, the employee stock holding committee (職工持股會) of our Company held 41.68% of equity interest in our Company, China CSR Zhuzhou Electric Locomotive Research Institute (中國南車集團株洲電力機車研究所) held 1.06% of equity interest in our Company, China CSR Qishuyan Institute (中國南車集團戚墅堰機車車輛工藝研究所) (currently known as CSR Qishuyan Institute Co., Ltd. (“CSR QSYI”) (南車戚墅堰機車車輛工藝研究所有限公司)) held 1.06% of equity interest in our Company, the Academy of Railway Sciences (鐵道科學研究院) held 0.27% of equity interest in our Company and the Design Institute of Railway Discipline (鐵道專業設計院) held 0.27% of equity interest in our Company. All these shareholders had founded our Company with their own respective funds.

Reformed into a wholly-owned subsidiary of CRCC

In order to consolidate the control over our Company, on April 28, 2007, CRCCG entered into an equity transfer agreement with each of the employee stock holding committee of our Company, China CSR Zhuzhou Electric Locomotive Research Institute, China CSR Qishuyan Locomotive and Rolling Stock Technology Research Institute, the Academy of Railway Sciences and the Design Institute of Railway Discipline. Pursuant to these agreements, CRCCG acquired the equity interest of 41.68%, 1.06%, 1.06%, 0.27% and 0.27% held by these organizations/companies in our Company. Upon completion of the relevant industrial and commercial registration change in respect of the above equity transfer on May 21, 2007, our Company became a wholly-owned subsidiary of CRCCG.

On November 15, 2007, CRCCG entered into an equity transfer agreement with CRCC, pursuant to which CRCCG injected 100% of the equity interest in our Company as the contribution into CRCC. Upon completion of the relevant industrial and commercial

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

registration change in respect of the above equity transfer on November 15, 2007, our Company became a wholly-owned subsidiary of CRCC.

Increase in registered capital

Pursuant to a shareholder's resolution of CRCC dated April 28, 2009, the registered capital of our Company was increased from RMB187,984,000 to RMB587,984,000. Such capital increase was contributed by CRCC in cash and the relevant industrial and commercial registration change was completed on June 12, 2009.

Pursuant to a board's resolution of CRCC dated December 23, 2013, the registered capital of our Company was increased by RMB400,000,000. As of December 31, 2013, our Company has received contributions in cash from CRCC. Pursuant to a shareholder's resolution of CRCC dated February 21, 2014, the registered capital of our Company was increased from RMB587,984,000 to RMB987,984,000. Such capital increase was contributed by CRCC in cash and the relevant industrial and commercial registration change was completed on March 13, 2014. As of the Latest Practicable Date, our Company's registered capital was RMB987,984,000 and was fully paid up.

Establishment and Development of our Subsidiaries

In order to fully implement the development strategy of our Company, as of the Latest Practicable Date, our Company has established the following five subsidiaries.

Ruiweitong Company

Ruiweitong Company is a limited liability company which established and commenced its business in the PRC on June 5, 2009 and is primarily engaged in the repair and overhaul of large railway track maintenance machines and the provision of annual inspection and ancillary services for maintenance machines. At the time of its establishment, the registered capital of Ruiweitong Company was RMB97,000,000, and it was owned as to 67% by our Company and 33% by Beijing China Railway Fangshan Bridge Co., Ltd. (北京中鐵房山橋梁有限公司) ("Beijing China Railway Fangshan Bridge"), an indirect wholly-owned subsidiary of CRCC.

On May 20, 2010, the registered capital of Ruiweitong Company was increased to RMB120,952,100 by all its shareholders in proportion to their respective equity interests in such company. On December 24, 2014, the registered capital of Ruiweitong Company was increased to RMB584,370,622.18 by all its shareholders in proportion to their respective equity interests in such company.

As of the Latest Practicable Date, Ruiweitong Company is a wholly-owned subsidiary of our Company. For further details, see "History, Reorganization and Corporate Structure – Reorganization – Acquisition of the equity interest in Ruiweitong Company by our Company."

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Kunweitong Company

Kunweitong Company is a limited liability company established and commenced its business in the PRC on May 10, 2010 and is primarily engaged in the railway mechanical repair and maintenance services. At the time of its establishment, the registered capital of Kunweitong Company was RMB42,040,000. As of the Latest Practicable Date, Kunweitong Company is a wholly-owned subsidiary of our Company.

On June 8, 2010, our Company made a capital contribution of RMB17,960,000 to Kunweitong Company in the form of physical machinery and equipment. As of the Latest Practicable Date, the registered capital of Kunweitong Company was changed to RMB60,000,000.

Aotongda Company

Aotongda Company is a limited liability company established and commenced its business in the PRC on June 11, 2010 and is primarily engaged in the production, manufacture and sales of accessories, the component repair and production, manufacture and sales of small track maintenance machines. Since its establishment and as of the Latest Practicable Date, the registered capital of Aotongda Company was RMB50,000,000. As of the Latest Practicable Date, Aotongda Company is a wholly-owned subsidiary of our Company.

Hengyuan Business Company

Hengyuan Business Company is a limited liability company established and commenced its business in the PRC on June 1, 2012 and is primarily responsible for the provision of logistical support to our Company. It is primarily engaged in catering and accommodation, security, conference service, green cleaning, medical and health, supermarket and health care product development. Since its establishment and as of the Latest Practicable Date, the registered capital of Hengyuan Business Company was RMB9,800,000. As of the Latest Practicable Date, Hengyuan Business Company is a wholly-owned subsidiary of our Company.

Guangweitong Company

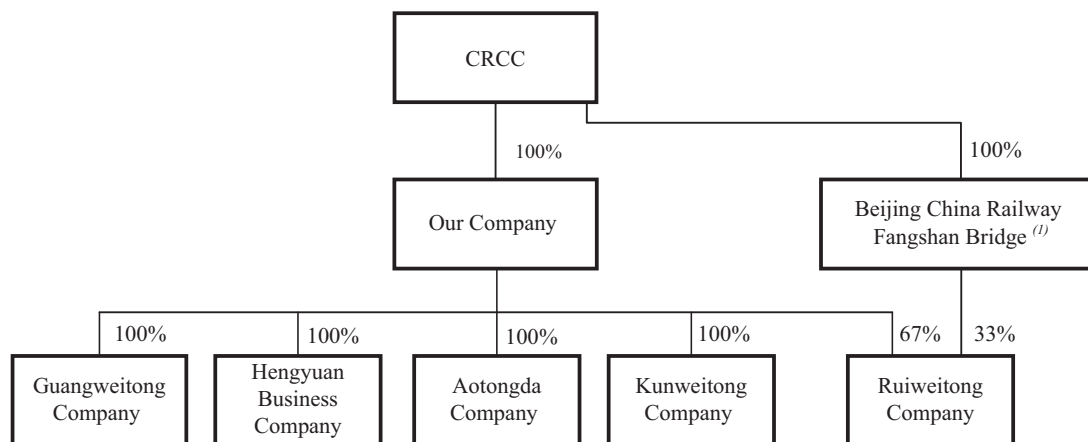
Guangweitong Company is a limited liability company established and commenced its business in the PRC on December 3, 2013 and is primarily engaged in casting manufacture and mechanical processing and manufacturing. Since its establishment and as of the Latest Practicable Date, the registered capital of Guangweitong Company was RMB30,000,000. As of the Latest Practicable Date, Guangweitong Company is a wholly-owned subsidiary of our Company.

As confirmed by our PRC legal advisers, Jia Yuan Law Offices, all the requisite approvals, registrations and/or filings in respect of the establishments and subsequent changes in the equity interests in our Company and our subsidiaries have been obtained and/or complied with in accordance with the applicable PRC laws, and all of the acquisitions and/or disposals of equity interests in our Companies and our subsidiaries as mentioned above have been properly and legally completed.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

The following diagram sets out the simplified shareholding and corporate structure of our Group immediately prior to the Reorganization:



Note:

- (1) Beijing China Railway Fangshan Bridge is an indirect wholly-owned subsidiary of our controlling shareholder, CRCC (through its wholly-owned subsidiary, China Railway 14th Bureau Group Co., Ltd.). As such, it is a connected person of our Company.

In preparation for the Spin-off and separate Listing of our Company, our Group has undergone the Reorganization, details of which are set out below. As confirmed by our PRC legal advisers, Jia Yuan Law Offices, our Reorganization complies with all applicable PRC laws and regulations, and all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Reorganization have been obtained.

Transfer of the equity interest in our Company by CRCC to its subsidiaries

On March 10, 2015, CRCC, China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company entered into an equity transfer agreement, pursuant to which CRCC transferred 0.5% of the equity interest it held in our Company to each of China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company for a transfer price of RMB13,546,151, respectively. The consideration for such transfer of equity interest was determined with reference to the audited net assets value of our Company as of September 30, 2014. As of August 31, 2015, all the consideration had been settled. As of the Latest Practicable Date, China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company are all wholly-owned subsidiaries of CRCC.

Incorporation of a joint stock limited company by way of promotion

Pursuant to a promoter agreement dated May 12, 2015 entered into among our Promoters, namely CRCC, China Railway Construction Investment Group, CRCC International Group,

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

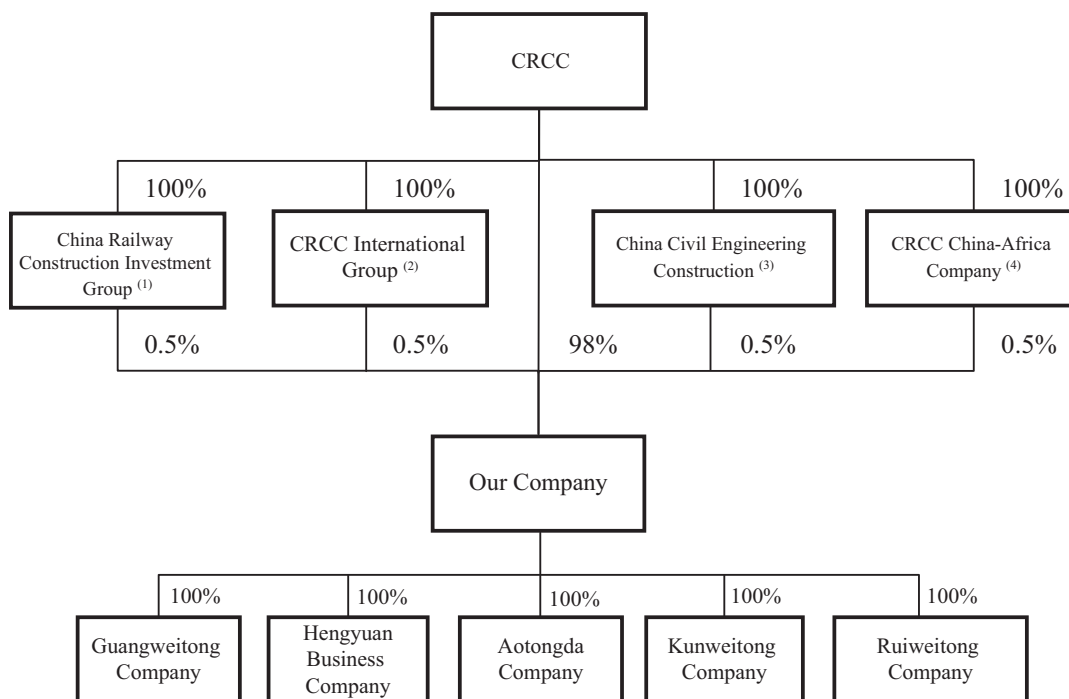
China Civil Engineering Construction and CRCC China-Africa Company, our Company was converted into a joint stock limited company incorporated in the PRC with limited liability on June 24, 2015 and was renamed “CRCC High-Tech Equipment Corporation Limited.”

Acquisition of the equity interest in Ruiweitong Company by our Company

In order to obtain full control over Ruiweitong Company, our Company entered into an equity transfer agreement with Beijing China Railway Fangshan Bridge on November 4, 2014. Pursuant to such agreement, our Company acquired 33% of the equity interest held by Beijing China Railway Fangshan Bridge in Ruiweitong Company for a consideration of RMB240,838,112.32. The consideration of such equity transfer was determined, after arm’s length negotiation, with reference to the capital contribution by Beijing China Railway Fangshan Bridge in Ruiweitong Company. Such consideration was fully paid by our Company in cash on November 7, 2014. The relevant industrial and commercial registration change in respect of the above acquisition was completed on August 11, 2015. As of the Latest Practicable Date, Ruiweitong Company is a wholly-owned subsidiary of our Company.

CORPORATE STRUCTURE

The following diagram sets out the simplified shareholding and corporate structure of our Group immediately after the Reorganization, but before completion of the Spin-off and the Global Offering:



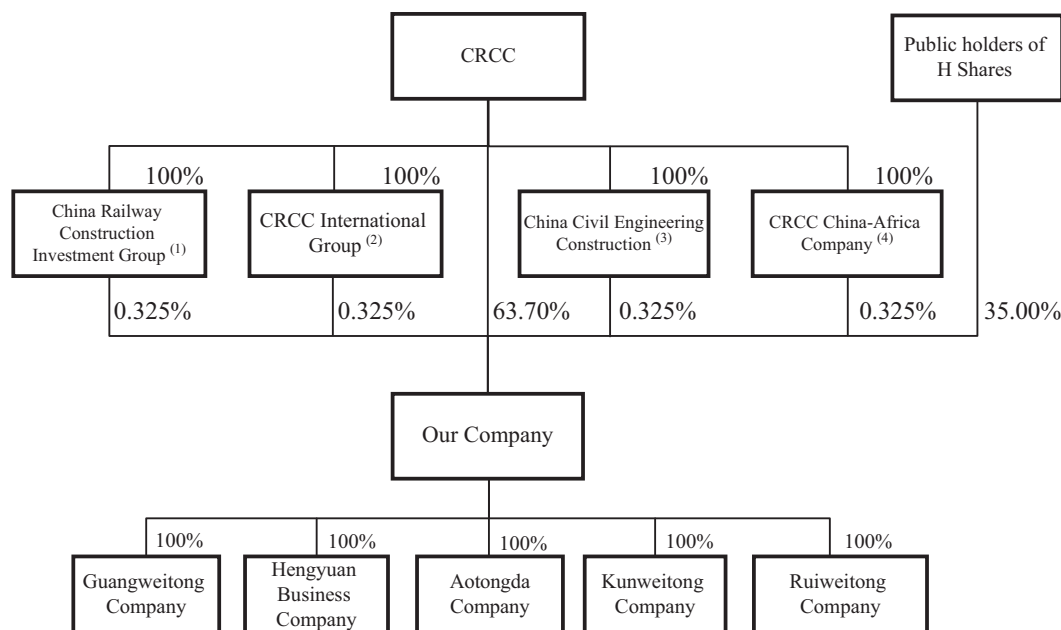
Notes:

- (1) China Railway Construction Investment Group was established in the PRC on May 4, 2011 as a limited liability company and is a wholly-owned subsidiary of CRCC. As such, it is a connected person of our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (2) CRCC International Group was established in the PRC on October 25, 2004 as a limited liability company and is a wholly-owned subsidiary of CRCC. As such, it is a connected person of our Company.
- (3) China Civil Engineering Construction was established in the PRC on June 1, 1979 as a limited liability company and is a wholly-owned subsidiary of CRCC. As such, it is a connected person of our Company.
- (4) CRCC China-Africa Company was established in the PRC on February 24, 2010 as a limited liability company and is a wholly-owned subsidiary of CRCC. As such, it is a connected person of our Company.

The following diagram sets out the simplified shareholding and corporate structure of our Group immediately upon completion of the Spin-off and the Global Offering (assuming the Over-allotment Option is not exercised):



Notes:

- (1) China Railway Construction Investment Group was established in the PRC on May 4, 2011 as a limited liability company and is a wholly-owned subsidiary of CRCC. As such, it is a connected person of our Company.
- (2) CRCC International Group was established in the PRC on October 25, 2004 as a limited liability company and is a wholly-owned subsidiary of CRCC. As such, it is a connected person of our Company.
- (3) China Civil Engineering Construction was established in the PRC on June 1, 1979 as a limited liability company and is a wholly-owned subsidiary of CRCC. As such, it is a connected person of our Company.
- (4) CRCC China-Africa Company was established in the PRC on February 24, 2010 as a limited liability company and is a wholly-owned subsidiary of CRCC. As such, it is a connected person of our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

THE SPIN-OFF

The Listing is a spin-off of our Group from CRCC Group by way of a separate Listing on the Stock Exchange. The Spin-off and separate Listing of our Company will be beneficial to our Group and the Retained Group for the following reasons:

1. The Spin-off will allow the Retained Group to focus on its other core businesses and enable our Group to allocate financial resources more effectively.
2. The Spin-off and the Listing will allow the management of both CRCC and our Company to focus more effectively on our respective businesses and improve our ability to recruit, motivate and retain key management personnel.
3. While our Group will be able to further build on our reputation and be in a better position to negotiate and solicit more business, the Retained Group will retain a holding of over 50% of the issued share capital of our Company and will continue to benefit and enjoy the greater shareholder value from the business prospects and results of our Group.
4. Our profile in the international capital market will be enhanced by establishing our presence as an internationalized operation platform upon completion of the Listing, providing access to utilization of proceeds to be raised from overseas capital markets.
5. The proceeds to be raised from the Global Offering will provide fund support for the key projects of our Company, in particular, the National Large Railway Track Maintenance Machinery International Technology Cooperation Center, which is of strategic importance and greatly supported by the local government.
6. The value of our Company is expected to be enhanced through the Listing given that:
 - (i) our profile amongst our customers, suppliers and other business partners and brand recognition will be enhanced, which is beneficial for our expansion to other domestic markets or even overseas markets;
 - (ii) our Company will be able to have direct and independent access to both equity and debt capital markets; the Spin-off will provide clarity on the credit profile of our Company for rating agencies and financial institutions, which will help the sustainable development of our Company;
 - (iii) the price earning ratio for the professional machinery manufacturing segment, which our Company is engaged in, is higher than that for the infrastructure segment, which the Retained Group is engaged in; our Company may secure

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

higher valuation in the international market, which will lead to enhanced overall value of our Group;

- (iv) the Listing will lead to a more direct alignment of our Company's management's responsibilities and accountability and employees' interests and benefits with our operating and financial performance, as well as optimized corporate governance structure and enhanced corporate management as a result of heightened scrutiny of the investor community; this is anticipated to enhance management focus, which should in turn lead to improved decision-making processes, faster response-time to market changes and increased operational efficiency; and
- (v) after the Listing, it will be relatively easier to measure the management's performance against the stock market performance of our Company in comparison with our industry peers listed on the Stock Exchange; it will also be possible to link management incentives to performance, thereby increasing management motivation and commitment.

The Spin-off and separate Listing of our Company complies with the requirements of Practice Note 15 of the Listing Rules ("Practice Note 15"). The Spin-off and separate Listing of our Company has been approved by the extraordinary general meeting of CRCC held on February 5, 2015.

Pursuant to the requirements under Practice Note 15, CRCC, as the parent company of our Company, shall have due regard to the interests of its existing shareholders by way of providing them with an assured entitlement to the H Shares of our Company (the "Assured Entitlement"). Due to certain impediment for providing the Assured Entitlement to its A shareholders, CRCC is only able to provide the Assured Entitlement to its H shareholders in order to comply with the above requirements under Practice Note 15. Pursuant to the requirements of the Articles of Association of CRCC, provision of the Assured Entitlement to its H shareholders (excluding A shareholders) is subject to the approval at the general meeting, the A shareholders' class meeting and the H shareholders' class meeting of CRCC respectively by way of a special resolution. The above matter on the Assured Entitlement was put forward by CRCC to its general meeting, A shareholders' class meeting and H shareholders' meeting held on June 2, 2015. The resolution in relation to the provision of Assured Entitlement to CRCC's H shareholders in respect of the Spin-off was passed at the general meeting and the H shareholders' class meeting of CRCC, but was not passed at the A shareholders' class meeting of CRCC. Therefore, in accordance with the Articles of Association of CRCC and other applicable PRC regulations, CRCC will not provide the Assured Entitlement to any of its existing shareholders (including its A shareholders and H shareholders).

OVERVIEW

We are the leading company in the large railway track maintenance machinery industry in China. Capitalizing on our leading market position, a comprehensive product portfolio, integrated industry value chain, strong R&D and product development capabilities, extensive business network, excellent customer services, leading manufacturing and maintenance technologies and an advanced quality management system, we provide customers with comprehensive and systemic solutions. Since we sold our first large railway track maintenance machine in 1989, as of December 31, 2014, we had sold approximately 2,200 large railway track maintenance machines in China, which accounted for approximately 81.5% of the total number of such machines sold in the PRC as of December 31, 2014, according to the CIC Report. According to the same source, in terms of sales volume in 2012, 2013 and 2014, we accounted for approximately 83.5%, 82.0% and 83.1%, respectively, of the total sales volume of large railway track maintenance machines in China for those periods, making us the largest developer, manufacturer and service provider of such machinery in China as of December 31, 2014. According to the same source, in terms of the sales revenue of manufacturers of such machines in 2014, we ranked No. 1 in Asia and No. 2 globally.

During the Track Record Period, we generated revenue through the following four business lines:

Manufacturing and Sales of Machines	We develop, manufacture and sell a broad range of large railway track maintenance machines that are used in the construction of new railway lines, modification of existing railway lines and maintenance of operating railway lines. As of the Latest Practicable Date, our machines were categorized into seven major series based on function, namely tamping machine series, stabilization machine series, ballast cleaning machine series, ballast regulator series, materials logistics machine series, rail processing machine series and other machinery. We are able to customize each series of machines according to the specifications of our customers.
Parts and Components Sales and Services	We leverage our industry expertise to manufacture, purchase and sell parts and components based on market demand, which primarily include bogies, electrical control systems, working devices, wheelsets, transmissions, pumps, valves, motors and drive shafts.
Overhaul Services	We provide repair, upgrade and remanufacture services for large railway track maintenance machines based on their repair cycles or customer requests.
Railway Line Maintenance Services	We provide maintenance services for newly constructed or existing railway lines.

During the Track Record Period, our major customers include CRC and its affiliated enterprises, local railway operators and railway construction companies. Capitalizing on our leading technical expertise and market position, excellent product quality and the rapid growth of the PRC railway network, we have experienced continued growth in recent years. In 2012, 2013, 2014 and the six months ended June 30, 2015, our revenue amounted to RMB2,863.6 million, RMB3,169.0 million, RMB3,476.7 million and RMB1,794.6 million, respectively.

OUR COMPETITIVE STRENGTHS

We are the leading company in the large railway track maintenance machinery industry in China. Capitalizing on our leading market position, comprehensive product portfolio, integrated industry value chain, strong R&D and product development capabilities, extensive business network, excellent customer services, leading manufacturing and maintenance technologies and an advanced quality management system, we provide our customers with comprehensive and systemic solutions.

We are the leading company in the large railway track maintenance machinery industry in China

According to the CIC Report, in terms of the sales revenue of manufacturers of large railway track maintenance machinery in 2014, we ranked No. 1 in Asia and No. 2 globally. Through the years, we have been committed to the development of large railway track maintenance machinery industry, and are well positioned to capitalize on the fast-growing market opportunities in China and abroad.

In 1988, the MOR designated us as China's only large railway track maintenance machinery manufacturing enterprise at the time. We became the earliest manufacturer of large railway track maintenance machinery in China, signaling the beginning of China's large railway track maintenance machinery industry. Our position as a pioneer in the industry with a long operational history has enabled us to develop long-term business relationships with our suppliers and customers and to establish a dominant position in the industry. Through the years, we have also continually improved and perfected our operational, management and quality control processes, and built a team with strong industry experience and knowledge of operations, products and services.

Our products are primarily used in the construction, modification and maintenance of national railways, local railways, urban rail transit systems and other rail systems. Our products and our operations are integral to the safety of high-speed and heavy-haul railway operations and the modernization of rail maintenance equipment. Since we sold our first large railway track maintenance machine in 1989, as of December 31, 2014, we had sold approximately 2,200 large railway track maintenance machines in China, which accounted for approximately 81.5% of the total number of such machines in the PRC as of December 31, 2014, according to the CIC Report. According to the same source, in terms of sales volume in 2012, 2013 and 2014, we accounted for approximately 83.5%, 82.0% and 83.1% of the total sales volume of large railway track maintenance machines in China for those periods, making us the largest developer, manufacturer and service provider of such machinery in China as of December 31, 2014.

According to the CIC Report, the CAGR of the PRC large railway track maintenance machinery market from 2014 to 2019 is estimated to be approximately 9.3%. We believe that our leading position in the market can give us the advantage in obtaining new market share.

In addition, our market-leading position is strengthened by the high barrier to entry into the large railway track maintenance machinery industry in China as a result of the strict

BUSINESS

regulatory environment for this industry. New entrants are required to obtain regulatory approvals, to ensure that they can meet high safety standard required in the railway industry.

Capitalizing on our comprehensive product portfolio and services covering the full industry value chain, we provide customers with comprehensive and systemic solutions

We have developed a comprehensive product portfolio, comprising 40 types of products as of the Latest Practicable Date, which were categorized into seven major series, namely, tamping machine, stabilization machine, ballast cleaning machine, ballast regulator, materials logistics machine, rail processing machine and other machinery. Our wide range of products includes machinery of various technical specifications, price ranges and operating environment suitability, in order to cater to the varied speed, climate, topographical and logistics requirements of the railway industry. Our products are used in normal-speed railways, fast railways, high-speed railways and urban rail transit systems. Many of our products have filled the specific gaps in the PRC large railway track maintenance machinery industry.

Our operations cover all of the key aspects of the entire industry value chain, including design and R&D, manufacturing, sales and marketing, after-sales service, overhaul, railway line maintenance, training and other services covering the entire life cycle of our products. Given this breadth of service, we are able to provide comprehensive and systemic solutions to meet our customers' varied requirements and maximize value for our customers, thereby increasing customer loyalty. We also benefit from the increased synergies and efficiencies among our different operations.

We believe that having an integrated industry value chain brings us unique advantages in the large railway track maintenance machinery industry: (1) as we engage in the R&D and manufacturing of our large railway track maintenance machines, we naturally have the best understanding of our products and their operation. We therefore have the knowledge to operate our machines in the most optimal manner under different environments and geographical locations, and, in turn, could effectively enhance the specialization and efficiency of our railway line maintenance operations; (2) it enables us to apply our new products in the maintenance of railway lines, thus speeding up the process of completing the industrial testing of these products for the purpose of obtaining the relevant permits; and (3) it enables us to gain practical operational and management experience, which helps us better understand our customers' needs and enriches our understanding of our products under different operating environments, thereby helping us to further improve our products.

Furthermore, we operate a MOR-recognized training center for large railway track maintenance machinery operators in China, and a recognized testing center conducting large railway track maintenance machine operator qualification exams. A large number of large railway track maintenance machinery operators and management teams have received training at our training center. In addition, we publish a journal, "*Large Railway Track Maintenance Machines*" (《大型養路機械》), which is a professional publication in the large railway track maintenance machinery industry in the PRC.

We have strong R&D and product development capabilities

We consider our strong R&D and product development capabilities to be key to our continued development and success. We are dedicated to developing our R&D and product

BUSINESS

development capabilities. Through years of effort on product development and technological innovation, we have successfully established an R&D model and a technical development system that are well-adapted to market conditions in the large railway track maintenance machinery industry in China.

We have a leading R&D platform pursuant to which we have received multiple awards and recognitions from the PRC government, including our designation as (i) the “Key New Hi-Tech Enterprise of the National Torch Plan” (國家火炬計劃重點高新技術企業) in 2007; (ii) a “National Post-Doctoral Research Station” (國家級博士後科研工作站) in 2010; and (iii) a “National Large Railway Track Maintenance Machinery High-Tech Industrialization Base” (國家鐵路大型養路機械高新技術產業化基地) in 2012. We are also currently the only “National Large Railway Track Maintenance Machinery Engineering Research Center” (國家鐵路大型養路機械工程技術研究中心) in China.

We have also established long-term cooperative relationships with well-known domestic and international companies and academic and research institutions to develop our technological innovation. In particular, we entered into a strategic cooperation agreement and corresponding general technical development agreement with the China Academy of Railway Sciences, China Railway Engineering Consulting Group Co., Ltd., CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. and CSR QSYI in 1989, to promote the development, manufacture and sale of large railway track maintenance machinery, parts and components. Pursuant to these agreements, the parties established a cooperation framework and agreed to invest, undertake production responsibilities and share benefits in respect of various production and technical development projects. These agreements solidified our dominant position in the manufacture and development of large railway track maintenance machinery, and established our exclusive intellectual property rights associated with such projects. We believe that these agreements reinforced our leading market position and technical strength and laid the foundation for our continued success.

After years of efforts, we have developed a team of experts that are highly respected in the industry for their innovation and market foresight. As of June 30, 2015, our R&D team consisted of approximately 220 employees, of which one held a doctoral degree, approximately 50 held master’s degrees, and approximately 150 held bachelor’s degrees. As of the same date, we had six professor-level senior staff, 70 senior engineers, 100 engineers and 44 assistant engineers in our R&D team. We have one expert who has received a national-level award from the Ministry of Human Resources and Social Security of the PRC under the “New Century Millions of Talents Project”, one expert who received a commendation from the MOR for his outstanding contributions and four experts who have received commendations issued by provincial governments in China for their outstanding achievements in innovation.

Leveraging our strong R&D capabilities, we believe we are well-positioned to transform the large railway track maintenance machinery industry in China from a manufacturing-based industry to an innovation-based industry. In particular, in 2007, we won second prize under the “National Science and Technology Achievement Award” (國家科學技術進步獎) in recognition of our major railway technical equipment’s technical and application results. As of June 30, 2015, eight of our products have been awarded the “National Key New Product” award and we have led or participated in the establishment of over 12 national standards for the large railway track

BUSINESS

maintenance machinery industry in China. As of June 30, 2015, we owned 197 patents, including 21 invention patents, 151 utility model patents and 25 appearance design patents.

We have an extensive business network and provide comprehensive customer service

We have an extensive business network and have strategically located our sales offices near the headquarters of CRC and its affiliated enterprises, enabling us to stay close to our customers and respond to market needs quickly and efficiently. As of June 30, 2015, our strong marketing and sales team consisted of 118 employees. We have established sales offices in Beijing, Kunming, Xi'an and Shanghai, with plans to establish new sales offices in Guangzhou, Wuhan, Shenyang and Chengdu to enhance our business network coverage in China. In addition, we have actively entered into new urban rapid transit system markets, with a focus on the Beijing and Shanghai markets.

We provide our customers with comprehensive services, including recommending suitable products and providing operational training, technical guidance, repairs and other services. We ensure the quality of our products and have maintained a team of professional staff offering timely after-sales services to our customers. In addition, we visit our customers on a regular basis to solicit their opinions on the quality and performance of our products, and obtain first-hand feedback on the level of satisfaction of our customers. We seek to improve our customer service mainly by leveraging our sales offices and by upgrading our sales offices into one-stop 4S stores that integrate sales, service, spare parts and survey functions under one roof, thereby improving the integration between sales and services.

As a result of our comprehensive customer service and our corporate philosophy of “ensuring maximum customer satisfaction,” we have established a strong market awareness and reputation for our brand, providing us with a strong foundation to further expand our business network and customer base.

Our leading manufacturing and overhaul technologies and advanced management system enable us to provide our customers with safe and reliable products

We have world-renowned manufacturing, inspection and testing facilities and leading technical manufacturing and overhaul skills, enabling us to provide customers with safe and reliable products. We are the primary editor for many large railway track maintenance machinery inspection and repair manuals written by MOR, which are used by industry participants, such as the manuals for the DC-32 tamping machine, the WD-320 stabilizing machine and the SPZ-200 bi-directional ballast regulator.

In 1998, we obtained a certification from China Classification Society Certification Company, certifying that we had achieved the ISO 9001 standard in relation to our quality management system. In 2013, we obtained a certification from China National Accreditation Service for Conformity Assessment, certifying that we had achieved the ISO/IEC 17025 standard in relation to the competence of our testing and calibration laboratories at our National Large Railway Track Maintenance Machinery Engineering Research Center. We established strict quality control measures in relation to our entire manufacturing process, which include product development, raw materials and parts and components procurement, production, finished product testing and after-sales monitoring. We adopt a quality control system based on

the principle of “quality inspection at every stage.” This involves (i) conducting a series of quality inspections, including self-inspections, cross-inspections and special inspections, on the key production procedures and operations that affect quality and safety, done in accordance with the requirements under a quality inspection checklist, and (ii) conducting comprehensive guidance and supervision covering the entire work process for the construction of large railway track maintenance machinery. Through years of application, our quality control system has yielded significant results. Our quality control system has been widely promoted and used in the railway industry. We were recognized as a “National Advanced Equipment Management Organization” (全國設備管理先進單位) in 2006 and a “National Advanced Quality Work Organization” (全國質量工作先進單位) in 2007. In addition, CRC randomly conducts quality assurance testing on railway equipment manufacturers. During the Track Record Period, we have consistently achieved above 90 points and an “A” grade pursuant to such inspections. In 2015, we received the Second Quality Management Prize awarded by the Yunnan Provincial Government.

Due to our advanced testing and production facilities, manufacturing processes and quality control systems, we provide customers with safe and reliable products. As of the Latest Practicable Date, we achieved a record of zero product returns and zero product recalls for our large railway track maintenance machines.

We have an excellent management team, professional talent and a sound corporate culture

We have a team of senior management with extensive professional experience and a strong track record in the large railway track maintenance machinery industry. Our senior management has on average more than 20 years of experience in the large railway track maintenance machinery and related industries. We believe that our management team has leading market foresight, strategic market awareness and key market knowledge, and can lead us to capitalize on market opportunities, develop sound business strategies, evaluate and manage risks, and establish and promote management measures to continuously strengthen our leading position in the large railway track maintenance machinery industry, so as to achieve sustainable high growth and thereby improving our overall profits and enhancing shareholder returns.

In addition to our senior management team, we have a large team of management, technical, sales and operation professionals and a well-trained workforce. We have industry-leading talents with respect to R&D, production, quality control and after-sales service. With their extensive experience and technical skills, we believe our technical workers are among the most experienced and skilled workers in the large railway track maintenance machinery industry in China. According to the CIC Report, in terms of the sales revenue of manufacturers of large railway track maintenance machinery in 2014, we ranked No. 1 in Asia and No. 2 globally. This ranking in turn makes us well-positioned to attract professionals from the industry. We place great emphasis on recruiting, training and retaining talented professionals, which we believe is crucial to our future development.

We have an excellent corporate culture and inherited the fine tradition and spirit of the Railway Engineering Corps. We established our core corporate value of “uncompromising integrity and innovation, quality work and character” (誠信、創新永恆、精品、人品同在) so as to achieve the mutual development and growth of our staff and the Group.

OUR BUSINESS STRATEGIES

We will continue to concentrate on our large railway track maintenance machinery business, and further strengthen our leading position in the PRC large railway track maintenance machinery industry. We are committed to becoming the world's most competitive railway engineering machinery manufacturer and service provider. To achieve these objectives, we plan to implement the following development strategies:

Further strengthen our leading position in the PRC large railway track maintenance machinery industry, explore new markets and lead the future development of the industry

The railway and urban rail transit equipment and key ancillary equipment industry which we operate in is designated as a high-end equipment manufacturing industry and is one of the seven national strategic rising industries. The 12th Five-Year Plan on the Development of the National Strategic Rising Industries (《「十二五」國家戰略性新興產業發展規劃》), the 12th Five-Year Plan on the Development of the High-end Equipment Manufacturing Industry (《高端裝備製造業「十二五」發展規劃》) and the 12th Five-Year Plan on the Development of the Rail Equipment Industry (《軌道交通裝備產業「十二五」發展規劃》) issued by the State Council further confirmed the development position and target requirements of the rail transport equipment industry at the national strategic level. The State Council has given its strong support in relation to the financial and taxation policies, technological innovation, market operation and other aspects of the rail transport equipment industry, which we believe is beneficial to our further development. In addition, in May 2015, the State Council issued the “Made in China 2025” (《中國製造2025》). Pursuant to this plan, advanced railway equipment has been designated as one of the ten key development areas, and we believe this will further boost our development. We will leverage China's strong national level strategic support for the rail transport equipment industry and capitalize on future development opportunities in the industry, in order to further develop and strengthen our large railway track maintenance machinery business. We plan to further strengthen our leading position in the PRC large railway track maintenance machinery industry through continuous innovations in technology, operational processes and management, as well as market expansion. We will focus on developing advanced technology to enhance our product capabilities, shorten R&D circle and improve manufacturing abilities.

In order to become the world's most competitive developer, manufacturer and service provider of large railway track maintenance machinery, we plan to expand into the global market. We will follow the principle of “cautiously selecting opportunities to complement our core business” to actively develop diverse complementary businesses and nurture new economic growth opportunities. For new markets, such as high-speed railway and urban rail transit system in particular, we will leverage our technical advantages and consolidate our resources, in order to rapidly establish a dominant market position. With these targets in view, we expect to maintain a leading role in the future development of the large railway track maintenance machinery industry.

Further enhance the value of our business, products and services to strengthen our industry value chain coverage and provide our customers with systemic solutions covering the entire life cycle of our products

Our operations cover all of the key aspects of the entire industry value chain, including design and R&D, manufacturing, sales and marketing, after-sales service, overhaul, railway

BUSINESS

line maintenance, training and other services covering the entire life cycle of our products. We will continue to enhance our leading position in the manufacturing and sales of large railway track maintenance machinery as this business line contributed to the largest part of our revenue during the Track Record Period. In addition, we plan to expand our overhaul business to meet the expected increase in product overhaul demand.

According to CIC, it is expected that the PRC large railway track maintenance machinery industry will grow at a CAGR of 9.3% from 2014 to 2019. In addition, while the average useful life of large railway track maintenance machinery varies depending on the type of machine, it generally does not exceed 26 years. We expect that the retirement and replacement of these machines would support the growth of our sales of large railway track maintenance machinery. We may face increased competition from foreign and PRC domestic competitors within the PRC large railway track maintenance machinery industry and the growth of our manufacturing and sales of machines business is largely subject to our successful tender with CRC and its affiliates, our substantial customer group. However, as a pioneer in this industry with a substantial market share, we believe we can leverage our experience and advantages accumulated over the years to compete in terms of number of permits and licenses, reputation, product quality, technical and R&D capabilities and offer competitive products in public tenders, through which we win most of our purchase orders.

Leveraging our advantages in the manufacturing and sales of large railway track maintenance machinery, we expect our overhaul business to continue to grow in the near future. Since 2000 and up to December 31, 2014, we had sold approximately 1,960 large railway track maintenance machines. Depending on the useful life and workload of the machines, large railway track maintenance machines would generally require overhaul services provided by their manufacturers after 10 to 13 years in use, in order to maintain operational safety and extend their useful lives. In 2015, 2016, 2017 and beyond, we expect that approximately 72, 87, 106 and 1,695 large railway track maintenance machines are due for overhaul, respectively. The actual number of large railway track maintenance machines due for overhaul will depend on the budget and capital expenditure plans, machinery usage requirements and the condition of the machinery of CRC and its affiliates. We face less competition in our overhaul business primarily because (i) the strict regulatory requirement to obtain a repair permit before an overhaul service can be provided limits the number of participants in the overhaul services market; and (ii) overhaul services are usually performed by the manufacturers of the relevant machines to achieve the best results.

We intend to strengthen our industry value chain coverage by exploring opportunities to provide value-added services in both the upstream and downstream sectors of the industry value chain. We will further enhance our after-sales service by promoting the adoption of advanced technology that allows us to remotely monitor and diagnose problems with our machines in China. As we seek to transform ourselves from a production-oriented business to a service-oriented business, we also intend to place more focus on the development of our railway line maintenance services businesses. We also plan to upgrade our sales offices into 4S stores that integrate sales, service, spare parts and survey functions. We aim to enhance the value of our business lines, products and services to strengthen our industry value chain coverage and provide our customers with systemic solutions covering the entire life cycle of our products.

Promote our international strategy and enhance international operations

With the further implementation of the “One Belt, One Road” initiative, we believe China is expected to vigorously implement the “venturing abroad” strategy in the railway industry, and in particular its high-speed railway industry, to improve the competitiveness of the PRC railway enterprises in the global market. We believe that this will bring significant opportunities for us to venture into the global market. We will focus on the implementation of our international strategy in respect of our domestically developed products and services, so as to grow our brand and presence in the overseas markets.

We will leverage the National Large Railway Track Maintenance Machinery International Technology Cooperation Center to further enhance our project and technical cooperation with well-known international enterprises, and to increase both domestic and international R&D cooperation.

In our early stage of international expansion, we intend to leverage our long-term relationship with some major railway enterprises and form alliances with them to jointly undertake major overseas rail transportation construction projects, either through providing our products with proprietary technologies, selling parts and components or providing our railway line maintenance services. Capitalizing on our comprehensive product portfolio and services covering the full industry value chain, we can provide comprehensive and systemic solutions to our customers, which benefits both our clients and our overseas expansion.

We intend to establish our presence in targeted markets, primarily in Africa, Middle East, Southeast Asia and South America, through the setting up of offshore plants, joint ventures, mergers and acquisitions to broaden our international business network through localization. We anticipate that focusing on such targets will improve our ability to serve our overseas customers. In particular, we intend to actively acquire reputable overseas design companies and manufacturers with strong R&D capabilities, to help us tap into the global markets. We will take thorough steps in selecting our acquisition targets, with the aim of ensuring that they will create value for us in the future. We place particular emphasis on exploring acquisition targets, potentially located in Europe, with high growth potential that engage in large railway track maintenance machinery research and development, as we believe that such acquisitions will make us satisfy the European large railway track maintenance machinery product qualifications and the conditions to enter into the European large railway track maintenance machinery market. As of the Latest Practicable Date, we have not yet identified any targets to be acquired or entered into any definitive agreement with any party to acquire any business or entity.

Focus on R&D and innovation in order to enhance core competitiveness

Leveraging our National Large Railway Track Maintenance Machinery Engineering Research Center, National Large Railway Track Maintenance Machinery International Technology Cooperation Center, post-doctoral research station and other platforms, we intend to establish an R&D system to facilitate the integration of research, trial and testing and certification, in line with our leading role in the development of the industry. We will draw on various technological resources and R&D strengths and accelerate the development of R&D and innovation, to create a line of products and systemic solutions that incorporate our own intellectual property rights and meet the technological standard requirements of different

BUSINESS

countries, with the aim of developing an internationally-renowned brand for us. We will focus on implementing our National Large Railway Track Maintenance Machinery International Technology Cooperation Center project (the “International Technology Cooperation Center Project”), to achieve our five key objectives of (1) promoting internationalization, (2) expanding into new industries, (3) developing new products, (4) conducting trial and testing of new products and (5) establishing a display and service center for new products. We intend to develop the necessary facilities to promote innovation, with our north and south production bases supplementing each other.

Develop a professional talent pool

We believe that professional talents are the key to the our success. We aim to establish a professional team with international standards required to build a world-class enterprise and develop a professional talent pool.

We will further improve our talent selection process and enhance our professional incentive plan. We will carry out the selection and cultivation of leadership talents and actively develop a professional talent pool. We intend to further promote the professionalization, specialization and internationalization of our operational management talents, equip them with international industry standards and global vision, and enhance their professional skills. We will build a sound talent structure and development path, in order to provide human resource support for our business development.

OUR PRODUCTS AND SERVICES

The following table sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue:					
Manufacturing and Sales of Machines					
Tamping machine series	900,920	1,348,806	1,908,238	1,006,973	780,184
Stabilization machine series	152,574	322,316	448,814	213,893	102,752
Ballast cleaning machine series	440,671	203,791	132,918	38,092	112,320
Ballast regulator series	121,437	107,922	140,603	114,697	17,886
Materials logistics machine series	196,273	240,137	63,044	35,482	155,340
Rail processing machine series	229,739	87,156	82,934	82,828	49,193
Other machinery	45,781	79,040	14,940	8,435	39,132
Subtotal	2,087,395	2,389,168	2,791,491	1,500,400	1,256,807
Parts and Components Sales and Services	535,978	548,790	440,097	173,007	326,448
Overhaul Services	210,728	199,270	215,018	64,007	198,594
Railway Line Maintenance Services	29,544	31,802	30,114	7,929	12,744
Total	<u>2,863,645</u>	<u>3,169,030</u>	<u>3,476,720</u>	<u>1,745,343</u>	<u>1,794,593</u>

BUSINESS

Through years of effort, we have established an extensive business network throughout the PRC, which consisted of four sales offices located in Beijing, Kunming, Shanghai and Xi'an, as of June 30, 2015, with plans to establish new sales offices in Guangzhou, Wuhan, Shenyang and Chengdu, through which we could provide our products and services efficiently to our customers. Our business network is able to service the entire railway network in the PRC. The chart below shows our business network in the PRC as of June 30, 2015.

<u>Sales Offices</u>	<u>Service Area</u>
Beijing	Beijing, Tianjin, Hebei, Inner Mongolia, Heilongjiang, Jilin and Liaoning
Kunming	Yunnan, Sichuan, Guizhou, Guangxi, Guangdong, Hunan, Chongqing and Hainan
Xi'an	Tibet, Qinghai, Xinjiang, Gansu, Shaanxi, Shanxi and Ningxia
Shanghai	Shanghai, Shandong, Jiangxi, Henan, Hubei, Anhui, Fujian, Zhejiang and Jiangsu

The map below illustrates our business network as of June 30, 2015 in the PRC:



In addition, we provided products and services overseas to Hong Kong and Kazakhstan in the six months ended June 30, 2015.

Manufacturing and Sales of Machines

We produce machinery and products used in the construction of new railway lines, modification of existing railway lines and maintenance of operating railway lines. Railway track maintenance machinery and products serve complementary functions and are used together in railway repair, overhaul, construction and modification. Different machines operate together as integrated operating groups, for example, the operating group comprising tamping machines, stabilizing machines and ballast regulators is used in integrated railway repair operations and the operating group comprising ballast cleaning machines, tamping machines, stabilizing machines and ballast regulators is used in overhaul operations. Both operating groups can be used for the construction of new railway lines and modification of existing railway lines. For example, the application of large railway track maintenance machines in the construction of a new railway line typically involves two stages, namely, the preliminary calibration stage where the new railway line has been constructed to satisfy the basic operational requirements for the railway line, including meeting the basic specifications relating to railway track width, track alignment to ensure the railway line is able to support line speeds of at least 80km/h, and the precision calibration stage where the precision of the new railway line has been further improved to satisfy the prescribed operating conditions. Operating groups of large railway track maintenance machines are applied at both stages to ensure the smooth construction and operation of the new railway lines. In accordance with the relevant regulations of competent authorities, for all constructions of new railway lines, track maintenance (including tamping, formation and rehabilitation) must be conducted before the inspection and acceptance of such railway lines.

We are a systemic solution provider with the most comprehensive manufacturing capabilities and the most developed range of products and services in the PRC large railway track maintenance machinery industry. Our products can be applied towards railway tracks of different widths and clearances. We produce specialized single-function machinery and equipment, as well as multi-function machines with various operational capabilities. We produce conventional railway track maintenance machinery used in main railway lines and turnouts, and also produce specialized machinery, for example, tamping machines and ballast cleaning machines used in high-altitude environments, as well as railway track snow removers and debris suction machines. Our products are able to cater to different areas of railway maintenance operations, from the track bed to the rail surface to the overhead contact lines. We have established a multi-faceted, integrated railway track repair and maintenance platform and are also expanding our product line to cater to the ballastless track, subway and urban light rail markets.

BUSINESS

The following table sets forth the total units sold for each series of our major large railway track maintenance machinery in the periods indicated:

	Year ended December 31,			Six months ended	
				June 30,	
	2012	2013	2014	2014	2015
	(unit)				
Tamping machine series	70	87	128	61	55
Stabilization machine series	20	42	59	28	12
Ballast cleaning machine series	23	10	7	2	6
Ballast regulator series	32	26	35	26	5
Materials logistics machine series	48	51	17	9	40
Rail processing machine series	24	9	2	2	5
Other machinery	6	8	2	1	10
Total	223	233	250	129	133

In 2012, 2013, 2014 and the six months ended June 30, 2015, revenue from our manufacturing and sales of machines business was RMB2,087.4 million, RMB2,389.2 million, RMB2,791.5 million and RMB1,256.8 million, respectively, representing 72.9%, 75.4%, 80.3% and 70.0% of our total revenue for those periods, respectively.

The following table sets forth the average sales price of our main series of large railway track maintenance machinery for the periods indicated:

	Year ended December 31,			Six months ended	
				June 30,	
	2012	2013	2014	2014	2015
	(RMB'000/unit)				
Tamping machine series	12,870.3	15,503.5	14,908.1	16,507.8	14,185.2
Stabilization machine series	7,628.7	7,674.2	7,607.0	7,639.0	8,562.7
Ballast cleaning machine series	19,159.6	20,379.1	18,988.3	19,046.0	18,720.0
Ballast regulator series	3,794.9	4,150.8	4,017.2	4,411.4	3,577.2
Materials logistics machine series	4,089.0	4,708.6	3,708.5	3,942.4	3,883.5
Rail processing machine series	9,572.5	9,684.0	41,467.0 ⁽¹⁾	41,414.0 ⁽¹⁾	9,838.6
Other machinery	7,630.2	9,880.0	7,470.0	8,435.0	3,913.2

(1) The average unit sales price of our rail processing machine series was relatively high in 2014 and for the six months ended June 30, 2014, because of a track milling machine we sold in the six months ended June 30, 2014, which had a relatively high unit price in our product portfolio.

As each machine under each series has different technical specifications, parameters and capabilities, there are significant differences in the sale price of each machine type. As the machine portfolio under each series is different, the average sales price of each series experienced varying fluctuations during the Track Record Period.

Product Description

Tamping Machine Series

Railways with a ballast track bed may deteriorate after a period of time, regardless whether such railways are in operation, or after an overhaul and cleaning exercise, resulting in the straight portions becoming crooked and the curved portions losing their curve. The track may also exhibit vertical and horizontal misalignment. Tamping operations carried out by our tamping machines comprise track lining, lifting and leveling, to restore the track alignment and the straightness and curve of the track to meet the requirements of its original design standard or the maintenance standard. Tamping and packing of the track bed and track shoulder ballast improves the compactness of the track bed ballast under the sleepers, to ensure the accurate alignment of the track for a relatively long period. Tamping, lining, lifting and leveling operations are usually completed at the same time.

We set forth below details of our representative products under the tamping machine series:





	Type	Model number	Product description
	Tamping Machine	DC-32	A simple and economical double-sleeper step tamping machine, widely used in railway track maintenance, overhaul, construction and modification and primarily applied for overhaul operations. It can reach an operational efficiency of 1.2 km/h. We also produce a high-altitude specification type of this machine.
	Continuous tamping machine	DCL-32	A continuous movement double-sleeper tamping machine. Comprising a primary carriage and a secondary carriage, the primary carriage operates by continuous movement, while the secondary carriage operates by single-step movement guided by the track. It can reach an operational efficiency of 1.8 km/h. We also produce a high-altitude specification type of this machine.
	Continuous movement tamping and stabilizing machine	DWL-48	A continuous movement triple-sleeper tamping machine that combines both tamping and stabilization functions in one machine. It carries out tamping and stabilization operations synchronously, and can reach an operational efficiency of 2.3 km/h. We also produce a high-altitude specification type of this machine.
	Turnouts tamping machine	CDC-16	A single-sleeper tamping machine used to carry out track lifting, lining and tamping operations on turnouts. It can also be used to carry out operations on main railway lines. It can reach an operational efficiency of 0.5 km/h. We also produce a high-altitude specification type of this machine.
	Turnouts tamping and stabilizing machine	XCDW-32	A double-sleeper tamping machine used to carry out track lifting, lining, tamping and stabilizing operations on turnouts. It can also be used to carry out continuous operations on main railway lines. It can reach an operational efficiency of 1.8 km/h.

BUSINESS

Ballast Cleaning Machine Series

Railways with a ballast track bed may foul and lose their elasticity after a period of operation. When the degree of fouling on the railway track exceeds 30%, the track requires ballast cleaning. Our ballast cleaning machines are used to clean the ballast on the track bed, by excavating the fouled ballast from under the sleepers and cleaning the ballast in an oscillating screening working device to ensure the ballasts meet the required quality standard, before returning the cleaned ballast back to the track bed. The residue from the cleaning operations is transported to both sides of the tracks or removed using material conveyor machines.

We set forth below details of our representative products under the ballast cleaning machine series:

	<u>Type</u>	<u>Model number</u>	<u>Product description</u>
	Undercutter ballast cleaning machine	QS-650	A ballast cleaning machine for main railway lines, with an operational efficiency of up to 650 cu.m./h. It is able to carry out full cleaning operations on tracks with mud pumping defects. We also produce a high-altitude specification type of this machine.
	Undercutter ballast cleaning machine	QS-1200	A ballast cleaning machine for main railway lines, with an operational efficiency of up to 1,200 cu.m./h. Equipped with the capability to supply new ballast, it is able to carry out full cleaning operations and new ballast supply operations on tracks with mud pumping defects.
	Turnouts undercutter ballast cleaning machine	CQS-550	A specialized ballast cleaning machine for turnouts, with an operational efficiency of up to 550 cu.m./h. This machine is also suitable for main railway lines.
	Shoulder ballast cleaning machine	BS-550	A specialized ballast cleaning machine that cleans shoulder ballast. Such cleaning operations are usually carried out in between two overhaul cycles and are targeted at shoulders with heavy fouling and poor drainage, to reduce damage to the track bed and extend the overhaul cycle. It has an operational efficiency of up to 550 cu.m./h.



Stabilization Machine Series

After tamping and ballast cleaning operations, the railway ballast track bed may not be sufficiently dense, and the track's resistance to lateral displacement and stability may be poor. As such, railway trains will be required to travel at a reduced speed for a certain period after such operations, to ensure the safety of railway operations. To reduce these temporary speed restrictions and ensure that the railway track returns to optimum stability after such operations as soon as possible, stabilizing operations are carried out. Our dynamic stabilizing machines simulate the pressure and vibrations caused by the train when travelling on the track, and are able to effectively reduce the speed restrictions after tamping or ballast cleaning. Railway trains

BUSINESS

are not required to reduce their travel speed when travelling on tracks that have been stabilized by our dynamic stabilizing machines.



We set forth below details of our representative products under the stabilization machine series:

	<u>Type</u>	<u>Model number</u>	<u>Product description</u>
	Stabilizing machine	WD-320	A stabilizing machine used for main railway lines. We also produce high-altitude, wide gauge and narrow gauge specification types for this machine.
	Turnouts stabilizing machine	WD-320	A stabilizing machine used for turnouts. It can also be used to carry out stabilizing operations on main railway lines, normal single turnouts, symmetrical double turnouts and single crossovers. We also produce high-altitude, wide gauge and narrow gauge specification types of this machine.

Ballast Regulator Series

The main functions of ballast regulator machines are to distribute and profile the ballast in the track bed, and to sweep the track. This machine shapes the ballast of the track shoulder to make the cross section of the track bed meet the required standards, and distributes ballast uniformly using the center plough. The machine also removes the ballast left behind on the sleeper and the fasteners after the operation, to ensure that the track meets the required standards and is neat and presentable.



We set forth below details of our representative products under the ballast regulator series:

	<u>Type</u>	<u>Model number</u>	<u>Product description</u>
	Bi-directional ballast regulator	SPZ-200	A two-axis ballast regulator. We also produce high-altitude, wide gauge and narrow gauge specification types of this machine.
	Four-axis ballast regulator	DPZ-440	A four-axis ballast regulator. It is able to sweep and collect the ballast left behind on the sleepers and the fasteners after an operation, which can be fed back to the track bed where a small amount of ballast is required, achieving economical utilization of ballast. We also produce high-altitude, wide gauge and narrow gauge specification types of this machine.

Materials Logistics Machine Series

Material conveyors can be used to transport the residue generated from ballast cleaning operations, to avoid releasing it around the shoulder, the multi-railway segment and station premises. This prevents the waste ballast and mud from fouling the track and railway station, thereby protecting the environment and eliminating manual clean-up. In addition, one or more such machines can be operated synchronously as a team with ballast cleaning machines or formation rehabilitation machines to supply new ballast through overhaul or maintenance operations. It can also transport new ballast to the incident site during a railway rescue operation, to rapidly feed new ballast into the track bed.

We set forth below details of our representative products under material logistics machine series:

	<u>Type</u>	<u>Model number</u>	<u>Product description</u>
	Material conveyor	WY-100	An eight-axis material conveyor without driving power.
	Material conveyor	WY-100III	A six-axis material conveyor with or without driving power. Those with driving power are further categorized into two-axis and four-axis conveyors. We also produce a high-altitude specification type of this machine.





Rail Processing Machine Series

Rail processing machines include rail milling, grinding and welding machines. After long periods of operation, certain parts of the track, in particular the curved sections of the track, may suffer rail defects, such as wear of the rail, cross-section errors, damage resulting from ageing, short or long waviness and head checks. The milling and grinding processes reprofile the rail head to eliminate rail defects and improve the smoothness of the rail surface and improve the wheel-rail contact relation.

Rail welding machines are used for the construction of new railways, as well as the reformation of existing railway lines to complete on-railway, off-railway and lock welding. The welding machines are able to weld two rail ends together and, immediately following necessary post-welding treatments, the tracks are able to meet the requirements of railway operation.

BUSINESS


We set forth below details of our representative products under the rail processing machine series:

	<u>Type</u>	<u>Model number</u>	<u>Product description</u>
	Rail milling machine	XM-1800	A technologically advanced new rail reprofiling machine. It is digitally controlled and utilizes various milling tools to shape and mill the rail and remove the surface material of the rail, in order to remove the rail defects in one pass.
	Turnouts grinding machine	CMC-16	A specialized machine used for the grinding of turnouts. It can also be used for the grinding of main railway lines, and will require several passes of grinding to complete the rail maintenance operation.
	Mobile flash-butt rail welding machine	YHG-1200	A specialized, fully automatic, digitally controlled rail welding machine. It uses a momentary short circuit between the positive and negative polarity, converting electrical energy to heat energy to generate a high temperature arc to melt the steel rail and carry out the welding operation. Automatic centering of running edges and pressure-holding shearing are available.
	Digitally controlled gas pressure rail welding machine	YHGQ-1200	A specialized, fully automatic, digitally controlled track welding machine. It uses oxy-acetylene flames to melt the steel rail in order to carry out the welding. Automatic centering of running edges and pressure-holding shearing are available. This machine is especially suited for high-altitude track welding.





Other Machinery Series

Other machines include catenary inspection and maintenance machines, catenary installation machine and other large railway track maintenance machines which integrate mechanical, hydraulic, pneumatic and automation control systems. These machines are widely used for special applications in national railway, fast-speed railway high-speed railway and urban railway.

We set forth below details of our representative products under the other machinery series:

	<u>Type</u>	<u>Model number</u>	<u>Product description</u>
	Catenary inspection and maintenance vehicle	JDZ-160	With a maximum speed of up to 160km/h, it can quickly arrive at the work site to carry out integrated inspection overhaul, maintenance and first-aid repair of the catenary. This machine is also known as the catenary ambulance.

BUSINESS

	<u>Type</u>	<u>Model number</u>	<u>Product description</u>
	Track snow remover	GCX-1000	A powerful, specialized machine that mechanically removes snow from the surface of the track using air blower and snow suction units, with a maximum snow removal capability of 10,000 cu.m./h. The machine can also be used as a track tractor, and has a maximum speed of up to 120km/h.
	Track sewage suction machine	TX-65	A specialized machine that mechanically cleans the sewage from the surface of the track using air blower and sewage suction units. It is able to suck up dust, soil particles and pebbles that have accumulated on the surface of the track beds of main railway lines, bridges and tunnels, in order to prevent such sewage from being drawn up by the high-speed train and damaging the bottom of the train and polluting the environment. This ensures the safe operation of the high-speed railways.
	Track measurement machine	GZC-120	A measuring machine used to measure and calculate the relative geometry parameters of the fixed points from the track axis. Such measurement data can be used by the tamping machines directly, and can also be provided to railway administration, in order to provide accurate data to carry out the maintenance and overhaul of tracks.
	Bridge inspection machine	QJ-280	A self-propelled inspection machine for bridge, tunnel and aerial operations. It has a large working area. Its crane jib is able to reach down to 13.5m below and up to 24.5m above the track surface and levelly 21m away from the track axis, enabling it to carry out inspections and maintenance of bridges and their accessory equipment.

Parts and Components Sales and Services

Capitalizing on our industry expertise and know-how of large railway track maintenance machinery, we manufacture, purchase and sell various types of parts and components. Our Kunming plant manufactures the parts and components. During the Track Record Period, we traded a broad range of parts and components of different types and specifications, which mainly include bogies, electrical control systems, working devices, wheelsets, transmissions, pumps, valves, motors and drive shafts. Capitalizing on our leading position in large railway track maintenance machinery R&D, manufacturing and repair, and being the original manufacturer of large railway track maintenance machinery, we have become the main provider for the key parts and components used in large railway track maintenance machinery.

In 2012, 2013, 2014 and the six months ended June 30, 2015, revenue from our parts and components sales and services business amounted to RMB536.0 million, RMB548.8 million, RMB440.1 million and RMB326.4 million, respectively, representing 18.7%, 17.3%, 12.7% and 18.2% of our revenue for the same periods, respectively.

BUSINESS

Overhaul Services

We provide overhaul services for large railway track maintenance machines. Our overhaul work includes repair, upgrade and remanufacture. While the repair work focuses on fixing defects, upgrade and remanufacture work enable old machines to be equipped with the latest technology, in order to perform more efficiently and extend their useful life of relevant machines.

The following table sets forth the total units of large railway track maintenance machines that we overhauled, and recognized revenue by different series, in the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
			(unit)		
Tamping machine series	19	18	16	5	22
Stabilization machine series	7	3	5	1	4
Ballast cleaning machine series	9	7	6	2	3
Ballast regulator series	9	2	4	2	3
Total	44	30	31	10	32

During the Track Record Period, we provided overhaul services for four series of products, namely, tamping machine series, stabilization machine series, ballast cleaning machine series and ballast regulator series. Depending on the useful life and workload of the machines, large railway track maintenance machines would generally require overhaul services provided by their manufacturers after 10 to 13 years in use, in order to maintain operational safety and extend their useful lives. Since 2000 and up to December 31, 2014, we had sold approximately 1,960 large railway track maintenance machines. We believe that these machines will generally require overhaul services in the near future, and expect the demand for our overhaul services to continue to grow. For details of the recommended maintenance cycle of our products, see “Industry Overview – PRC Railway Transport Network and Large Railway Track Maintenance Machinery Industry – PRC Large Railway Track Maintenance Machinery Overhaul Service Market.”

In 2012, 2013, 2014 and the six months ended June 30, 2015, revenue from our overhaul services business amounted to RMB210.7 million, RMB199.3 million, RMB215.0 million and RMB198.6 million, respectively, representing 7.4%, 6.3%, 6.2% and 11.1% of our total revenue for the same period, respectively.

Railway Line Maintenance Services

Capitalizing on our expertise in manufacturing large railway track maintenance machinery and our team of skilled employees with abundant first-hand experience in operating various types of machines under different geographic and weather conditions, we also provide railway line maintenance services to newly built and existing railway lines.

BUSINESS

We charge our customers by the amount of work or the mileage for which we operate our large railway track maintenance machines. The railway lines that have been serviced by us will meet the operating standards of the newly built lines.

The following table sets forth details of our selected completed railway line maintenance service projects up to the Latest Practicable Date:

Names of project	Type	Completion	Contract value
Kuqa-Aksu Project – railway track construction	construction of new railway lines	December 2012	RMB6.9 million
Nanning-Guangzhou Project – railway track construction	construction of new railway lines	September 2013	RMB4.3 million
Handan-Changzhi Project – railway track construction	modification of existing railway lines	November 2013	RMB4.5 million
Shuohuang Project – railway track construction	modification of existing railway lines	August 2014	RMB4.8 million
Annual large railway track maintenance machinery turnout maintenance	transformation of existing railway lines	October 2014	RMB4.7 million
Nanning-Guangzhou and Guiyang-Guangzhou Projects – large railway track maintenance machinery construction	construction of new railway lines	November 2014	RMB2.3 million
Chengdu-Mianyang-Leshan Project – large railway track maintenance machinery construction	construction of new railway lines	September 2014	RMB6.4 million
Central and South (Shanxi) Project – machinery operation subcontracting	construction of new railway lines	January 2015	RMB9.7 million
Shijiazhuang-Taiyuan Project – machinery operation construction	modification of existing railway lines	May 2015	RMB0.9 million
Hong Kong High-speed Railway Project – railway track construction	modification of existing railway lines	May 2015	RMB0.48 million
Guangzhou-Shenzhen Project – construction engineering	modification of existing railway lines	August 2015	RMB8.2 million
Hainan Project – railway track construction	construction of new railway lines	September 2015	RMB4.5 million
Zhangjiakou-Tangshan Project – construction operation	construction of new railway lines	September 2015	RMB9.0 million
Nanning Project – railway track construction	construction of new railway lines	October 2015	RMB6.0 million
Chongqing-Guizhou Project – large railway track maintenance machinery construction	construction of new railway lines	November 2015	RMB3.7 million

BUSINESS

The following table sets forth details of our railway line maintenance service projects that have commenced work but have not been completed up to the Latest Practicable Date:

Name of project	Type	Expected completion schedule	Estimated contract value
Shimen-Changsha Project – railway track construction	modification of existing railway lines	December 2015	RMB8.2 million
Liaoning-Changsha Project – railway track construction	construction of new railway lines	December 2015	RMB0.2 million
Bada Project – construction	construction of new railway lines	December 2015	RMB2.4 million
Xi'er Project – railway track construction	construction of new railway lines	January 2016	RMB1.0 million
Linzhi Project – large railway track maintenance machinery rehabilitation and construction	construction of new railway lines	March 2016	RMB3.5 million
Chengdu-Kunming Project – construction	construction of new railway lines	December 2016	RMB10.0 million

As of the Latest Practicable Date, we did not have any railway line maintenance service projects that have been contracted for but have not commenced work.

Revenue from our railway line maintenance services business amounted to RMB29.5 million, RMB31.8 million, RMB30.1 million and RMB12.7 million in 2012, 2013 and 2014 and the six months ended June 30, 2015, respectively, which represented 1.0%, 1.0%, 0.8% and 0.7% of our total revenue for those periods, respectively.

OUR PRODUCTION FACILITIES

As of June 30, 2015, we had two production plants, located in Kunming and Beijing in China.

The table below sets forth details of our production plants as of June 30, 2015.

Plant	Space (sq.m.)	Operations
Kunming plant	179,842	Manufacturing and overhaul of large railway track maintenance machines; manufacturing parts and components; R&D
Beijing plant	16,262	Overhaul of large railway track maintenance machines

We operate flexible production lines and overhaul lines, which enable us to produce or overhaul different series and models of large railway track maintenance machines using the same production line. We believe our flexible production lines and overhaul lines have not only allowed us to enjoy flexibility in production and overhaul planning to quickly respond to changing market demands, but also reduced our capital expenditures and operating costs.

The following table sets forth information on the utilization rates, as well as the adjusted actual and planned production or overhaul volume of our production plants during the Track Record Period. We operate flexible production or overhaul lines. Therefore, to evaluate our

BUSINESS

production or overhaul capacity and utilization rates, actual production or overhaul volume of various products may not be representative, and we use our Standard Model as a basis. We designed the capacity for our production or overhaul lines on the basis of our Standard Model. We apply the conversion index assigned to each major model of our products as against the Standard Model in order to derive the adjusted production or overhaul volume of each model, for the purpose of comparison and discussion. Utilization rates are calculated by dividing the adjusted production or overhaul volume by the corresponding capacity.

	As of and for the year ended December 31,									As of and for the six months ended June 30,					
	2012			2013			2014			2014			2015		
	Utilization rate	Adjusted volume ⁽⁵⁾	Capacity ⁽²⁾	Utilization rate	Adjusted volume	Capacity	Utilization rate	Adjusted volume	Capacity	Utilization ⁽⁵⁾ rate	Adjusted volume	Capacity ⁽⁶⁾	Utilization ⁽⁵⁾ rate	Adjusted volume	Capacity ⁽⁶⁾
(%)	(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	(%)	(units)	(units)	
Kunming plant															
-manufacturing ⁽⁵⁾	93.4	267	286	125.6	359	286	96.1 ⁽⁶⁾	275	286	49.3	71	143	104.8 ⁽⁷⁾	150	143
-overhaul ⁽⁵⁾	74.9	37	50	85.7	43	50	96.2 ⁽⁸⁾	48	50	66.4	17	25	56.4 ⁽⁹⁾	14	25
Beijing plant															
-overhaul ⁽⁵⁾	30.3	15	50	43.8	22	50	59.0 ⁽¹⁰⁾	29	50	22.1	6	25	16.2 ⁽¹¹⁾	4	25

- (1) Adjusted volume is calculated by converting the actual production or overhaul volume of different types of machines into the adjusted total production or overhaul volume of Standard Model for the respective periods using the conversion indices. The conversion index is assigned to each major model of our products as against the Standard Model, taking into consideration production or overhaul time and complexity of the production or overhaul techniques.
- (2) Capacity refers to designed production or overhaul capacity, which is a conservative estimate and assumes a production or overhaul line operating for 246 days a year and eight hours a day for the production or overhaul of our Standard Model. Actual production may exceed capacity due to measures including (i) increasing the efficiency and skill level of our workers; (ii) optimizing the production layout and improving efficiency of production steps; and (iii) arranging additional shifts of workers during peak production periods.
- (3) Our utilization rate in the first half of the year is generally low, because (i) of the Chinese Lunar New Year in the first quarter; (ii) we usually make use of the first half of the year to carry out purchase and replacement of raw materials and parts and components; and (iii) our overhaul services business is affected by seasonality. See “– Seasonality.”
- (4) Our capacity for the first half of the year is calculated by dividing our capacity for the full year by two.
- (5) Due to the timing differences caused by the product delivery schedule, our recognition of our production or overhaul volume differs from our recognition of our production or overhaul revenue. In order to provide a more accurate reflection of our utilization rates, the production or overhaul volume which we use for the calculations in this table refer to the number of large railway track maintenance machines which we produced or overhauled during the specific period. The production or overhaul volume which we use for the calculations in this table differs from the production or overhaul volume that is linked to our production and overhaul revenue, which is used elsewhere in this prospectus.
- (6) Our Kunming plant’s production utilization rate increased from 93.4% in 2012 to 125.6% in 2013, primarily because our purchase orders, and correspondingly, our production volume, increased in 2013. The utilization rate decreased from 125.6% in 2013 to 96.1% in 2014 primarily because in 2014, we enhanced our efforts in inventory management and consumed a significant amount of finished products in our inventory, therefore we decreased our production volume in 2014.
- (7) Our Kunming plant’s production utilization rate increased from 49.3% for the six months ended June 30, 2014 to 104.8% for the six months ended June 30, 2015, primarily because (i) we consumed the finished products in

BUSINESS

our inventory in 2014 and (ii) we manufactured a larger proportion of products with a high conversion factor in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, thus resulting in a higher adjusted production volume and a higher utilization rate.

- (8) In 2012, 2013 and 2014, the overhaul utilization rate of our Kunming plant steadily increased, primarily because the large railway track maintenance machines which we had sold previously became due for overhaul, therefore the demand for overhaul services increased.
- (9) Our Kunming plant's overhaul utilization rate decreased from 66.4% for the six months ended June 30, 2014 to 56.4% for the six months ended June 30, 2015, primarily because we carried out overhaul on a smaller proportion of products with a high conversion factor in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, thus resulting in a lower adjusted overhaul volume and a lower utilization rate.
- (10) In 2012, 2013 and 2014, the overhaul utilization rate of our Beijing plant steadily increased, primarily because (i) the large railway track maintenance machines which we had sold previously became due for overhaul, and so the demand for overhaul services increased, and (ii) our Beijing plant had been gradually obtaining repair permits for various machine types, and so was able to provide an increased range of overhaul services.
- (11) The overhaul utilization rate of our Beijing plant decreased from 22.1% for the six months ended June 30, 2014 to 16.2% for the six months ended June 30, 2015, primarily because we carried out overhaul on a smaller proportion of products with a high conversion factor in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, thus resulting in a lower adjusted overhaul volume and a lower utilization rate.

EQUIPMENT AND MANUFACTURING PROCESSES

Equipment

We own advanced manufacturing, inspection, testing and trial equipment and adopt leading operational processes and promote efficient production in all operational aspects. As of June 30, 2015, we had 1,093 sets of equipment in total, the details of which are set forth below:

<u>Category</u>	<u>Sets</u>
Heavy lifting appliances (起重機械)	203
Transportation (運輸設備)	91
Metal cutting lathe (金屬切削機床)	140
Forging, pressing, shearing and stamping machines (鍛壓剪沖設備)	61
Welding and cutting machines (焊接及切割設備)	294
Casting and heat treatment equipment (鑄造及熱處理設備)	28
Power equipment (動力設備)	72
Repairs equipment (維修專用設備)	43
Testing machines (測量及試驗設備)	161
Total	<u>1,093</u>

BUSINESS

The table below sets forth our top ten production equipment in our manufacturing facilities by net carrying value as of June 30, 2015:

No.	Equipment name	Quantity (unit)	Purchasing date	Net carrying value ⁽¹⁾ (RMB'000)	Remaining life (months)
1	Processing Center for Horizontal Milling	1	November 11, 2011	9,409.2	80
2	Production Logistics and Distribution System	1	February 21, 2011	7,230.8	71
3	CNC Gantry Milling Machine	1	March 31, 2011	6,068.7	72
4	CNC Double-ended Axle Forming Grinder	1	August 29, 2011	4,647.9	77
5	Processing Center for Simultaneous Five-Axis Milling	1	August 14, 2008	3,034.6	41
6	Paint Spraying Equipment, Paint Spraying Pretreatment Equipment	1	October 25, 2010	2,827.6	67
7	CNC Laser Cutting Machine	1	April 12, 2010	2,592.1	61
8	Processing Center for Simultaneous Five-Axis Milling	1	September 15, 2008	2,099.1	42
9	CNC Wheel Assembly Equipment	1	September 19, 2011	2,080.0	18
10	Robotic Welding System	1	March 1, 2010	2,079.2	59

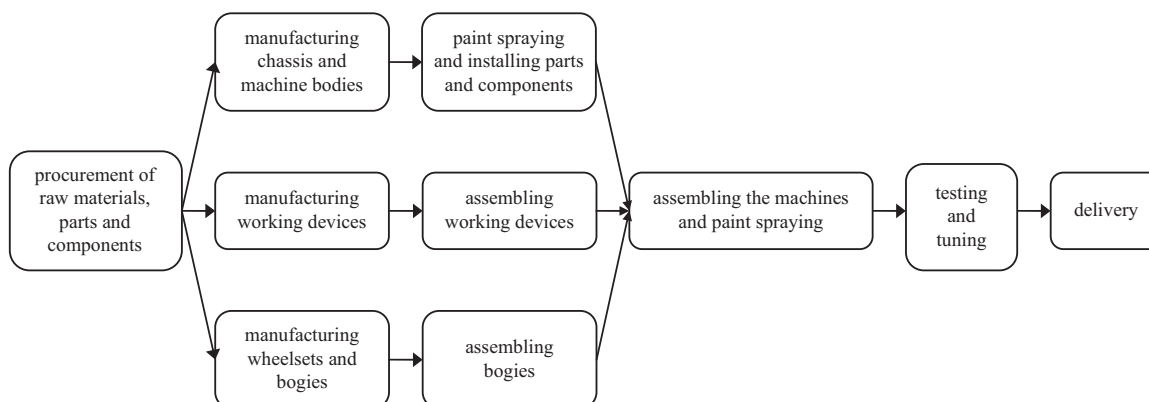
(1) Net carrying value equals the original cost of machines, less depreciation, amortization or impairment costs.

Our major production equipment has an average useful life of approximately 10 years. As of the Latest Practicable Date, we did not anticipate discarding any of our major production equipment. We believe that with proper preventive measures, maintenance and repair, the useful life of the production equipment can be extended.

Process of Manufacturing Machines and Components

We offer our customers systemic solutions for large railway track maintenance machinery and key parts and components used in large railway track maintenance machinery. The manufacturing of large railway track maintenance machinery and parts and components essentially involves three stages, namely, procurement of raw materials, parts and components, manufacturing and assembly of parts and components and testing and delivery.

The following flow chart summarizes the manufacturing processes for our large railway track maintenance machinery:



BUSINESS

<u>Procedures</u>	<u>Specific Work Scope</u>	<u>Approximate Duration</u>
Purchasing raw materials, parts and components	Purchasing raw materials, parts and components from domestic and overseas suppliers, blanking raw materials, processing and welding	Ranging from several weeks to five months (with some exceptions extending to more than six months), subject to the nature and complexity of raw materials, parts and components
Manufacturing machine chassis and bodies	Manufacturing machine chassis and bodies, which provide the main framework of our large railway track maintenance machines, to support the installation and dynamic runtime assembly of the working devices	Ranging from one to one and a half months, dependent on the complexity of the products
Paint spraying and installing parts and components	Derusting machine chassis and bodies, welding and installing part of the parts and components onto the machine bodies, cleaning chassis and bodies and applying undercoating to prevent rusting	Ranging from seven to 15 days, dependent on the complexity of the products
Manufacturing working devices	Rough casting, blanking raw materials, welding, processing and other steps necessary to manufacture and assemble various working devices to perform the key functions of our large railway track maintenance machines	Ranging from one to two and a half months, dependent on the complexity of the working devices
Assembling working devices	Cleaning, assembling, testing, paint spraying and carrying out other steps necessary to assemble the working devices	Ranging from three to 15 days, dependent on the complexity of working devices
Manufacturing wheelsets and bogies	Rough casting, blanking raw materials, welding, processing and other steps necessary to manufacture wheelsets, bogies and other parts and components	Ranging from 20 to 35 days, dependent on the complexity of the wheelsets and bogies
Assembling bogies	Cleaning, paint spraying, assembling, testing and carrying out other steps necessary to complete the assembly of bogies	Ranging from one day to three days, dependent on the complexity of the bogies
Assembling the machines and paint spraying	Assembling machine bodies and bogies, installing key parts and components and working devices (such as engines) to the machine bodies, decorating driver's cabin, installing control systems, topcoating the entire machine and spraying product identification	Ranging from 15 days to one month, dependent on the complexity of the products
Testing and tuning	Testing product functions and tuning, high-speed road testing and water-spray testing	Ranging from 10 to 35 days, dependent on the complexity of the products
Delivery	Convening meetings for product delivery and completing the delivery jointly with customers. For more details, see “– Product Delivery.”	Ranging from one to seven days, dependent on the complexity of the products

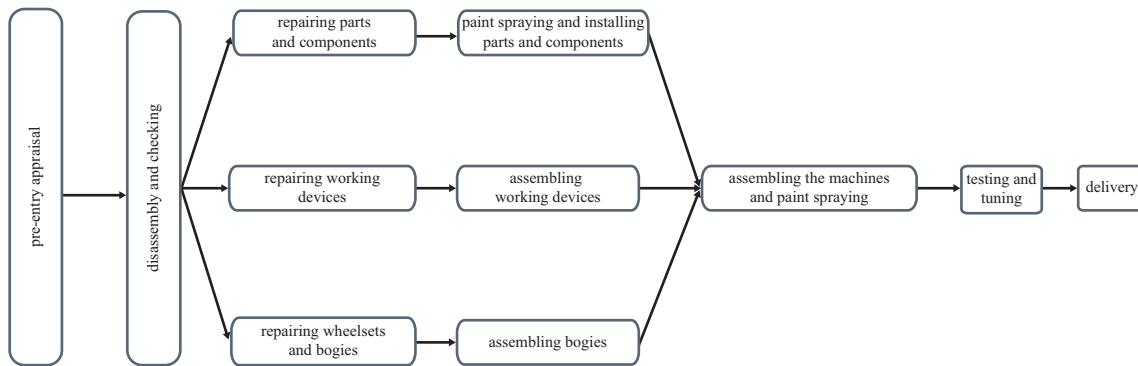
The length of our production process varies between different product series and model types. During the Track Record Period, our average production time for manufacturing a large railway track maintenance machine ranged from approximately six to 14 months. In

BUSINESS

anticipation of purchase orders to be granted to us by our customers, including CRC and its affiliated enterprises, we usually manufacture some basic models of large railway track maintenance machinery in advance, such as machines under the tamping machine series, stabilization machine series and ballast cleaning machine series. Advanced production ensures that such machines can be delivered to our customers shortly after the purchase orders are placed. As of the Latest Practicable Date, we had not encountered any situation where our advanced production of machines resulted in over-production due to a shortfall in the amount of purchase orders actually received from our customers. As of the Latest Practicable Date, all of the large railway track maintenance machines that we had manufactured in 2012 and 2013 in advance of receiving purchase orders from our customers were subsequently purchased by our customers or were due to be sold under purchase orders placed by our customers.

Overhaul Procedures

We provide overhaul services for large railway track maintenance machines, including repair, upgrade and remanufacture. Our overhaul process for large railway track maintenance machinery primarily involves pre-entry appraisal, disassembly, checking, repairing, assembling the machines and paint spraying, testing and tuning and delivery.



The following table summarizes the overhaul process for our large railway track maintenance machinery:

Step	Specific work
Pre-entry appraisal	Verify information on the machines and apply for job number; conduct general check before the machines are accepted for overhaul
Disassembly	Disassemble the machines and clean the parts and components
Checking, repairing and/or upgrading of parts and components, working devices, wheelsets and bogies	<p>Check or replace relevant part and component, working device, wheelset or bogie</p> <p>For working devices and parts and components that we need to purchase for the repair or upgrade of relevant machines, we generally ask for approval from the relevant customer prior to purchasing and installation, unless such arrangement has already been explicitly covered in the agreed contract</p>
Pre-assembly	Assemble the parts and components and assemble the working devices and bogies, to facilitate the further testing and tuning of the final assembled machine

BUSINESS

<u>Step</u>	<u>Specific work</u>
Assembling the machines and paint spraying	Assemble machine bodies and bogies, install key parts and components and working devices (such as engines) to the machine bodies, install control systems and apply the topcoat to the entire machine
Testing and tuning	Test product functions and tuning, high-speed road testing and water-spray testing
Delivery	Convene meetings for product delivery, complete the delivery together with customers. For more details, see “– Product Delivery.”

The length of the overhaul process varies between different product series and model types. During the Track Record Period, the average time for overhauling a large railway track maintenance machine was approximately six months.

The International Technology Cooperation Center Project

In line with our development strategy, we are currently implementing our International Technology Cooperation Center Project at our Beijing plant, to enhance our innovation ability and our development in the international market. This project aims to achieve our five key objectives of (1) promoting internationalization, (2) expanding into new industries, (3) developing new products, (4) conducting trial and testing of new products and (5) establishing a display and service center for new products.

To further our growth in the overseas market and expand into the urban rail transit system industry, one key function of our International Technology Cooperation Center Project is to develop and provide highly adaptive products to suit distinctive features of railways in different countries and the urban rail transit system.

This project will particularly focus on improving our products and developing new products, which can adapt to tracks with various gauges (including standard gauge, narrow gauge and wide gauge) and various technology requirements in different countries. For example, according to CIC, the majority of railway tracks in China are of standard gauge and the majority of railway tracks in the former Soviet states, India, Pakistan, some European nations and Argentina are of wide gauge. Railway tracks of narrow gauge are widely used in Africa, Southeast Asia and most South American countries. Our overseas expansion plan primarily targets Africa, Middle East, Southeast Asia and South America, and our products need to cover a wide spectrum of specifications and operational capabilities in order to tap into these markets. Up to the Latest Practicable Date, we had developed tamping machines and ballast regulators suitable for tracks of wide gauge and narrow gauge and stabilization machines and ballast cleaning machines suitable for tracks of wide gauge. We expect to commence trial production of these enhanced machines by 2017, and further expand the spectrum of our products to meet specific requirements when we enter new markets with different operational environments and expectations on product functions and prices.

Further, this project will focus on improving our products to adapt to the operating environment of urban rail transit system, by considering its different standards from those of the railway system, such as axle load and gauges. In addition, this project will focus on developing new products that are used in urban rail transit systems, such as new products under the turnouts series, steel rail series and dirt suction series.

BUSINESS

In addition, through continually enhancing our innovation ability and R&D capabilities, we expect to shift our focus from pure manufacturing to service-oriented manufacturing, the latter of which generally has a higher profit margin and is beneficial for us to expand our business.

The table below sets forth details of the International Technology Cooperation Center Project:

Projects	Description
Acquisition of land	We plan to expand our production plants in Beijing to a total area of 30,000 sq.m. by 2016.
Construction of infrastructure	We plan to equip our Beijing plant with R&D, trial and testing and manufacturing capabilities, with a production capacity of 100 Standard Models by 2017, to meet the increasing demands for our products and services.
Purchase of equipment	We plan to purchase approximately 200 sets of additional equipment by 2016, which principally include testing and field trial equipment, production equipment and information systems.

Our estimated investment in the International Technology Cooperation Center Project is approximately RMB1.4 billion, including approximately RMB263.7 million on the acquisition of land, RMB475.6 million on the construction of infrastructure, RMB514.0 million on the purchase of equipment and RMB198.9 million on miscellaneous expenses. As of the Latest Practicable Date, we incurred approximately RMB0.5 billion on this project. We intend to fund this project with a combination of our working capital and proceeds from the Global Offering. For details of our intended application of proceeds from the Global Offering, see “Future Plans and Use of Proceeds.”

We believe that the International Technology Cooperation Center Project will start to generate profit within one year after it commences commercial production in 2018, while the investment payback period will range between five and eight years. This could be materially and adversely affected by various factors beyond our control, including changes in market demand for our products or services, general economic conditions and the local government’s industrial policies.

RESEARCH AND DEVELOPMENT

We believe that our strong R&D capabilities are key to maintaining our leading industry position and sustainable development. We dedicate significant resources to enhance our R&D capabilities, in order to develop innovative and advanced technologies and products, and to enhance the quality of our products. In particular, we focus on developing proprietary technologies tailored to meet the market demand driven by various geographic and weather conditions, specific regulatory environments and international railway technical standards governing the international market.

We have a comprehensive R&D and innovation system which focuses on the development of our product innovation and integrated operation innovation capabilities, through which, we have developed and delivered a series of innovative products such as track welding machines,

BUSINESS

bridge inspection vehicles, constant tension track laying machines, track suction cleaners, track snow removers, steel rail milling and grinding machines and machinery suitable for operations in high-altitude environments, which can meet the special needs arising from the geographic, climate and regulatory environments in China. In particular, the successful introduction of machinery that is adapted to operations at high-altitude environments represented a breakthrough innovation in the world and solved the urgent demand for machines that can operate at high-altitude environments, which further ensured the successful completion of the Qinghai-Tibet railway line. In 2007, the State Council awarded us the second prize of the “National Science and Technology Achievement Award” (國家科學技術進步二等獎) for our “Key Technical Equipment, Technology and Application for Railway Tracks” operational model. As of June 30, 2015, eight of our products have been awarded the “National Key New Product” award.

Furthermore, we also focus on internalizing and further developing existing innovations. Since 1988, we have been recognized by the Chinese government as China’s first state-owned enterprise to cooperate with overseas large railway track maintenance machinery manufacturers.

Through our cooperation with overseas industry players, we have actively adopted international advanced development and manufacturing technologies, and serve as a model for win-win cooperation between Chinese and overseas industry players.

We have also established cooperative relationships with well-known domestic and international companies and academic and research institutions to develop technological innovation. In particular, we entered into a strategic cooperation agreement and corresponding general technical development agreement with the China Academy of Railway Sciences, China Railway Engineering Consulting Group Co., Ltd., CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. and CSR QSYI (collectively, the “**Consortium**”) in 1989, to promote the development, manufacture and sale of large railway track maintenance machinery and parts and components. Pursuant to these agreements, the parties established a permanent organization and cooperation framework and agreed to invest, undertake production responsibilities and share benefits in respect of various production and technical development projects. These arrangements established our dominant position in the industry for manufacturing and developing large railway track maintenance machinery and parts and components, and established our exclusive intellectual property rights associated with such projects. We believe that these arrangements reinforced our leading market position and technical strength and laid the foundation for our continual success.

Below sets forth the key strategic cooperation arrangements among the Consortium:

- Our Company takes the lead in developing large railway track maintenance machines, jointly supported by the other parties;
- Our Company, acting as the representative, participates in public tenders for large railway track maintenance machines;
- All members of the Consortium agreed to invest jointly towards new product development, with the intellectual property rights shared among the Consortium. Our

BUSINESS

Company is in charge of the overall product development and the other members of the Consortium will focus on the development of the key parts and components and sell such parts and components to our Company; and

- The Consortium maintains confidentiality of the technical secrets of the products jointly developed.

Through years of effort, we have successfully established a team of experts that are well recognized in the industry for their strong innovation capabilities and vision in developing products leading the market trend. As of June 30, 2015, we employed a research team of approximately 220 employees, of whom one held a doctoral degree, approximately 50 held master's degrees and approximately 150 held bachelor's degrees. We have six professor-level senior staff, 70 senior engineers, 100 engineers and 44 assistant engineers in our R&D team. In particular, we have one national-level winner for the "New Century Millions of Talents Project" awarded by the Ministry of Human Resources and Social Security, one expert who received a commendation from the MOR for his outstanding contributions and five experts who received commendations issued by the provincial governments in China for their outstanding achievements in innovation.

In addition, we are currently the only national large railway track maintenance machinery engineering research center in China and one of the national post-doctoral research stations. Based on our National Large Railway Track Maintenance Machinery High-Tech Industrialization Base (國家鐵路大型養路機械高新技術產業化基地) and our International Science and Technology Cooperation Demonstrator Base (示範型國際科技合作基地), we are also recognized as a national R&D platform for large railway track maintenance machinery and equipment in China.

Our research abilities and achievements are well recognized. The following table sets forth the major awards we were granted in recognition of our R&D capabilities during the Track Record Period:

<u>Period</u>	<u>Awards</u>
<i>Awards related to our products</i>	
2010	YHG-1200 mobile flash-butt rail welding machine obtained the "National Key New Product" certificate
2012	DWL-48 continuous movement tamping and stabilizing machine won the "First Prize of Science and Technology Progress Award" issued by the Yunnan Provincial Government and Kunming Municipal Government, respectively
2013	CQS-550 turnouts undercutter ballast cleaning machine obtained the "Science and Technology Award of China Railway Construction Corporation" certificate
<i>Awards related to our Company</i>	
2012	Accredited as the Base for International Scientific and Technical Cooperation of China by the Ministry of Science and Technology
2013	2012 Yunnan Top 10 Scientific and Technological Achievement Award jointly presented by the Provincial Science and Technology Department of Yunnan and the Xinhua News Agency, Yunnan branch

BUSINESS

<u>Period</u>	<u>Awards</u>
2013	the First-class Prize of Science and Technology Progress Award of Yunnan presented by the provincial government of Yunnan
2013	Accredited as the Base for International Scientific and Technical Cooperation of Yunnan by the Science and Technology Department of Yunnan Province
2013	Accredited as the National Large Railway Track Maintenance Machinery High-tech Industrialization Base of Kunming by the Ministry of Science and Technology
2013	Accredited as the National Large Railway Track Maintenance Machinery Engineering Technology Research Center
2014	Accredited as a High-tech Enterprise jointly by the Science and Technology Department of Yunnan Province, the Finance Bureau of Yunnan Province, the State Taxation Bureau, Yunnan Branch and the Taxation Bureau of Yunnan Province
2014	Accredited as the Advantageous Enterprise in Intellectual Property of Yunnan by the Intellectual Property Bureau of Yunnan Province

As of June 30, 2015, we had 197 patents, including 21 invention patents, 151 utility model patents and 25 appearance design patents. Furthermore, as of June 30, 2015, we were in the process of applying for 65 patents, including 53 invention patents, 11 utility model patents and one appearance design patent.

In 2012, 2013, 2014 and the six months ended June 30, 2015, our R&D expenses were RMB193.5 million, RMB209.4 million, RMB167.0 million and RMB47.0 million, respectively.

BUSINESS

RAW MATERIALS, PARTS AND COMPONENTS AND SUPPLIERS

Raw Materials, Parts and Components

Large railway track maintenance machines feature advanced technology, integrating mechanical, electrical, hydraulic, pneumatic, laser and computer controlled. The raw materials we use for the manufacturing of our large railway track maintenance machines mainly include steel. The table below indicates our key parts and components:

System	Major parts and components
Driveline system	Engine Gear box, transfer case, hydrostatic transmission box Drive shaft, coupling Generator Wheel, axle, bogie
Air brake system	Brake, brake unit Pneumatic valve, air tank Pneumatic tube connector
Hydraulic system	Hydraulic pump, motor, valve Hydraulic tube connector Hydraulic tank
Electrical control system	Electrical control box Electrical components Cable Video monitoring, operation monitoring, axle temperature monitoring Laser measuring system, meter

During the Track Record Period, we primarily purchased different types of raw materials and parts and components from third-party suppliers in the PRC, as we consider it is more cost-efficient than producing them by ourselves. In addition, we purchase certain key parts and components used in large railway track maintenance machinery, such as engines, drive shafts, hydrostatic transmission boxes and hydraulic components, from overseas suppliers in Austria and Germany.

During the Track Record Period, the purchase prices of our raw materials and parts and components generally remained stable. The purchase price of steel were sensitive to the fluctuations of market prices. However, given the small portion of steel in our purchases of raw materials and parts and components, such fluctuation in steel prices did not materially affect our business and financial condition. In 2012, 2013 and 2014 and the six months ended June 30, 2015, purchases of steel accounted for approximately 6.2%, 4.7%, 5.8% and 4.3% of our total purchases of raw materials and parts and components for those periods, respectively. We typically enter into annual or quarterly framework purchase agreements with our suppliers for our purchases of raw materials and parts and components, with a fixed product price or price range, in order to minimize the risk of price fluctuations.

We typically have multiple suppliers for each of our raw materials and components so as to reduce any potential disruption of our operations and reliance on any particular supplier, maintain the stable procurement of raw materials and parts and components and receive

BUSINESS

discounts on procurement prices from suppliers. During the Track Record Period and up to the Latest Practicable Date, we did not experience any shortage or delay of supply of raw materials or parts and components that caused a material adverse effect to our business operations. During the Track Record Period, we did not experience any material disputes with our suppliers.

Electricity

We purchase electricity, the main source of energy used in our manufacturing operations, at market prices from local power grids where our facilities are located.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any major disruption in our electricity supply.

Procurement Control

We adopt a policy of centralized procurement in respect of our purchase of raw materials and parts and components. With respect to steel, general parts and components and standard parts and components, we typically select suppliers through a public tender process and adopt a comprehensive evaluation model to control quality, delivery cycle and prices, and enter into annual or quarterly framework agreements with the selected suppliers. We believe that centralized procurement enables us to procure raw materials and parts and components from reliable suppliers and leverage our collective bargaining power to receive discounts on purchasing prices. With respect to those components with specific technical requirements or use, we generally select our suppliers through competitive negotiations or individual negotiation due to the limited sources of supply.

Suppliers

During the Track Record Period, we maintained long-term relationships with our key suppliers. As of June 30, 2015, we had approximately 287 suppliers and a cooperation relationship of over 20 years with our major suppliers. We select our suppliers based on various criteria, including price, product quality, function, production capacity, delivery cycle, credit history, after-sales services and guarantees, and we maintain long-term strategic relationships with them. We continually manage our suppliers and constantly monitor and evaluate our suppliers, reviewing and recording their performance in terms of delivery time, product quality, after-sales services and other aspects on a regular basis. We conduct annual reviews of our suppliers. In addition, we actively explore potential suppliers to ensure diversity in our supply chain.

When purchasing from overseas suppliers, we normally issue banks' letters of credit and make remittance at the time of delivery. When purchasing from domestic suppliers, we normally obtain a credit term of approximately 60 days. Some suppliers may allow a credit period of more than three months based on their long-term relationship with us and our good credit track record.

In 2012, 2013 and 2014 and the six months ended June 30, 2015, the purchase costs attributable to our largest supplier amounted to approximately 15.8%, 20.4%, 17.9% and 23.8% of our total purchase costs, respectively. In 2012, 2013 and 2014 and the six months ended

BUSINESS

June 30, 2015, the purchase costs attributable to our five largest suppliers amounted to approximately 49.9%, 59.1%, 49.3% and 59.8% of our total purchase costs, respectively. Our five largest suppliers are Independent Third Parties. None of the Directors, the Supervisors, their respective associates or any of our Shareholders holding more than 5% of our issued capital, to the knowledge of our Directors, owned any interest in any of our five largest suppliers as of the Latest Practicable Date.

Reliance on the Key Cooperation Partner

We have entered into various long-term cooperation agreements with the Key Cooperation Partner, principally with a term of 13 years, under which the Key Cooperation Partner has licensed us to use certain of its intellectual property rights (including its trademarks) and technologies and to manufacture and sell the Licensed Machines in the PRC. We sell the Licensed Machines in our own brand and label the Licensed Machines with a label of “System Plasser & Theurer made under license in PRC” in the PRC as provided by the Key Cooperation Agreements. We are not liable to make any royalty payments under the Key Cooperation Agreements currently in force.

Arrangement under the Key Cooperation Agreements with the Key Cooperation Partner

To secure a stable supply of quality parts and components that we use for the manufacture of the Licensed Machines, we agreed to purchase from the Key Cooperation Partner at no less than the Agreed Purchase Value of parts and components used in the manufacture of the Licensed Machines. The Agreed Purchase Value with respect to the manufacture of each Licensed Machine is determined as a specific percentage of the agreed estimated value of such Licensed Machine. Such percentage shall be adjusted in accordance with the production volume of such Licensed Machine, and will decrease in stages as the total production volume of such Licensed Machine increases. We consider this arrangement to be beneficial to us because it provides us with a stable supply of quality parts and components compared with sourcing from other suppliers. In 2012, 2013 and 2014 and the six months ended June 30, 2015, our purchase costs attributable to the Key Cooperation Partner amounted to RMB381.2 million, RMB511.9 million, RMB428.1 million and RMB264.0 million, respectively, which represented approximately 15.8%, 20.4%, 17.9% and 20.8% of our total purchase costs in those periods, respectively, and made the Key Cooperation Partner our largest supplier in 2012, 2013 and 2014.

For the Expired Agreements, we may purchase parts and components relating to such Licensed Machines from suppliers other than the Key Cooperation Partner. As of the Latest Practicable Date, the Licensed Machines under the Expired Agreements predominantly consist of machines under the tamping machine series. Sales of Licensed Machines under the tamping machine series under the Expired Agreements (the “**Relevant Tamping Machines**”) accounted for 85.9%, 84.2%, 89.1% and 82.6%, respectively, of the total revenue derived from sales of all of the Licensed Machines under the Expired Agreements in 2012, 2013 and 2014 and the six months ended June 30, 2015. Had we purchased the parts and components relating to the Relevant Tamping Machines from suppliers other than the Key Cooperation Partner, we estimate that our total purchase costs would on average decrease by 1% to 3% during the Track Record Period. In particular, the parts and components purchased from the Key Cooperation Partner principally consist of engines, drive shafts, hydrostatic transmission boxes and

BUSINESS

hydraulic components. During the Track Record Period, the purchase costs attributable to the purchase of engines, drive shafts and hydrostatic transmission boxes relating to the Relevant Tamping Machines on average accounted for 30% to 35% of the total purchase costs of all of the parts and components that we purchased from the Key Cooperation Partner relating to the Relevant Tamping Machines, and the purchase costs attributable to the purchase of hydraulic components relating to the Relevant Tamping Machines on average accounted for 25% to 35% of the total purchase costs of all of the parts and components that we purchased from the Key Cooperation Partner relating to the Relevant Tamping Machines. Had we purchased the engines, drive shafts and hydrostatic transmission boxes relating to the Relevant Tamping Machines from suppliers other than the Key Cooperation Partner, we estimate that our total purchase costs would on average decrease by 5% to 7% during the Track Record Period. Nevertheless, we continue to purchase the engines, drive shafts and hydrostatic transmission boxes from the Key Cooperation Partner as the Key Cooperation Partner is able to deliver these parts and components within a shorter timeframe compared to other suppliers. Had we purchased the hydraulic components relating to the Relevant Tamping Machines from suppliers other than the Key Cooperation Partner, we estimate that our total purchase costs would on average increase by 1% to 3% during the Track Record Period. In relation to the parts and components other than the engines, drive shafts, hydrostatic transmission boxes and hydraulic components relating to the Relevant Tamping Machines, we are of the view that, during the Track Record Period, there would not be any material difference in our purchase costs regardless of whether we purchased such parts and components from the Key Cooperation Partner or other suppliers.

In addition, under the Key Cooperation Agreements, we shall not export the Licensed Machines to certain countries and jurisdictions (the “**Restricted Countries**”) specified in the relevant agreement. Furthermore, we shall not deliver Licensed Machines to dealers and third parties that intend to export such machines to the Restricted Countries. We are in strict compliance with the Key Cooperation Agreements. In the future, we intend to develop our overseas business with products developed with our proprietary technologies only, and such products are not subject to the foregoing export prohibitions. We believe that our overseas expansion plan is carefully designed based on our leading research and development capabilities and experiences accumulated in our nearly 30 years of active participation in the large railway track maintenance machinery industry.

We have been the only partner licensed by the Key Cooperation Partner in the PRC. If the Key Cooperation Partner were to grant the relevant licenses to other parties in the PRC, our Directors consider that the impact on our business, financial condition and prospects are not material, based on the following: (a) our stable supply of parts and components from the Key Cooperation Partner is secured by the Key Cooperation Agreements. The Key Cooperation Partner is obliged to maintain the availability of parts and components of the Licensed Machines while the Key Cooperation Agreements remain effective. If the Key Cooperation Partner ceases to supply us with the parts and components when the relevant Key Cooperation Agreement expires, we can gradually resume stable supply of parts and components from other suppliers and through our own manufacturing capability within one to three months; and (b) our well-established dominant position in the large railway track maintenance machinery industry, leading technical expertise and comprehensive sets of licenses and permits will continue to enable us to maintain our leading position in this industry, despite any competition we may face in the PRC.

BUSINESS

As of the Latest Practicable Date, we had developed 40 types (including ten types for which we are applying for the respective product type certificates and/or manufacturing permits to commence mass production) of large railway track maintenance machines, among which, 13 types were Licensed Machines. In 2012, 2013 and 2014 and the six months ended June 30, 2015, revenue derived from sales of the Licensed Machines amounted to RMB1,027.2 million, RMB1,662.8 million, RMB2,087.5 million and RMB1,000.2 million, respectively. For the same periods, gross profit derived from sales of the Licensed Machines amounted to RMB171.5 million, RMB398.4 million, RMB400.6 million and RMB193.5 million, respectively.

The table below sets forth the key terms of the Key Cooperation Agreements with the Key Cooperation Partner:

Technology license from the Key Cooperation Partner	The Key Cooperation Partner licensed us to use its intellectual property rights (including know-how and the relevant technical documentation) in China and to manufacture in part, assemble, market, install, maintain and repair the Licensed Machines. The license is non-exclusive and non-transferable. Sub-licensing is also not allowed.
Supply / purchase of parts and components for Licensed Machines	The Key Cooperation Partner is required to maintain the availability of, and we are required to purchase from the Key Cooperation Partner, parts and components required to manufacture the Licensed Machines. The Agreed Purchase Value with regard to the manufacture of each Licensed Machine is determined as a specific percentage of the agreed estimated value of such Licensed Machine. The prices of the parts and components are subject to yearly price adjustments according to movements in the Key Cooperation Partner's costs.
Restrictive provisions	<p>We shall use the intellectual property rights of the Key Cooperation Partner only for the manufacture of the Licensed Machines.</p> <p>We shall not directly or indirectly export the Licensed Machines to, or deliver the Licensed Machines to dealers and third parties which intend to export them to, or promote or use the Licensed Machines in, the Restricted Countries. There are 157 Restricted Countries, consisting of 17 countries in which the Key Cooperation Partner and its subsidiaries or affiliates are located and 140 countries in which the Key Cooperation Partner has other licensed partners and agents.</p> <p>We shall not cooperate directly or indirectly with other parties which are developing and/or manufacturing large railway track maintenance machinery that are in competition with the Licensed Machines.</p>
Termination provisions	<p>The Key Cooperation Agreements may be terminated:</p> <p>(a) by the Key Cooperation Partner in the event that there is a change in our legal status (for example through mergers or reorganizations);</p> <p>(b) by the Key Cooperation Partner in the event that we establish a new company with any third party which is developing and/or manufacturing large railway track maintenance machinery that are in competition with the Licensed Machines;</p> <p>(c) by the non-defaulting party in the event that there is a material breach of the terms and conditions of the agreement (for example the breach of the confidentiality provisions or usage of the intellectual property rights to manufacture machines other than the Licensed Machines) and such breach is not rectified within a prescribed period of time; and</p> <p>(d) by any party if the confidence in the cooperation relationship has been otherwise seriously damaged.</p>

BUSINESS

Under the circumstances stipulated in (a), (b) and (d) above, there is no explicit provision in the cooperation agreement in connection with notice period for the termination; under the circumstances stipulated in (c) above, the non-defaulting party is entitled to terminate the agreement when such serious breach of contract is not rectified within six months after such non-defaulting party has lodged claims in writing and the defaulting party has not made any appropriate pledge and has not taken measures to remedy such breach.

In preparation for the Spin-off and separate Listing of our Company, our Group has undergone the Reorganization as described in the paragraph headed “History, Reorganization and Corporate Structure – Reorganization” in this prospectus, which includes: (i) transfer of the equity interest in our Company by CRCC to its subsidiaries; (ii) incorporation of our Company as a joint stock limited company; and (iii) acquisition of the equity interest in Ruiweitong Company by our Company. We understand that such changes are not a change of legal status as captured in the termination provisions, and will not trigger such termination provisions. As required under the Key Cooperation Agreements, we have informed the Key Cooperation Partner of the Reorganization and up to the Latest Practicable Date, have not received any negative feedback from the Key Cooperation Partner. Our plans to expand into overseas markets via joint ventures and mergers may trigger such termination provisions. Up to the Latest Practicable Date, there has not been such an incident and we will discuss with the Key Cooperation Partner in advance to prevent such termination provisions from being triggered. See “Risk Factors – Risks Relating to Our Industry and Business Operations – Any significant changes to our long-term relationship with our Key Cooperation Partner may have a material adverse effect on our operations.”

Compensation for breach of contract	In the event that we breach the confidentiality provisions or other key provisions of the agreement (including the technology license provisions, the supply/purchase provisions and the restrictive provisions), we are required to pay a penalty for each breach amounting to 2% of the price of the Licensed Machine, but in any case at least EUR40,000.
Term of the agreement	The Key Cooperation Agreements generally have a term of 13 years commencing from the effective date of the agreement.

Mutual Reliance between the Key Cooperation Partner and Us

- Our cooperation relationship with the Key Cooperation Partner dated back to 1988 and the Key Cooperation Agreements generally have a term of 13 years, which reflect the long-term commitment of both parties.
- According to the CIC Report, in 2014, in terms of revenue, the Key Cooperation Partner ranked No.1 globally, while we ranked No.1 in Asia and No.2 globally. We believe that cooperation between two major industry players such as the Key Cooperation Partner and us is mutually beneficial to both parties. Through the Key Cooperation Agreements, we are able to leverage the Key Cooperation Partner’s leading intellectual property rights and technologies in manufacturing the Licensed Machines, while the Key Cooperation Partner is able to leverage our leading position in the PRC large railway track maintenance machine industry and benefit from the strong demand for large railway track maintenance products in the PRC. Therefore, we believe that it would be in the interests of both parties to ensure such continued and mutually beneficial cooperation with each other.

BUSINESS

Alternative Supply of Parts and Components Provided by the Key Cooperation Partner

- The parts and components purchased from the Key Cooperation Partner principally consist of engines, drive shafts, hydrostatic transmission box, hydraulic components and others. Such parts and components do not involve its technology know-how licensed under the Key Cooperation Agreements. The technology know-how licensed under the Key Cooperation Agreements principally relates to technical knowledge and experience in manufacturing and assembling the large railway track maintenance machinery.
- We have a comprehensive R&D system which focuses on the development of product innovation and integrated operational innovation capabilities. Furthermore, we also focus on internalizing and further developing existing innovations. We have actively adopted international advanced development and manufacturing technologies. We have also established long-term collaborations with other well-known domestic and international companies and academic and research institutions to develop our technological innovation. For more details, see “– Research and Development.”
- In addition, we have a large supplier base to diversify our supply channels. We believe that we are able to leverage our R&D capabilities and parts and components from alternative supply channels to achieve independent development and production of large railway track maintenance machines. If the Key Cooperation Partner ceases to supply us with parts and components when the relevant Key Cooperation Agreement expires, we can gradually resume stable supply of parts and components of comparable quantity and quality from other suppliers and from our own manufacturing within one to three months.

Manufacturing under the Key Cooperation Agreements after expiration of such agreements

As of the Latest Practicable Date, of the 13 types of Licensed Machines, the cooperation agreements for five types of Licensed Machines have expired and those in respect of the remaining eight types of Licensed Machines will expire over the next 13 years, with the expiry dates ranging from October 2017 to June 2028. In 2012, 2013 and 2014, the six months ended June 30, 2015 and the ten months ended October 31, 2015, revenue contributed by the five types of Licensed Machines under the Expired Agreements amounted to RMB1,011.4 million, RMB1,125.7 million, RMB1,215.1 million, RMB644.5 million and RMB763.3 million, respectively. For the same periods, revenue contributed by the eight types of Licensed Machines under the Remaining Agreements amounted to RMB15.8 million, RMB537.1 million, RMB872.4 million, RMB355.7 million and RMB836.4 million, respectively. According to the Key Cooperation Agreements, upon the expiry of such agreements, we may continue to use the know-how provided by the Key Cooperation Partner, as long as we continue to comply with the terms of the Key Cooperation Agreements. Since expiration of the Expired Agreements, we have continued to manufacture the five types of Licensed Machines under the Expired Agreements. The Key Cooperation Agreements do not provide explicitly whether we are obliged to purchase the parts and components for the Licensed Machines after the expiration. We have continued to voluntarily purchase certain amounts of parts and components from the Key Cooperation Partner in consideration of the competitive quality and prices of such parts

BUSINESS

and components. Given that our production of Licensed Machines is not affected by the expiration of the Key Cooperation Agreements, we do not intend to renew such Expired Agreements.

For other details on arrangements with the Key Cooperation Partner, see “Risk Factors – Risks Relating to Our Industry and Business Operations – Any significant changes to our long-term relationship with our Key Cooperation Partner may have a material adverse effect on our operations.”

SUBCONTRACTING

During the Track Record Period, we engaged certain subcontractors for the non-critical, low value-added manufacturing procedures, such as polishing, to increase production efficiency and reduce manufacturing costs. We generally evaluate the performance of our subcontractors based on qualification, past performance, product quality, delivery time and subcontracting fee. We generally engage subcontractors through tenders. As of June 30, 2015, we had 33 qualified Independent Third-Party subcontractors on our list of approved subcontractors, all of which maintained a relationship with us for over one year. We review our list of approved subcontractors annually.

The subcontracting agreements primarily set forth the principal terms relating to fees, scope of work, technological standards or service quality, delivery timeframe, payment, insurance, liabilities and compensation, which generally reflect the terms and conditions of our main contract. The duration of each subcontracting agreement generally depends on the progress, scope and other needs of each project. Typically, we can terminate the subcontracting agreements when the subcontractors materially delay in delivery or materially breach the agreement. To maintain our desired technical standards, we would generally design the technical work standards and closely manage its execution by the subcontractors. Pursuant to the subcontracting agreements, we are also generally entitled to compensation if the subcontractors fail to meet the prescribed requirements of quality, delivery time, technologies, and safety and environmental protection standards. To ensure compliance by the subcontractors with governmental rules and regulations and manufacturing standards, we normally identify matters for each project that need to be inspected to ensure that the subcontractors meet the required standards and carry out inspections from time to time to monitor such matters.

In 2012, 2013 and 2014 and the six months ended June 30, 2015, we incurred subcontracting fees of approximately RMB111.4 million, RMB127.0 million, RMB156.9 million and RMB76.3 million, respectively.

During the Track Record Period and as of the Latest Practicable Date, we did not incur any significant damages, penalties or other liabilities arising from the misconduct or contractual violations of our subcontractors.

BACKLOG AND INVENTORIES**Backlog**

Backlog represents our estimate of the contract value of products or services that remain to be completed as of a certain date. The contract value of a project represents the amount that we expect to receive under the terms of the contract, assuming the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles.

As of October 31, 2015, our backlog amounted to approximately RMB1,233.4 million, among which approximately RMB221.7 million and RMB1,011.7 million is expected to be recognized as our revenue in 2015 and 2016, respectively. As of October 31, 2015, approximately RMB323.7 million of our backlog was attributable to sales of Licensed Machines. During the Track Record Period, we did not experience any incident where the material part of the contract amounts reported in our backlog did not result in actual revenue and profits. However, there is no assurance that the projected revenue amounts reported in our backlog will not decline, or will result in actual revenue, or translate into profits.

Inventory

Our inventory primarily includes raw materials, parts and components, unfinished goods and finished goods. We inspect the inventory level at each of our operating subsidiaries on a regular basis in order to reduce inventory risks and maintain our inventory of raw materials and parts and components at an appropriate level to facilitate our manufacturing process.

We have adopted the ERP system to monitor their respective inventory levels. We purchase raw materials and parts and components to maintain our inventory level in order to satisfy our production needs or if we anticipate any potential shortage in the supplies of raw materials and parts and components or increases in the costs of raw materials and parts and components. Our raw materials and parts and components are usually used for special specification of products and are relatively costly, therefore, we typically do not maintain a high level of inventory of key raw materials, parts and components. However, based on market estimates, we will strategically store a certain amount of parts and components which are difficult to replace and which have a delivery schedule of more than six months, for example hydraulic pumps and hydraulic motors, to ensure that we can endure any potential shortage or delays in the supply of materials. We also periodically review the availability of raw materials and parts and components with our suppliers.

In anticipation of purchase orders to be placed to us by our customers, including CRC and its affiliated enterprises, we usually manufacture some basic models of large railway track maintenance machinery in advance, such as machines under the tamping machine series, stabilization machine series and ballast cleaning machine series. Advanced production ensures that such machines can be delivered to our customers shortly after the purchase orders are placed. As of December 31, 2014, the value of the finished and unfinished machines that we had manufactured, or were in the process of manufacturing, in advance of receiving purchase orders from our customers amounted to RMB37.6 million. As of October 31, 2015, 91.5% of the amount of finished and unfinished machines as of December 31, 2014 that we had manufactured, or were in the process of manufacturing, in advance of receiving purchase orders from our customers had been subsequently purchased by our customers or were due to be sold

BUSINESS

under purchase orders placed. As of June 30, 2015, the value of the finished and unfinished machines that we had manufactured, or were in the process of manufacturing, in advance of receiving purchase orders from our customers amounted to RMB70.9 million. As of October 31, 2015, 20.2% of the amount of finished and unfinished machines as of June 30, 2015 that we had manufactured, or were in the process of manufacturing, in advance of receiving purchase orders from our customers had been subsequently purchased by our customers or were due to be sold under purchase orders placed. Write-down of inventories will be made when the carrying amounts of inventories are lower than their estimated net realizable values.

Starting from 2014, we have further enhanced our inventory control to improve inventory utilization efficiency by expediting the product delivery. See “– Product Delivery.”

MARKETING AND SALES

PRC Domestic Sales

We rely on our in-house sales team to sell our products in the PRC. During the Track Record Period, we received purchase orders for large railway track maintenance machinery principally through the public tenders.

After a yearly or periodic review of their purchase requirements, national railway operators will make their purchases through CRC (or the MOR) inviting for a tender. Such purchase orders typically include bulk purchases of various types of products. The relevant national railway operators under CRC will enter into purchase agreements with the winning bidder under the tender. Purchase orders from these national railway operators are relatively stable once the order is placed.

Local railway operators and railway engineering units will also call for a tender in order to make their purchase orders. Such purchase orders are based on specific customer demands, and competition is more intense.

Our sale and purchase agreements of large railway track maintenance machinery with customers in China typically include provisions relating to warranty, payment, packaging, transportation, delivery, acceptance and training.

Overseas Sales

In accordance with the “Made in China 2025 Plan” issued by the State Council in 2015, China is expected to speed up the transformation and the upgrade of its manufacturing industry by developing key segments such as advanced manufacturing and high-end equipment, including advanced railway transportation equipment, with a goal to transform China from a manufacturing giant into a world manufacturing power by 2025. In addition, the PRC government has encouraged Chinese railway developers to expand overseas. In 2013, China advocated the “One Belt, One Road” initiative to strengthen the policy of communications, infrastructure cooperation (primarily including transportation infrastructure and energy infrastructure) and trading among countries along the “Belt and Road.” Railway is the core

BUSINESS

infrastructure of this strategic proposition. The above regulatory measures will provide the large railway track maintenance machinery industry with a conducive environment to develop. In recent years, through innovation and development, we have surpassed the technological bottleneck for high-tech products, thereby significantly increasing our product competitiveness. Based on our extensive experience in large railway track maintenance machinery operations and machinery manufacturing technologies, we believe that we will provide our overseas customers with systemic solutions, selling large railway track maintenance machines developed with our proprietary technologies. Our large railway track maintenance machines developed with proprietary technologies can enter into the international market through direct overseas sales, sales to entities in China that use our products for their overseas operations and our provision of railway line maintenance services overseas directly.

Sales of the Licensed Machines are subject to certain export restrictions. For details, see “– Raw Materials, Parts and Components and Suppliers – Reliance on the Key Cooperation Partner.” Prior to June 2015, we have focused on meeting the large domestic demand in the PRC market and have not conducted any overseas sales. However, we have been participating in various world-renowned railway industry exhibitions such as the Russian International Industrial Exhibition of Innovation to acquire the latest industry knowledge and techniques and increase our international presence. We have been recognized as the leading large railway track maintenance machinery developer, manufacturer and service provider in the PRC, where the railway industry has been rapidly developing, and we have received increased attention and enquiries from potential overseas business partners. In June 2015, we completed our first overseas sale of three stabilizing machines, developed with our proprietary technologies, to Kazakhstan. We believe that our overseas expansion plan is carefully designed based on our leading research and development capabilities and experiences accumulated in our nearly 30 years of active participation in the large railway track maintenance machinery industry. We are in strict compliance with the terms of the cooperation agreements with the Key Cooperation Partner. We did not, do not intend to and will not attend tenders with an intention to export the Licensed Machines. In addition, we did not, do not intend to and will not deliver Licensed Machines to dealers and third parties that intend to export such machines to the Restricted Countries. Our sales department is fully aware of such restrictions. In the future, we intend to implement our overseas expansion plans with products developed with our proprietary technologies only, and such products are not subject to the export prohibitions as provided in the Key Cooperation Agreements.

In May 2015, we completed our first overseas railway line maintenance service project in Hong Kong, pursuant to a contract with China Railway Construction (HK) Limited in relation to carrying out railway line maintenance services at the Pat Heung transport hub of Shatin to Central Link and the Tsat Sing Kong transport hub of the Hong Kong high-speed railway.

For the six months ended June 30, 2015, we provided products and services to the overseas markets, including Hong Kong and Kazakhstan, and generated revenue of RMB35.1 million from our overseas business.

Pricing

A large portion of our purchase orders are won through public tenders. For large railway track maintenance machinery, we take into account our costs and market condition to determine

BUSINESS

the prices of our products. We adjust our prices with reference to various factors, such as the prevailing market condition, market prospect and competition. For parts and components, we determine the prices of our parts and components primarily based on the cost, and adjust our prices with reference to market conditions, risk significance of the relevant parts and components to the safety of rails operations and expected profit margins. For overhaul services, we determine our prices primarily based on the condition of the machines to be overhauled. For railway line maintenance services, we primarily take into account our cost, the timeline, the operation environment (such as the climate and topographical requirements) and logistics requirements to determine the prices of our services.

The prices for products and services under the agreement between CRCC and us are determined based on the following:

- (i) the prices should generally be in line with the relevant market prices at which the same type of products and services provided by us to an Independent Third Party on normal commercial terms; and
- (ii) in the absence of the relevant market prices, the price shall be determined according to the price to be agreed between the parties; the agreed price will be calculated based on the actual costs, which include raw materials, accessories, depreciation, salary, energy, technology consumption and equipment maintenance, incurred in providing such products and services plus reasonable profits; we will charge a mark-up rate, taking into consideration of the specific types of products and services, for the transactions on a cost-plus basis. Such mark-up rate is generally not lower than 15%.

For our customers other than CRCC, we apply the same pricing policy on the products and services provided by us, except that the determination of our mark-up rate will also depend on the bidding conditions when submitting our bids for a tender.

CRC and its affiliated enterprises may exercise their bargaining power in our transactions with them. CRC is the national railway operator in the PRC. According to the CIC Report, as of December 31, 2014, the operation mileage of railways in the PRC amounted to 112,000 km, of which 108,000 km, or 96.4%, were operated by CRC and its affiliated enterprises. As such, equipment providers for the PRC railway industry, including manufacturers of large railway track maintenance machinery like us, would be reliant on CRC and its affiliated enterprises as major customers given their dominant position in the PRC railway industry, and may be subject to CRC and its affiliates' bargaining power to certain extent.

Credit policy

For the sale of large railway track maintenance machinery, we generally require a prepayment of 10% to 30% to be made by the customer upon entering into the contract, and the rest upon delivery. Generally, we will issue a letter of quality guarantee, which will be effective for one year, guaranteeing up to 10% of the contract value of the machinery. For the sales and servicing of parts and components, we typically do not require customers to make any prepayment, except for certain new customers or customers with a higher credit risk, in which case we would request full payment prior to delivery of the product. For our overhaul services,

BUSINESS

we generally conduct a preliminary investigation and provide a fee quote before the machine is brought in for overhaul, and may provide a supplementary fee quote after disassembling the machine for further inspection. As with the sales of large railway track maintenance machinery, we generally require a prepayment of 10% to 30% to be made by the customer before overhaul begins, and the rest upon delivery of the refurbished machine. For our railway line maintenance services, we generally require a certain monthly prepayment to be made by customers based on the workload. We determine the payment terms of customers based on various factors, including previous transactions with the customer, market practice, sales volume, the current financial position of the customer and prevailing market conditions. Our credit policy may be adjusted within our risk tolerance levels in accordance with the prevailing circumstances.

In 2012, 2013, 2014 and the six months ended June 30, 2015, our trade receivables and bills receivable were RMB430.8 million, RMB445.1 million, RMB552.2 million and RMB757.4 million, respectively.

Product delivery

Product delivery has two parts: delivery at the factory and delivery on site as specified by the customer. Delivery at the factory means that the customer, together with the Manufacturing Inspection Department and us conduct preliminary testing and acceptance of our large railway track maintenance machines at our plants on or before the specified dates. Delivery on site as specified by the customer means that we deliver our large railway track maintenance machines to the site as specified by the customer and conduct final acceptance together with the customer on site. Machines accepted on site as specified by the customer will be considered as final acceptance by the customer. Starting from 2014, in aiming to reduce the level of finished goods in our inventory and improving the inventory utilization efficiency, we have expedited our product delivery by shortening the product delivery timeframe through actively confirming the product delivery plans with the customers.

We are typically responsible for delivering the parts and components to the customer through railway, road and courier. If a customer requests for a different delivery method, we will typically confirm the delivery terms and conditions for such delivery with the customer again.

Customer service

We offer warranties to our customers on all of the large railway track maintenance machinery sold by us. The warranty periods for our large railway track maintenance machinery are typically one year after the acceptance certificates are signed by both the customer and us. The warranty periods for our key parts and components typically range from two to five years. We make provisions for warranty payments based on sales volume and past experience of the level of repairs and returns. We can only make provisions for warranty payments when a claim against a warranty is made. We will continue to review any material deviation in historical cost figures in order to appropriately adjust our provision for warranty payments.

Our warranty policy was applied consistently during the Track Record Period.

BUSINESS

During the warranty period, we provide both telephone support and on-site service for the large railway track maintenance machines we sold. If a problem occurs with our machines, our engineers at our control center are able to direct the customer via telephone to investigate the problem. If a problem occurs with our machines during their operation that cannot be resolved, our after-sales services personnel will arrive on site within 24 hours to rectify the problem, providing different solutions for different problems. When the problem is caused by incorrect operation by the customer, we will provide relevant training; when the problem is caused by system malfunction, we will investigate and debug the problem; when the problem is caused by quality issues relating to certain parts or components, we will provide compensation after carrying out relevant verification. If the problem is critical to the operation of railway track maintenance, we will replace the parts and components with quality issues on site. Through phone calls, faxes, emails or visits, we periodically interview our customers and collect feedback and suggestions on our product quality and services.

Seasonality

Our manufacturing and sales of machinery business and manufacturing and sales of parts and components business are basically not affected by seasonality, except that our delivery of machinery may be delayed due to heavy rain and snowstorms in the north in winters, which may result in a delay in recognition of revenue. Our overhaul services business is mainly affected by the peak travel periods during spring festival (normally spanning for 40 days before and after the Chinese Lunar New Year) and the winter break in the north, during which periods the number of machines received for overhaul will decrease. Our large railway line maintenance business is mainly affected by the heavy rain and snowstorms and the Chinese New Year holidays, thus typically recording a drop in business volume during winters.

CUSTOMERS

In 2012, 2013 and 2014 and the six months ended June 30, 2015, sales to our largest customer amounted to RMB1,145.8 million, RMB285.1 million, RMB353.7 million and RMB748.8 million, accounting for approximately 40.0%, 9.0%, 10.2% and 41.7% of our total revenue for the same periods, respectively. Sales to our largest customer are considered on an individual basis. In 2012, 2014 and the six months ended June 30, 2015, our largest customer was CRC; and in 2013, our largest customer was CSR QSYI, which does not constitute part of the CRC and its affiliated enterprises, our largest customer group. In 2012, 2013 and 2014 and the six months ended June 30, 2015, sales to our five largest customers amounted to approximately 72.9%, 36.5%, 33.4% and 66.1% of our total revenue, respectively. None of the Directors, the Supervisors, their respective associates or any of our Shareholders holding more than 5% of our issued capital, to the knowledge of our Directors, owned any interest in any of our five largest customers as of the Latest Practicable Date.

Our major customers include CRC and its affiliated enterprises, local railway operators and railway construction companies.

BUSINESS

The table below sets forth a breakdown of our total revenue from our manufacturing and sales of machines business and overhaul services business by type of customer for the periods specified:

	Year ended December 31,						Six months ended June 30,			
	2012		2013		2014		2014		2015	
	amount	% of total	amount	% of total	amount	% of total	amount	% of total	amount	% of total
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
CRC and its affiliated enterprises	1,520,764	66.2	2,403,602	92.9	2,725,930	90.7	1,533,779	98.0	1,242,260	85.4
Local railway operators	591,711	25.7	98,006	3.8	135,836	4.5	15	–	145,217	10.0
Railway construction companies	185,648	8.1	86,830	3.3	144,743	4.8	30,613	2.0	67,924	4.6
Total⁽¹⁾	2,298,123	100.0	2,588,438	100.0	3,006,509	100.0	1,564,407	100.0	1,455,401	100.0

(1) “Total” refers to the sum of revenue from our manufacturing and sales of machines business and overhaul services business.

The majority of our purchase orders are granted to us through public tenders. The table below sets forth details of our tender success rate (calculated as the amount of purchase orders obtained divided by the aggregate amounts of tenders that we attended for the periods indicated) for each of our major type of customers for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2012	2013	2014	2015
CRC and its affiliated enterprises	100.0%	98.6%	99.5%	100.0%
Local railway operators ⁽¹⁾	100.0%	100.0%	100.0%	0
Railway construction companies	100.0%	100.0%	100.0%	100.0%

(1) We participated in limited numbers of public tenders invited by local railway operators, and therefore, the tender success rates may not be representative. In 2012, 2013 and 2014 and the six months ended June 30, 2015, we attended one, four, six and one public tender(s) invited by local railway operators, respectively.

Reliance on CRC and its affiliated enterprises

CRC (assuming part of MOR’s functions) is the national railway operator of the PRC. CRC operates rail commuter and freight transport in China via its 18 railway bureaus, or CR bureaus. The CR bureaus and the affiliated enterprises of CRC are, through CRC, the ultimate end-users of our large railway track maintenance machinery and services. During 2012, 2013 and 2014, CRC conducted one tender exercise for large railway track maintenance machinery every year, as well as competitive negotiations and supplementary tender exercises. Each tender exercise involved products manufactured by not less than five manufacturers.

We generally win purchase orders for our large railway track maintenance machinery from CRC and its affiliated enterprises through a bidding process. Purchase orders placed by CRC

BUSINESS

and its affiliated enterprises, including the CR bureaus, depend largely on the prevailing government policies relating to development, and CRC generally has a significant influence over the procurement of rolling stock products in China. In anticipation of purchase orders to be granted to us by CRC and its affiliated enterprises, we usually manufacture some basic models of large railway track maintenance machinery in advance, such as machines under the tamping machine series, stabilization machine series and ballast cleaning machine series, which are commonly purchased by CRC and its affiliated enterprises. Advanced production ensures that such machines can be delivered to CRC and its affiliated enterprises shortly after the purchase orders are placed. As of the Latest Practicable Date, we did not encounter any situation where our advanced production of machines resulted in over-production due to a shortfall in the amount of purchase orders actually received from CRC and its affiliated enterprises.

Our reliance on CRC and its affiliated enterprises

CRC is the national railway operator in the PRC. According to the CIC Report, as of December 31, 2014, the operation mileage of railways in the PRC amounted to 112,000 km, of which 108,000 km, or 96.4%, were operated by CRC and its affiliated enterprises. As such, equipment providers for the PRC railway industry, including manufacturers of large railway track maintenance machinery like us, would be reliant on CRC and its affiliated enterprises as major customers given their dominant position in the PRC railway industry, and may be subject to CRC and its affiliates' bargaining power to certain extent. In 2012, 2013, and 2014 and the six months ended June 30, 2015, approximately 66.2%, 92.9%, 90.7% and 85.4% of our revenue from manufacturing and sales of machines business and overhaul services business and approximately 56.0%, 78.4%, 80.7% and 70.5% of our total revenue for the same periods, respectively, was derived from CRC and its affiliated enterprises, and we expect we will continue to rely on CRC and its affiliates.

CRC and its affiliated enterprises' reliance on our products

We do not have a long-term sale and purchase agreement with CRC and its affiliated enterprises and generally obtain our purchase orders with CRC and its affiliated enterprises through public tenders. We believe that we have a strong and stable relationship with CRC and its affiliated enterprises, with a strong track record of winning 100.0%, 98.6%, 99.5% and 100.0% of the purchase orders by contract value for tenders for large railway track maintenance machinery invited by CRC and its affiliated enterprises that we attended during the Track Record Period. As of December 31, 2014, we had provided a total of 1,773 large railway track maintenance machines to CRC and its affiliated enterprises, which, according to the CIC Report, accounted for approximately 70.9% of the total large railway track maintenance machines of 2,500 units owned by CRC and its affiliated enterprises as of the same date. We believe that we will be able to sustain our present business with CRC and its affiliated enterprises, for the following reasons:

- we expect that demand for our products and services will remain stable given that our large railway track maintenance machinery, as an essential component of China's railway operation, is able to effectively safeguard the quality and stability of railway lines as well as to ensure that trains operate continually and safely at the prescribed maximum speed.

BUSINESS

- we are a leading company in the large railway track maintenance machinery industry in the PRC, with nearly 30 years of operation, leading R&D capabilities, the largest market share in the PRC large railway track maintenance machinery industry, sizable manufacturing capabilities and full industry value chain coverage; and
- we have a strong, long-term relationship with CRC and its affiliated enterprises and provided vigorous support for the six national railway speed upgrades in the PRC, as well as the successful completion and daily safe operation and maintenance of the Qinghai-Tibet railway line. Almost 30 years of cooperation with CRC and its affiliated enterprises has led to our substantial development and the establishment of a mutually beneficial relationship for both parties.

Nevertheless, there are risks associated with deriving a significant portion of our revenue from CRC and its affiliated enterprises. See “Risk Factors – Risks relating to our industry and business operations – A significant portion of our revenue is derived from our major customers. As such, the loss of one or more of our major customers or customer groups or changes in their orders or the contract terms may have a material and adverse effect on our business.”

Our Efforts in Expanding Our Customer Base

We have been actively enhancing our cooperation with local railway operators, railway construction companies and urban rail transit operators to ensure a stable increase of our business. We maintain close relationships with our existing customers and also actively expand our customer base. We have established four sales offices located in the PRC each with a designated sales team, enabling us to provide our services to the entire railway network in the PRC. We strive to expand our customer base principally through the following:

- *enhancing and deepening our collaboration with local railway operators and railway construction companies:* For local railway operators, we continually pay close attention to their latest development plans, railway lines under construction and new railway lines and analyze their deployment of large railway track maintenance machines, in order to provide customized solutions of purchase and application of large railway track maintenance machines. For railway construction companies, we focus on their newly-granted railway construction projects through public tenders and analyze their purchase records, in order to provide customized solutions of purchase and application of large railway track maintenance machines. We conduct direct marketing activities with these customers from time to time, with our customized solutions.
- *exploring new industries such as urban rail transit system:* We have developed new products suitable for urban rail transit system and pay attention to their development plans on new lines. Our designated personnel visit our urban rail transit customers regularly to collect customer feedback and information on product demands; and
- *developing an international customer base:* Capitalizing on the “One Belt, One Road” initiative, and in particular the “venturing abroad” strategy for the railway

BUSINESS

industry promoted by the PRC government, we strive to develop an international customer base with products developed with our proprietary technologies.

We believe that such strategy of expanding our customer base with the possibility of receiving purchase orders for a larger variety of products will not materially and adversely affect our production capacities and costs, mainly because (i) we have flexible production lines, which can produce large railway track maintenance machinery of different gauges, sizes and axle loads; (ii) we have manufactured and can continue to manufacture large railway track maintenance machines for railways and urban rail transit systems in the PRC and abroad; and (iii) due to the nature of our industry, the purchase orders we received are typically for various products in small batches and we are accustomed to such production model.

Local railway operators

During the Track Record Period, we provided large railway track maintenance machines to the local railways operators to ensure the safety of local railway operations. Our in-house marketing team won our orders through public tenders capitalizing on, among other qualities, our superior qualifications, product quality, technologies, reputation, strong market expansion capabilities and fast turnaround time, and we intend to maintain close, cooperative relationships with these local railway operators. If there are less than three participants in a public tender, the tender will be conducted among the participants by competitive negotiation.

Railway construction companies

During the Track Record Period, we provided large railway track maintenance machinery to railway construction companies. The application of large railway track maintenance machines in the construction of a new railway line typically involves two stages, namely, the preliminary calibration stage where the new railway line has been constructed to satisfy the basic operational requirements for the railway line, including meeting the basic specifications relating to railway track width, track alignment to ensure the railway line is able to support line speeds of at least 80km/h, and the precision calibration stage where the precision of the new railway line has been further improved to satisfy the prescribed operating conditions. Operating groups of large railway track maintenance machines are applied at both stages to ensure the smooth construction and quality of the new railway lines. In accordance with the relevant regulations of competent authorities, for all constructions of new railway lines, railway line maintenance (such as tamping, formation and rehabilitation) must be conducted before the inspection and acceptance of such railway lines. Our large railway track maintenance machines are also applied in the reconfiguration of existing railway lines. At the same time, we also cooperated with railway construction companies to carry out railway track maintenance work directly. In particular, when there were tenders for railway line construction, the party inviting the tender usually requires the bidding parties to own large railway track maintenance machines. If there are less than three participants in a public tender, the tender will be conducted among the participants by competitive negotiation. We believe, based on our superior qualifications, product quality, sophisticated technologies, reputation, strong market expansion capabilities and fast turnaround time, we have, and will maintain a close cooperation relationship with these railway construction companies. In particular, we will capitalize on opportunities arising from China's "One Belt, One Road" initiative to strengthen our cooperation with these railway construction companies.

Urban rail transit operators

Subway companies select their product suppliers through a public tender process. During the Track Record Period, we did not sell any product to urban rail transit operators. In 2015, we won purchase orders from the Shanghai subway company and the Beijing subway company through tenders, which involved the sale of steel rail milling and grinding machines. We believe that our dealings with the Beijing and Shanghai subway companies will be representative of our dealings with other PRC subway companies and will serve as the benchmark for further dealings with other subway operators. Our large railway track maintenance machines can be used for subway operations after appropriate modifications. In particular, we believe that the market for urban rail transit system maintenance is in its beginning stages and that our accumulated advanced experience in the large railway track maintenance machinery industry will help us to establish a maintenance service framework and technology standards for the urban rail transit system.

Overlap between customers and suppliers

In 2012 and 2013, two of our major customers, namely, CSR QSYI and Zhuzhou Times Electronic Technology Co., Ltd (“Zhuzhou Times”), were also two of our major suppliers. In 2014 and the six months ended June 30, 2015, CSR QSYI was also one of our major suppliers and major customers. We sold large railway track maintenance machines and parts and components, which were mainly imported from abroad, to CSR QSYI and Zhuzhou Times, as a result of our advantages in securing quality parts and components at competitive prices from abroad. Our sales agreements with each of CSR QSYI and Zhuzhou Times are generally in line with our standard sales agreements with other customers, such as product quality, delivery time and place, packaging, acceptance, warranties, payment and breach of contract. Our purchase orders from CSR QSYI and Zhuzhou Times are usually arranged through individual negotiation.

During the Track Record Period, we sold only parts and components to CSR QSYI. In 2012, 2013, 2014 and the six months ended June 30, 2015, revenue from sales of parts and components to CSR QSYI amounted to RMB193.8 million, RMB285.1 million, RMB198.5 million and RMB223.5 million, respectively.

During the Track Record Period, we sold large railway track maintenance machines and parts and components to Zhuzhou Times. In 2012 and 2013, revenue from sales of large railway track maintenance machines to Zhuzhou Times amounted to RMB6.8 million and RMB67.4 million, respectively. We did not generate any sales of large railway track maintenance machines to Zhuzhou Times in 2014 and for the six months ended June 30, 2015. In 2012, 2013, 2014 and the six months ended June 30, 2015, revenue from sales of parts and components to Zhuzhou Times amounted to RMB173.2 million, RMB127.2 million, RMB94.9 million and RMB50.3 million, respectively.

We also purchased various large railway track maintenance machinery parts and components manufactured by CSR QSYI and Zhuzhou Times, mainly electrical control system and certain working devices, in consideration of their respective expertise in manufacturing such parts and components. CSR QSYI and Zhuzhou Times provide various large railway track

BUSINESS

maintenance machinery parts and components to different customers in their ordinary course of business.

The terms of our purchase agreements with each of CSR QSYI and Zhuzhou Times are generally in line with the terms of our purchase agreements with our other suppliers. The table below sets forth the key terms of our purchase agreements with CSR QSYI and Zhuzhou Times:

Product quality:	<p>For products that are required to comply with national mandatory quality standards, the product quality shall not be lower than such national mandatory quality standards.</p> <p>For products that are not subject to any national mandatory quality standards, the product quality shall not be lower than industry mandatory quality standards.</p> <p>For products that are not subject to any national mandatory quality standards or industry mandatory quality standards, the product quality shall be negotiated between the seller and us.</p>
Product warranty:	<p>The warranty period is generally 12 months. The warranty in respect of the product shall be on no less favorable terms than the warranty that the seller received from the original manufacturer of the product.</p>
Product delivery and transport:	<p>Terms relating to method of product delivery and transport, transport costs, location of delivery of product, insurance costs vary depending on the negotiations for each agreement.</p>
Product testing and acceptance:	<p>For issues relating to the external appearance of the product, there is generally a 10-day notice period to submit written objections.</p> <p>For issues relating to the inherent quality of the product, written objections should be submitted within the seller's warranty period.</p> <p>For issues relating to the inherent quality of the product that can only be discovered after the installation and operation of the product, there is generally a three-month notice period commencing from the date of initial operation of the product to submit written objections.</p>
Intellectual property rights:	<p>The seller warrants that we shall not be subject to intellectual property infringement claims from third parties arising from our usage or sale of the product, and undertakes responsibility should any such claims arise.</p>

In 2012, 2013, 2014 and for the six months ended June 30, 2015, the purchase costs of large railway track maintenance machinery parts and components that we purchased from CSR QSYI amounted to RMB342.5 million, RMB472.9 million, RMB341.5 million and RMB301.4 million, respectively. For the same periods, the purchase costs of large railway track maintenance machinery parts and components that we purchased from Zhuzhou Times amounted to RMB313.9 million, RMB421.4 million, RMB345.4 million and RMB132.5 million, respectively.

In 2012, 2013 and 2014 and the six months ended June 30, 2015, our sales revenue attributable to CSR QSYI and Zhuzhou Times was approximately 13.1%, 15.1%, 8.4% and 15.3%, respectively, of our total revenue for those periods, and our purchase costs attributable to CSR QSYI and Zhuzhou Times was approximately 27.2%, 35.6%, 28.8% and 34.2%, respectively, of our purchase expenses for those periods.

BUSINESS

We recognize our revenue from CSR QSYI and Zhuzhou Times on a gross basis, taking into consideration the following: (i) the products we purchased from and sold to CSR QSYI and Zhuzhou Times are different in kind; (ii) there is no arrangement under the sales contract for us to repurchase the products we sold to CSR QSYI and Zhuzhou Times; (iii) the ownership and risks related to the products we sold were transferred to CSR QSYI and Zhuzhou Times when they took possession of the products, which is consistent with our practice with other customers; and (iv) the sales contracts and purchase contracts with CSR QSYI and Zhuzhou Times are not signed simultaneously.

COMPETITION

During the Track Record Period, substantially all of our revenue was from our operation in the PRC.

According to the CIC Report, in terms of the sales revenue of large railway track maintenance machinery manufacturers in 2014, we ranked No. 1 in Asia and No. 2 globally. Since we sold our first large railway track maintenance machine in 1989, as of December 31, 2014, we had manufactured and sold over 2,200 large railway track maintenance machines in China, which, according to the CIC Report, accounted for approximately 81.5% of the total number of such machines in the PRC as of December 31, 2014.

We primarily compete with our competitors in terms of qualifications, technical capability, production quality, human resources, quick response and support capabilities and capital base. We believe we have distinct advantages in the PRC. Our main competitors in the PRC market are Jinying Heavy Machinery Company, Beijing February 7th Railway Transportation Equipment Co., Ltd. and Baoji CSR Time Engineering Machinery Company. The international large railway track maintenance machinery manufacturers that have entered China's large railway track maintenance machinery market include Plasser & Theurer, Harsco and Speno, through cooperation with PRC entities.

For competition-related risks that we face, see "Risk Factors – Risks Relating To Our Industry And Business Operations – Increased competition from foreign and PRC domestic competitors within the PRC large railway track maintenance machinery industry could negatively impact our market share in such industry."

QUALITY CONTROL

We place great emphasis on quality control. Our quality control management policy has been constantly improving, from the initial policy of "continuous product improvement," to a subsequent policy of "no compromise on quality," till 2002, when we adopted the policy of "manufacturing high-quality machinery to ensure railway safety" as our theme when carrying out our high-quality production activities. With the continued improvement of our quality control management policy, our products have received the approval from a growing number of our customers.

Quality control is a primary part of our procurement and production process. We have implemented strict quality control measures throughout our entire production process in

BUSINESS

accordance with national and industry standards and our in-house standards. At all stages of our production process, we adopt measures to control the capability, function and safety of our products. In addition to the assurances given by our suppliers, we inspect our raw materials and parts and components for quality control purposes.

As of June 30, 2015, we had a quality control team consisting of more than 300 quality control personnel, which monitors various aspects of our operations, including procurement of raw and ancillary materials, manufacturing processes, inspections of the final product and after-sales supervision of our products. The key quality control personnel leading our quality control team generally have more than three years of industry experience. We adopt a quality control system based on the principle of “quality inspection at every stage.” This involves conducting a series of quality inspections, including self-inspections, cross-inspections and special inspections, on the key production procedures and operations which affect quality and safety, in accordance with the requirements under a quality inspection checklist, and producing corresponding inspection reports. Our innovative quality control system provides comprehensive guidance and supervision covering the entire work process for the construction of large machinery. Through years of application, our quality control process has shown significant results, fulfilling our aim of “using management to deliver results, and relying on quality to ensure safety.” Our quality control system has been widely promoted and used in the railroad industry.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any product return or recall by customers or experience any material product liability or other legal claims involving problems relating to the quality of our products.

OCCUPATIONAL HEALTH AND SAFETY

We regard occupational health and safety as an important social responsibility. Our operations involve mechanical processes, the use of electricity, welding, heavy lifting, loading, transportation process, smelting and a certain amount of flammable and explosive materials. As a result, our employees may face risks of various work-related injuries and accidents. We place significant emphasis on safety control to minimize incidents during our manufacturing process that could result in injuries or fatalities. We have implemented various standards, in line with international standards that have been approved in China, for occupational health and safety management. We have adopted a health and safety supervision and management system comprising government supervision, internal controls and external certifications.

In 2012, we achieved European Standards EN15085-2 certification level CL1 in relation to certain of our welding processes. In 2013, we were awarded the “Work Safety Standardization (Second Level Enterprise)” certificate from the PRC State Administration of Work Safety. In 2013, we obtained a certification from China Classification Society Certification Company, certifying that we had achieved the GB/T 28001 standard in relation to our occupational health and safety management system.

Our manufacturing processes involve certain kinds of raw materials that could be harmful to human health and the environment, such as paint for shot peering. We have formulated and implemented various manuals and internal policies with regard to safety control procedures and

BUSINESS

standards, including, without limitation, procedures for handling safety issues, accident investigation procedures, protective and remedial measures, accident reporting procedures and punitive and rectification measures. Each of our operating subsidiaries and branches has their respective safety control management systems. In addition, we also provide necessary protection to our employees who handle these raw materials.

As of June 30, 2015, we had over 90 employees responsible for safety control across different operations in our business. We provide occupational safety training to all of our employees on a regular basis. We impose safety measures at all stages of our operations including, without limitation, the purchase, installation and operation of new equipment, purchase, storage and usage of raw materials, development and application of new technologies, as well as the construction of new facilities and the manufacturing of products, as well as conduct regular internal safety inspections in order to minimize work-related accidents and injuries. We provide various healthcare benefits and insurance, as well as occupational health and safety education and training, to our employees in accordance with the applicable laws and regulations. We have placed great emphasis on occupational health management. During the Track Record Period, we installed and maintained facilities for the protection of occupational health, and have periodically monitored the working environment, proactively dealt with potential occupational hazards in the working areas, provided the employees with full labor protection products and appliances, established occupational health records, and periodically arranged health examinations for our employees, in order to effectively protect our employees from the harm caused by occupational hazards.

We believe that our business operations comply with applicable PRC laws, regulations and rules with respect to safety control. During the Track Record Period and up to the Latest Practicable Date, there had been no material accident arising out of the products and services we provided, and we were not subject to any penalties associated with any material violation of applicable safety control laws or regulations in the PRC.

ENVIRONMENTAL PROTECTION

We do not operate in a highly polluting industry, and our production processes primarily involve technical processing and manufacturing. However, we regard environmental protection as an important corporate responsibility and therefore place great emphasis on environmental protection measures and policies in our daily operations. Our operations are subject to environmental laws, rules and regulations relating to, among others, gas and water emissions, hazardous substances and waste management. See “Regulatory Environment – Regulations on Health, Safety and Environmental Protection.” We are committed to compliance with applicable environmental protection requirements in the PRC. We utilize raw materials that cause low or no pollution and are either harmless or less harmful to the environment. We also utilize new technologies to prevent, minimize or manage pollution during our production processes. The levels of waste water, gas and noise pollution and solid waste we generate during our production process, after being processed at internal treatment facilities, are within the permitted levels in China. In addition, we conduct environmental feasibility studies and environmental impact assessments for all of our projects, and install pollution control facilities, if necessary, to ensure our compliance with applicable environmental protection standards required for our manufacturing facilities. In 2013, we obtained a certification from China Classification Society Certification Company, certifying that we had achieved the ISO 14001 standard in relation to our

BUSINESS

environmental management system. In 2014, we were awarded the “Qualified Clean Production Enterprise of Yunnan Province” certificate from the Yunnan provincial government’s Industry and Information Committee in relation to our production operations.

We complied with applicable national, provincial and municipal environmental laws and regulations in all material respects during the Track Record Period. As of the Latest Practicable Date, we have not received any notice or warning in relation to any breach of applicable environmental laws and regulations, and therefore have not been subject to any punishment or penalties which have resulted in a material adverse effect on our production operations.

INTERNAL CONTROLS

Our internal control systems cover our overall corporate governance, operations, management, legal matters, finance and auditing, as appropriate. Pursuant to the PRC Company Law, Code of Corporate Governance for Listed Companies in the PRC, company internal control basic rules and other relevant regulations, we have established internal rules and policies, such as the Rules of Procedure for Shareholders’ Meeting, the Rules of Procedure for the Board of Directors, the Rules of Procedure for the Supervisory Committee and the Rules of Procedure for the Audit and Risk Management Committee.

These internal rules and policies have defined our rights and obligations, scope of responsibilities and procedural rules and set the procedural processes governing shareholders’ meetings. Our major decisions have been and will be made in the shareholders’ meetings, board meetings and supervisors’ meetings.

We have established internal control and comprehensive risk management systems through which we monitor, evaluate and manage financial, operational, compliance and legal risks that we are exposed to in our business activities. Dedicated departments of our Company and our subsidiaries are responsible for periodic risk assessments and internal control evaluations and reporting to our management the risks identified.

In addition, we have adopted a number of internal rules and policies governing the conduct of our employees, and have set up a monitoring department to closely monitor and report corruption or other misconduct involving our employees. As of the Latest Practicable Date, our monitoring department had five members with considerable experience in internal control. They are responsible for the internal review of key steps of our business operations and risk management, including financial control, product sales, procurement of raw materials, parts and components and equipment, recruitment of employees and management of human resources, so as to ensure that our employees comply with our internal rules and policies, as well as the applicable laws and regulations. We provide training courses, including exercises of internal control evaluation, study of regulations and case analysis, to members of our monitoring department on an annual basis to continually improve their knowledge and skills that are required to satisfy their internal control obligations. During the Track Record Period, we were not aware of corruption or any other material misconduct involving our employees.

We conduct risks assessments and internal control self-evaluations periodically and compile our comprehensive risk management report and internal control evaluation report based

on the results. Our Directors believe that our internal control systems and current procedures are adequate and effective.

LICENSES AND PERMITS

Large railway track maintenance machinery manufacturing and overhaul services are subject to a strict regulatory regime. We principally need to obtain from the NRA a product type certificate, manufacturing permit and repair permit for each of our product types. We are required to obtain a product type certificate for the design of any new model of large railway track maintenance machine. Once the product type certificate has been obtained, we are required to obtain a manufacturing permit before commencing mass production of the product. We are also required to obtain a repair certificate in respect of each type of large railway track maintenance machine repaired before the relevant repaired machine resumes normal operation.

The Ministry of Transport of the PRC and the NRA have set stringent and detailed standards in respect of the grant of product type certificates, manufacturing permits and repair permits. Each company obtaining a product type certificate needs to meet the requirements in connection with, among others, (i) minimum design management experiences of its senior management; (ii) minimum number of senior and mid-level technicians; (iii) design and development capabilities; (iv) passing the type test of key components and sample product; (v) passing the application test and disassembly inspection of the sample products; and (vi) complying with the relevant laws and regulations on the special equipment, if applicable. Each company obtaining a manufacturing permit needs to meet the requirements in connection with, among others, (i) obtaining a product type certificate for the relevant product; (ii) minimum manufacturing management experiences of its senior management; (iii) teams of employees that can satisfy mass production requirements with quality products and minimum number of senior and mid-level technicians; (iv) excellent product quality assurance system and management system, including excellent after-sales system; (v) technical capabilities to sustain continuous mass production with quality products; (vi) measures to test product quality; (vii) passing the type test of the sample products; and (viii) complying with the relevant laws and regulations on the special equipment, if applicable, and providing the relevant manufacturing permits of special equipment. Each company receiving a repair permit needs to meet the requirements in connection with, among others, (i) contracts, agreements or relevant documents with the railway vehicle owners for the repair; (ii) minimum manufacturing or repair management experiences of its senior management; (iii) teams of employees that can satisfy mass repair requirements with quality products and minimum number of senior and mid-level technicians; (iv) excellent product quality assurance system and management system, including excellent after-sales system; (v) technical capabilities to sustain continuous mass repair with quality products; (vi) measures to test product repair quality; (vii) passing the routine test of the sample repaired products; and (viii) complying with the relevant laws and regulations on the special equipment, if applicable, and providing the relevant manufacturing or repair permits of special equipment.

BUSINESS

We are also required to renew such licenses and permits from time to time. The table below sets forth our major licenses and permits and their respective expiry dates:

Licenses and permits	Number of our licenses and permits	Range of grant dates	Range of expiry dates
Product type certificates	16 ⁽¹⁾⁽²⁾⁽³⁾	August 11, 2015 ⁽⁷⁾ – September 21, 2015	Long-term ⁽⁸⁾
Manufacturing permits	15 ⁽²⁾⁽⁴⁾⁽⁵⁾	August 11, 2015 ⁽⁷⁾ – September 21, 2015	January 31, 2017 – November 9, 2020
Repair permits	6 ⁽⁶⁾	August 11, 2015 ⁽⁷⁾	April 17, 2017

- (1) Six of our product type certificates cover both the machine types used on the plain and in a high-altitude environment.
- (2) Nine of our large railway track maintenance machines for railways of wide gauge and narrow gauge abroad do not require a product type certificate or manufacturing permit.
- (3) We are applying for the product type certificates for nine of our large railway track maintenance machines. We have commenced our application process and expect to obtain the nine product type certificates within one to three years. Pursuant to Jia Yuan Law Offices, our PRC legal advisor, there is no material legal impediment for us to obtain such product type certificates when we submit the documents as required.
- (4) Six of our manufacturing permits cover both the machine types used on the plain and in a high-altitude environment.
- (5) We are applying for the manufacturing permits for ten of our large railway track maintenance machines. We have commenced our application process and expect to obtain the ten manufacturing permits within one to three years. Pursuant to Jia Yuan Law Offices, our PRC legal advisor, there is no material legal impediment for us to obtain such manufacturing permits when we submit the documents as required.
- (6) Five of our repair permits cover both the machine types used on the plain and in a high-altitude environment. We intend to apply for additional repair permits once we receive overhaul requests for additional types of large railway track maintenance machines, as one of the conditions of obtaining a repair permit is to present contracts, agreements or relevant documents for such repair and not every type of the large railway track maintenance machines that we have manufactured reaches the stage when overhaul services are required. For details of the conditions of obtaining a repair permit, see “Regulatory Environment – Regulatory Framework – Main Regulations in Connection with the Research, Development, Manufacture and Repair of Large Railway Track Maintenance Machinery.”
- (7) These certificates and permits were reissued on August 11, 2015 due to the change of our Company’s name.
- (8) All of our 16 product type certificates have long-term validities.

Our Directors and our PRC legal advisor, Jia Yuan Law Offices, are of the view that our Company and subsidiaries have obtained, and currently maintain, all necessary licenses and permits required for our business operations, and we are in compliance with the applicable PRC laws and regulations relating to our business operations in all material respects. In June 2015, our Company was wholly converted into a joint stock limited liability company and renamed as CRCC High-Tech Equipment Corporation Limited. As of the Latest Practicable Date, some of our licenses and permits were under the name of Kunming Railway Large Maintenance Machinery Group Co., Ltd. and we need to amend the name on these licenses and permits to

BUSINESS

our Company name. Our PRC legal advisor, Jia Yuan Law Offices, has advised us that there is no legal impediment to amending the name on such licenses and permits. For details of the regulatory and legal framework of the railway industry in the PRC, see “Regulatory Environment.”

INTELLECTUAL PROPERTIES

We rely on a combination of patents, trademark registrations, non-competition and trade secret laws and confidentiality agreements with our employees to protect our intellectual property rights. As of June 30, 2015, we had seven registered trademarks, 197 registered patents and 65 pending patent applications in the PRC. From time to time, we submit patent applications for products and technologies that we have developed in order to proactively protect our intellectual property rights. We also have unregistered trade secrets, technologies, know-how, processes and other intellectual property rights. In June 2015, our Company was wholly converted into a joint stock limited liability company and renamed as CRCC High-Tech Equipment Corporation Limited. As of the Latest Practicable Date, all of our trademarks, patents and patent applications were under the name of Kunming Railway Large Maintenance Machinery Group Co., Ltd. and we are in the process of amending the name on the trademarks, patents and patent applications to our Company name. Our PRC legal advisor, Jia Yuan Law Offices, has advised us that there is no legal impediment to amending the name on such trademarks, patents and patent applications.

In addition, we entered into certain Key Cooperation Agreements with the Key Cooperation Partner, through which it licensed us to utilize its intellectual property rights and technologies, including technology relating to the manufacture, assembly, marketing, installation, maintenance and repair of the Licensed Machines in the PRC specified in the relevant agreements that parties may enter into from time to time. For details, see “Business – Raw Materials, Parts and Components and Suppliers – Reliance on the Key Cooperation Partner.”

We have recently completed our first overseas sales of large railway track maintenance machines developed with our proprietary technologies to Kazakhstan, which is our only overseas sales of product as of the Latest Practicable Date. In order to ensure our proprietary technologies do not infringe the intellectual property rights of the Key Cooperation Partner as well as other third parties, we have maintained and updated regularly an internal database with the latest publicly available information on the intellectual property rights of the Key Cooperation Partners and our other peers in the large railway track maintenance machinery industry. We also use this database for internal training purposes. Prior to the development of our proprietary technologies, we typically conduct searches in our internal database as well as other public searches in the PRC, to ensure there is no conflict between our proprietary technologies and the intellectual properties rights of third parties. Throughout the development process of our proprietary technologies, we repeat such searches from time to time, in order to prevent infringement of the intellectual property rights of third parties, including the Key Cooperation Partner. Our chief engineer, the dean and the vice deans of our research center are in charge of ensuring our proprietary technologies do not infringe the intellectual property rights of the Key Cooperation Partner as well as other third parties. Our chief engineer, Mr. Hu Bin, graduated from Shanghai Railway Institute in 1987 with a bachelor’s degree in engineering. The dean of our research center, Mr. Li Haikun, graduated from Northwestern Polytechnical University in 1989 with a bachelor’s degree in engineering. We have four vice

BUSINESS

deans of our research center, namely Mr. Xie Jiangsheng, Mr. Guo Guanzhu, Mr. Fang Jiankang, and Mr. Xiong Zemin. Mr. Xie Jiangsheng graduated from Southwest Petroleum Institute in 1985 with a bachelor's degree in engineering and in 1988 with a master's degree in engineering. Mr. Guo Guanzhu graduated from Sichuan Union University in 1996 with a bachelor's degree in engineering, from Shanghai Jiaotong University in 2003 with a master's degree in engineering, and from Zhejiang University with a Ph.D. in engineering. Mr. Fang Jiankang graduated from Changsha Railway Institute in 1996 with a bachelor's degree in engineering. Mr. Xiong Zemin graduated from Luoyuang Institute of Technology in 1984 with a bachelor's degree in engineering. Each of them has almost 30 years of experience in R&D and the manufacture of railway maintenance machinery and each has a senior engineer certificate. We award the senior engineer certificate to our senior engineers who (i) possess the requisite educational qualifications and working experience at a position requiring an intermediate level of professional technical skills; (ii) possess the requisite professional theoretical and technical knowledge and are well-versed in the relevant current conditions and development trends in China and overseas; (iii) possess independent problem-solving abilities and relevant practical, technical and management experience to execute medium to large-scale projects; (iv) have passed a foreign language test in respect of the location where he or she works; and (v) have published at least one solely-authored academic thesis of high technical value in a professional or industry publication that is published in China and overseas.

PROPERTIES

Property Valuation

JLL, an independent property valuer, has valued our selected properties as of September 30, 2015. For the full property valuation report, see "Appendix III – Property Valuation Report" in this prospectus. Having considered the implications of Rule 5.01A(2) of the Listing Rules, the selected property interest subject to valuation is the property interest that do not form part of our property activities and the carrying amount of such property interest is above 15% of our total assets.

Land Use Rights

As of June 30, 2015, we owned nine parcels of land in the PRC, with an aggregate site area of approximately 753,499.0 sq.m., which were mainly used for manufacturing or R&D purposes. As of June 30, 2015, we did not lease any parcels of land.

As of June 30, 2015, we had obtained valid land use right certificates for the nine parcels of land mentioned above. As some of these land use right certificates were under the name of Kunming Railway Large Maintenance Machinery Group Co., Ltd., we need to amend the name on such certificates to our Company name. Our PRC legal advisor, Jia Yuan Law Offices, has confirmed that there is no legal impediment to amend the name on such land use right certificates. We can legally occupy, use, give, transfer, lease, pledge or dispose of such land use rights under the terms specified in the land use right certificates, pursuant to applicable PRC laws and regulations.

Buildings

Our corporate headquarters are located at No. 384, Yangfangwang, Jinma Town, Kunming, Yunnan Province, China. The property valuation report in Appendix III of this prospectus sets out building details of our corporate headquarters as of September 30, 2015. As of June 30, 2015, we owned 75 buildings in the PRC, with an aggregate gross floor area of approximately 201,848.8 sq.m. As of June 30, 2015, we leased 16 buildings, with an aggregate gross floor area of 19,250.7 sq.m.

Owned buildings

As of June 30, 2015, among the 75 buildings we owned:

- We had obtained the relevant building ownership certificates for 63 buildings, with an aggregate gross floor area of approximately 190,819.3 sq.m. As of June 30, 2015, we had obtained all rights and licenses in respect of the above-mentioned buildings. As part of these building ownership certificates were under the name of Kunming Railway Large Maintenance Machinery Group Co., Ltd., we need to amend the name on such certificates to our Company's name. Our PRC legal advisor, Jia Yuan Law Offices, has confirmed that there is no legal impediment to amend the name on such building ownership certificates. We have the legal ownership of these properties, which is protected by the relevant PRC laws.
- We have not obtained the building ownership certificates, but have obtained the land use right certificates for the lands on which such buildings were erected, for 12 buildings, with an aggregate gross floor area of approximately 11,029.5 sq.m., representing 5.0% of the aggregate gross floor area of the properties used by us. These buildings are used for industrial, operational and office purposes and are in safe condition. We are in the process of applying for building ownership certificates from competent governmental authorities and as advised by our PRC legal advisor, Jia Yuan Law Offices, there is no legal impediment to obtain such building ownership certificates after we complete the final acceptance of construction projects and submit adequate application materials pursuant to the relevant laws and regulations. As of June 30, 2015, all of such buildings are not subject to any disputes or potential disputes and we have not been advised by any government authority or third parties to cease our use of such buildings for our business activities, or pay fines or make compensations. As for such buildings, our PRC legal advisor, Jia Yuan Law Offices, is of the view that (i) our ownership of these properties will be complete and effective once we obtain the relevant building ownership certificates and (ii) although the lack of building ownership certificates for these buildings will prevent these buildings from being bought, sold or accepted by banks as securities for mortgage, given that no ownership controversy or dispute regarding the building ownership certificates of these buildings which would have a material effect on our business has been found, and further given that these buildings without building ownership certificates only account for a small proportion of the aggregate gross floor area of all of our properties, the lack of building ownership certificates for these buildings will not individually or in the aggregate have a material adverse effect on our business. In addition, our Directors believe that in the event we are

BUSINESS

required to relocate, we will be able to find replacement premises in a timely manner with minimal expenses, therefore it will not, individually or in the aggregate, have any material adverse effect on our operation and the Global Offering.

Leased buildings

As of June 30, 2015, we had leased 16 buildings, with an aggregate gross floor area of 19,250.7 sq.m., representing 8.7% of the aggregate gross floor area of the properties used by us. The relevant lessors of these 16 buildings which we lease have not obtained the building ownership certificates for such buildings. We use these 16 leased buildings primarily for office, staff accommodation and operational use, and these buildings are in safe condition. Among the 16 leased buildings, the lessor of one building with a gross floor area of 3,103.0 sq.m. had agreed with us to compensate us for any losses caused due to the lack of building ownership certificate.

Our PRC legal advisor, Jia Yuan Law Offices, is of the view that we will not be subject to potential legal liability as a result of the lack of building ownership certificates for our leased buildings, and also given that these leased buildings without building ownership certificates only account for a small proportion of the aggregate gross floor areas of all of our properties, the lack of building ownership certificates for these buildings will not individually or in aggregate have a material adverse effect on our business. In addition, our Directors believe that in the event we are required to relocate, we have the ability to be able to find replacement premises in a timely manner with minimal expenses, therefore it will not, individually or in aggregate, have any material adverse effect on our operations and the Global Offering.

In addition, our Directors are of the view that, when the relevant lessor obtains the relevant building ownership certificate, the rental fees for these 16 buildings are not expected to change significantly.

EMPLOYEES

As of June 30, 2015, we had 1,836 full-time employees (excluding dispatch personnel), all of whom had entered into employment contracts with us. The following table shows the breakdown of our employees by business function as of June 30, 2015:

	As of June 30, 2015	
	Number of employees	% of total
R&D personnel	220	12.0%
Technical personnel	1,006	54.8%
Sales personnel	118	6.4%
Managerial personnel	335	18.3%
Others	157	8.6%
Total	1,836	100.0%

We believe the sustainability of our growth depends on the capability and loyalty of our employees. Our management recognizes the importance of realizing personal values for our employees and promotes a transparent appraisal system for all our employees seeking career

BUSINESS

advancement across different business departments. Our appraisal system provides the basis for making human resource decisions, such as remuneration adjustment, performance bonus, training and career promotion.

In order for us to maintain a competitive edge in the market, we will continue to focus on attracting and retaining qualified professionals by offering a performance-based and market-driven compensation structure. Our staff costs primarily include salaries, bonus, social insurance, housing provident fund and corporate benefits. In accordance with applicable PRC laws and regulations, we provide our employees with benefits, such as basic pension insurance, basic medical insurance, workplace injury insurance, unemployment insurance, personal injury insurance, maternity insurance and housing provident fund. For the dispatch personnel, we have commissioned the dispatch company to pay for their employee benefits, such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, and housing provident fund.

To date, we have not experienced any labor strikes or other labor disputes that have affected our operations. We believe that our senior executives, labor union and employees will continue to maintain good relationships with one another.

INSURANCE

In the course of our business operations, we obtain transportation insurance for goods shipped from overseas and environmental pollution liability insurance to cover liability for damage to the environment. We have also purchased compulsory basic social insurance, as well as partial supplementary commercial insurance for our employees, in compliance with the relevant PRC laws and regulations and industry practice. See “Risk Factors – Risks Relating to Our Industry and Business Operations – Insurance coverage for our business, products and properties may not be sufficient.”

We do not carry any third-party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations, nor do we carry any business interruption insurance. We and our subsidiaries do not carry product liability insurance for any of our products. Such insurance policies are not mandatory according to PRC laws and regulations, and would impose additional costs on our operations, which would reduce our competitiveness. See “Risk Factors – Risks Relating to Our Business Operations – We may face potential product liability claims or suffer losses due to defective products.”

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

LEGAL PROCEEDINGS

We may from time to time be involved in contract disputes or legal proceedings arising from the ordinary course of our business. As of the Latest Practicable Date, none of our

BUSINESS

Company, any of our subsidiaries or any of our Directors was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations. Moreover, neither our Company nor any of our subsidiaries was subject to any material claims, damages, losses or product returns during the Track Record Period. As of the Latest Practicable Date, no such material litigation, arbitration or administrative proceedings have been threatened against our Company or any of our subsidiaries.

We conduct our business mainly in the PRC and are, therefore, subject to the relevant restrictions of the regulatory requirements of the PRC. Our Directors and PRC legal advisors, Jia Yuan Law Offices, confirmed that, during the Track Record Period and as of the Latest Practicable Date, we have complied with relevant PRC regulatory requirements and guidelines in all material respects and obtained all the important consents and license necessary for our operations in accordance with the PRC laws and regulations.

CONNECTED TRANSACTIONS

Upon completion of the Global Offering, certain transactions between us and our connected persons will constitute connected transactions under Chapter 14A of the Listing Rules. Details of our connected transactions are set out below.


CONNECTED PERSONS

During the Track Record Period, our Group has entered into certain agreements or transactions with entities which will be regarded as connected persons of our Company upon Listing and such agreements or transactions will constitute continuing connected transactions of our Company under the Listing Rules upon Listing. Currently, for the purposes of the Listing Rules, it is expected that the connected persons of our Company (which include CRCC and its associates) will have non-exempt continuing connected transactions with our Group after Listing.

The Retained Group (i.e. CRCC and its subsidiaries (excluding our Group)) is primarily engaged in (i) construction operations; (ii) survey, design and consultancy operations; (iii) manufacturing operations (except the business of our Group); (iv) real estate development operations; and (v) logistics and materials trading. Immediately after completion of the Global Offering, CRCC will directly and indirectly hold approximately 65.00% of the enlarged issued share capital of our Company (assuming that the Over-allotment Option is not exercised) and will continue to be the controlling shareholder of our Company. Therefore, for the purposes of the Listing Rules, CRCC and its associates are connected persons of our Company upon Listing.

EXEMPT CONTINUING CONNECTED TRANSACTION

Trademark License Agreement

To facilitate the use of the trademark of the Retained Group, our Company entered into a trademark license agreement with CRCC on November 23, 2015 (the “Trademark License Agreement”). Pursuant to the Trademark License Agreement, CRCC has agreed to grant our Group to use a trademark of CRCC,  中国铁建, during the valid period of this trademark (i.e. from December 14, 2013 to December 13, 2023 in the PRC and from November 12, 2007 to November 11, 2017 in Hong Kong). No consideration will be paid by our Group to the Retained Group pursuant to the Trademark License Agreement. Unless with the prior written consent of CRCC, our Group may not transfer or license such trademark to any third parties.

Since the license is granted for nil consideration and our Group is not required to pay any license fee to the Retained Group, the transaction contemplated under the Trademark License Agreement constitutes a *de minimis* continuing connected transaction exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below details of certain connected transactions of our Company that are expected to continue after the Listing, which will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under the connected transactions regulatory regime of the Listing Rules.

CONNECTED TRANSACTIONS

1. Large Maintenance Machinery and Accessories Sales Framework Agreement with CRCC

Parties: our Company (as the supplier of products and services); and
CRCC (as the purchaser of products and services)

Principal terms:

Our Company entered into a large maintenance machinery and accessories sales framework agreement dated November 23, 2015 (the “Large Maintenance Machinery and Accessories Sales Framework Agreement”) with CRCC. Pursuant to such agreement, our Group agrees to: (i) sell various kinds of large railway track maintenance machines; (ii) provide other related or ancillary products and services, mainly including sales of parts and components and the provision of overhaul services and railway line maintenance services to CRCC and/or its associates. The principal terms of the Large Maintenance Machinery and Accessories Sales Framework Agreement are as follows:

- (i) the initial term of the Large Maintenance Machinery and Accessories Sales Framework Agreement will commence on the Listing Date and end on December 31, 2017, subject to early termination by either party giving at least three months’ prior written notice to the other party. Parties can extend or renew such terms by mutual agreement, provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with; and
- (ii) to implement the transactions contemplated under the Large Maintenance Machinery and Accessories Sales Framework Agreement, the parties will enter into separate agreements or order forms which specify and record the specific terms (such as the types of large maintenance machinery and accessories, the prices and the payment and delivery terms) and operative provisions of those transactions to be determined in accordance with the terms under the Large Maintenance Machinery and Accessories Sales Framework Agreement.

Reasons for the transaction:

In the ordinary and usual course of our business, our Group sells large railway track maintenance machinery and accessories and provides other related or ancillary services to CRCC and/or its associates. The Directors are of the view that such transactions are beneficial to our Group for the following reasons:

- (i) in accordance with the relevant regulations of competent authorities for all constructions of new railway lines, railway line maintenance (such as tamping, formation and rehabilitation) must be conducted before the inspection and acceptance of such railway lines; CRCC and/or its associates, which are primarily engaged in the railway construction operations, require such products for carrying out railway track maintenance work before the inspection and acceptance of the new railway lines they have constructed;

CONNECTED TRANSACTIONS

- (ii) our Company and CRCC and/or its associates have established a long-term relationship, and understand respective planning of operations, quality control as well as certain specific requirements of both parties; and
- (iii) the prices and terms for the sales of large railway track maintenance machinery and accessories and the provision of other related or ancillary services by us to CRCC and/or its associates would be no less favorable to our Company than those we offer to any Independent Third Party.

Pricing policy:

In line with the general pricing policy of fairness and reasonableness set out in the Large Maintenance Machinery and Accessories Sales Framework Agreement, the prices for products and services under such agreement shall be determined based on the following pricing principles:

- (i) the price should generally be in line with the relevant market prices at which the same type of products and services provided by us to an Independent Third Party on normal commercial terms;
- (ii) in the absence of the relevant market prices, then the price shall be determined according to the price to be agreed between the parties; the agreed price will be calculated based on the actual costs, which include raw materials, accessories, depreciation, salary, energy, technology consumption and equipment maintenance, incurred in providing such products and services plus reasonable profits; we will charge a mark-up rate, taking into consideration of the specific types of products and services, for the transactions on a cost-plus basis. Such mark-up rate is generally not lower than 15%.

In order to ensure that the sales of large railway track maintenance machinery and accessories and the provision of other related or ancillary products and services from our Group to the Retained Group will not be prejudicial to the interests of our Company and our minority Shareholders, our Company adopts the following measures in negotiating the prices and terms of the transactions to be carried out under the Large Maintenance Machinery and Accessories Sales Framework Agreement:

- (i) the prices will generally be agreed following arm's length negotiation between the parties with reference to the prevailing market prices; to determine the prevailing market prices, we will make reference to the price we offer to the Independent Third Party customers for the same or similar products or services; we will also take into account other factors to determine the market prices, which will include the payment terms, the specific requirements of parties, the quality of services required and the geographical areas where we provide products and services, to ensure that the prices will be no less favorable to our Company than those of the same type of products and services we provide to the Independent Third Party customers;
- (ii) in respect of the principle of the cost plus a reasonable profit margin, we will take into account all relevant factors in determining the underlying costs, which

CONNECTED TRANSACTIONS

include raw materials, accessories, depreciation, salary, energy, technology consumption and equipment maintenance; and

- (iii) in the unlikely event that no comparable market price can be taken, experts in our Group with sufficient industry experience could opine on the fairness and reasonableness of the price by reference to the comparable price and/or historical transaction price of the most similar items to ensure that the price would be fair and reasonable to our Company and no less favorable to our Company than the price our Group offers to the Independent Third Party customers.

Historical figures:

The aggregate amounts of transactions with respect to the sales of large railway track maintenance machinery and accessories, as well as the provision of other related or ancillary products and services by our Group to CRCC and its associates for the three years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015 were RMB155.7 million, RMB47.8 million, RMB78.0 million and RMB48.4 million, respectively.

Proposed annual caps:

The proposed annual caps under the Large Maintenance Machinery and Accessories Sales Framework Agreement for the three years ending December 31, 2017 are as follows:

	12 months ending December 31, 2015	12 months ending December 31, 2016	12 months ending December 31, 2017
	(RMB million)	(RMB million)	(RMB million)
<i>Sales:</i>			
Amounts payable to our Group by the Retained Group with respect to the sales of large railway track maintenance machinery and accessories and the provision of other related or ancillary products and services	126.4	179.1	220.6

Basis of caps:

In arriving at the above proposed annual caps, our Company has considered factors including:

- (i) in accordance with CRCC's procurement plan for large railway track maintenance machines in 2015 and the contracts that were entered into between our Group and the Retained Group, our sales of large railway track maintenance machines to the Retained Group for the year ending December 31, 2015 are expected to increase significantly from approximately RMB59.0 million for the year ended December 31, 2014 to approximately RMB102.5 million for the year ending December 31, 2015; taking into account macroeconomic conditions, such as the "One Belt, One Road" initiative (including the Trans-Asia railway plan) adopted by the PRC government, the overseas development strategies of the Retained Group as well as the enhanced international

CONNECTED TRANSACTIONS

recognition of the brands under our Company, we are expected to maintain a steady growth in sales of large railway track maintenance machines as well as parts and components and provision of railway line maintenance services for the three years ending December 31, 2017;

- (ii) we have recently participated in certain overseas railway construction projects undertaken or to be undertaken by the Retained Group, which call for a significant increase in our supply of large railway track maintenance machines as well as parts and components; it is currently expected that the aggregate amounts of transactions with respect to the sales of large railway track maintenance machines as well as parts and components that will be used in such overseas railway construction projects for the three years ending December 31, 2017 will be approximately RMB42.5 million, RMB90.0 million and RMB125.0 million, respectively, while the historical amounts of transactions with respect to the sales of large railway track maintenance machines as well as parts and components from our Group to the Retained Group that were used in overseas railway construction projects for the three years ended December 31, 2014 were approximately RMB26.3 million, RMB0.2 million and RMB39.5 million, respectively;
- (iii) according to the relevant regulations enacted in 2014 by competent authorities, the large railway track maintenance machinery would be due for overhaul after being used for ten to 13 years, or achieving certain level of workload; as such, the Retained Group's demand for our overhaul services is expected to increase in the coming years as more railway track maintenance machines supplied to the Retained Group will expect to be due for overhaul; and
- (iv) the historical transaction amounts incurred between our Group and the Retained Group as set out above.

Implications under the Listing Rules:

The transactions under the Large Maintenance Machinery and Accessories Sales Framework Agreement will constitute continuing connected transactions of our Company upon Listing.

Pursuant to the Listing Rules, the highest applicable percentage ratio for the continuing connected transactions contemplated under the Large Maintenance Machinery and Accessories Sales Framework Agreement is more than 5% on an annual basis. Accordingly, such continuing connected transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

CONNECTED TRANSACTIONS

Internal control procedures for the implementation of the Large Maintenance Machinery and Accessories Sales Framework Agreement:

Our Company has adopted the following internal control measures to ensure that the terms of the Large Maintenance Machinery and Accessories Sales Framework Agreement are fair and reasonable and such transactions are on normal commercial terms:

- (i) our Company has adopted and implemented a management system on connected transactions. Under the relevant system, our finance department is responsible for conducting reviews on compliance with relevant laws, regulations, our Company's policies and the Listing Rules in respect of the Large Maintenance Machinery and Accessories Sales Framework Agreement. In addition, the finance department, marketing department, international department, legal affairs department and other relevant operation departments of our Company are jointly responsible for evaluating the transaction terms under such agreement, in particular, the fairness of the pricing terms under such agreement;
- (ii) the independent non-executive Directors have also reviewed and will continue to review the continuing connected transactions to ensure that the transactions have been entered into on normal commercial terms and according to the Large Maintenance Machinery and Accessories Sales Framework Agreement governing them on terms that are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and provide confirmation in our annual report; and
- (iii) the auditor of our Company will also conduct an annual review on the pricing policies and annual caps of such agreement, and provide confirmation in our annual report.

2. Financial Services Framework Agreement with CRCC Finance

Parties: our Company (as the service recipient); and

CRCC Finance (as the service provider)

CRCC Finance is a non-banking financial institution incorporated in the PRC on March 28, 2012 and is subject to the *Administrative Measures on Finance Companies within Group Enterprises* (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by the PBOC and CBRC. The establishment of such non-banking financial institutions is subject to approval by the CBRC and its operation is subject to the ongoing supervision of the CBRC. Non-banking financial institutions shall comply with applicable regulations relating to interests rates issued by the PBOC and CBRC.

In the PRC, finance companies within group enterprises are only permitted under applicable PRC laws and regulations to provide financial services to enterprises within the same parent group. Therefore, CRCC Finance only provides financial services to members of the CRCC Group, including us.

CONNECTED TRANSACTIONS

Principal terms:

Our Company entered into a financial services framework agreement dated November 23, 2015 (the “Financial Services Framework Agreement”) with CRCC Finance, a subsidiary of CRCC. Pursuant to such agreement, CRCC Finance agrees to provide deposit services to our Group after the Listing.

The initial term of the Financial Services Framework Agreement will commence on the Listing Date and expire on the earlier of: (a) the day which is one year after the Listing Date; and (b) the day on which our Company holds its next annual general meeting, subject to early termination by either party giving at least three months’ prior written notice to the other party. Parties can extend or renew such terms by mutual agreement, provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with.

The terms of the Financial Services Framework Agreement were negotiated on an arm’s length basis and in the ordinary and usual course of business of our Group.

Reasons for the transaction:

Our Group is expected to benefit from CRCC Finance’s familiarity of our industry and our Group’s operations. Through years of cooperation, CRCC Finance has become familiar with our Group’s capital structure, business operations, funding needs, cash flow pattern, cash management and our overall financial management system, which may enable CRCC Finance to render more expedient, efficient and flexible deposit services to our Group than other commercial banks and independent financial institutions in the PRC.

With respect to deposits placed by our Group with CRCC Finance, our Group will be able to receive interest at rates not lower, and thus no less favorable, than the prevailing rates offered by the major PRC commercial banks for deposits of similar nature.

For the avoidance of doubt, our Group is not prohibited or restricted in any way to use deposit services provided by other commercial banks or independent financial institutions in the open market, and we retain discretion to make our selection according to business needs as well as the fees and quality of such deposit services. Our Group may (but is not obliged to) utilize the deposit services provided by CRCC Finance so as to deploy and manage our financial resources flexibly and efficiently.

Pricing policy:

Pursuant to the Financial Services Framework Agreement, CRCC Finance shall accept deposits from our Group at interest rates not lower, and thus no less favorable, than the prevailing rates offered by the major PRC commercial banks for deposits of similar nature.

Our Group and CRCC Finance will enter into specific agreement to set out specific terms with respect to the financial services contemplated under the Financial Services Framework Agreement in accordance with the aforementioned principle terms thereunder.

CONNECTED TRANSACTIONS

Historical figures:

The historical maximum daily outstanding balances of the deposit placed by our Group with CRCC Finance for each of the three financial years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015 were approximately RMB67.9 million, RMB1,711.0 million, RMB1,406.7 million and RMB464.6 million, respectively.

Maximum daily outstanding balances of the deposit:

The proposed maximum daily outstanding balances of the deposit to be placed by our Group with CRCC Finance during the period of the Financial Services Framework Agreement shall be RMB500.0 million.

In arriving at the above proposed maximum daily outstanding balances of the deposit, our Company has considered factors including:

- (i) the historical maximum daily outstanding balances of the deposit as set out above; and
- (ii) the needs for capital management of our Group, as well as to further centralize the management of our capital.

Implications under the Listing Rules:

CRCC Finance is a connected person of our Company by virtue of being a subsidiary of CRCC. Therefore, the transactions contemplated under the Financial Services Framework Agreement will constitute continuing connected transactions of our Company upon Listing. In respect of the provision of deposit services by CRCC Finance under the Financial Services Framework Agreement, the highest applicable percentage ratio is more than 5%. Accordingly, such continuing connected transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

Internal control measures to ensure safety of the funds of our Group deposited with CRCC Finance:

Our Company has adopted the following monitoring and internal control measures to ensure that the terms of the Financial Services Framework Agreement are fair and reasonable and such transactions are on normal commercial terms:

- (i) before our Company or any of our subsidiaries enters into any deposit services with CRCC Finance, our Group will obtain quotes from other independent financial institutions for similar deposit services for the same duration; such quotes, together with the offer from CRCC Finance, will be reviewed and the offer from CRCC Finance has to pass our internal approval process before it can be accepted;

CONNECTED TRANSACTIONS

- (ii) CRCC Finance shall set up and maintain, or procure the setting up and maintenance of, a secured and stable on-line system through which the relevant subsidiary of our Company, which deposits money with them, can view the balance of such deposits at any time on any day;
- (iii) CRCC Finance shall, in taking the deposits from our Group, not affect the normal use of the deposits by our Group; CRCC Finance shall ensure that their deployment of the funds will not inhibit or restrict the ability of our Group from utilizing our deposits, and if the funding needs of our Group do not exceed the total deposits placed by our Group with CRCC Finance, CRCC Finance shall ensure that there will be sufficient funds for our Group's timely withdrawal to meet the funding needs of our Group;
- (iv) CRCC Finance shall facilitate any annual inspection by our Group of the management of the deposits placed by our Group with CRCC Finance, including inspection of records of fund flows, interest rates and payments provided to our deposits, the balances of our deposits placed, and other information and records that may be required by our auditors for the purpose of reporting on the relevant continuing connected transactions;
- (v) CRCC Finance will provide its annual financial report and other documents and information to our Company at our request; and
- (vi) the auditor of our Company will also conduct an annual review on the pricing policies and annual caps of such agreement, and provide confirmation in our annual report.

APPLICATION FOR WAIVERS

As the transactions described above are and will continue to be entered into in the ordinary and usual course of business of our Group on a continuing or recurring basis, our Directors are of the view that strict compliance with the announcement and independent shareholders' requirements would impose unnecessary administrative costs and burden to our Group and would at times be impracticable.

On the basis of the above, pursuant to Rule 14A.105 of the Listing Rules, the Sole Sponsor, for and on behalf of the Company, has respectfully applied to the Stock Exchange for and the Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements as may otherwise be required of our Company under Chapter 14A of the Listing Rules in connection with the Large Maintenance Machinery and Accessories Sales Framework Agreement and the Financial Services Framework Agreement and all transactions contemplated under them. Our Company shall comply with the annual reporting requirements in Rules 14A.49 and annual review requirements in Rules 14A.71 and 14A.72 in respect of the above non-exempt continuing connected transactions.

CONNECTED TRANSACTIONS

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including independent non-executive Directors) are of the view that: (i) our Company's non-exempt continuing connected transactions described in this section have been and will be entered into in the ordinary and usual course of business of our Company, on normal commercial terms, which are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (ii) the proposed annual caps or the maximum daily outstanding balances of the deposits (as the case may be) for these non-exempt continuing connected transactions referred to above are also fair and reasonable and in the interests of our Company and the Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

After due and careful enquires, taking into account the representation and information provided by the Company, the Sole Sponsor is of the view that: (i) the Company's non-exempt continuing connected transactions described in this section have been and will be entered into in the ordinary and usual course of business of the Company, on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the proposed annual caps or the maximum daily outstanding balances of the deposits (as the case may be) for these non-exempt continuing connected transactions referred to above are also fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table presents certain information in respect of our Directors:

Name	Age	Date of Joining the Company	Present Position	Date of Appointment as Director	Roles and Responsibilities
Ren Yanjun (任延軍)	54	July 6, 1985	Chairman, executive Director, general manager	January 8, 2010	To supervise the strategic planning, development, operation and management of the Company, and to be generally responsible for our Board and administration work
Ma Yunkun (馬雲昆)	61	November 25, 1986	Executive Director	March 16, 2003	To perform the duties as a member of the Board
Jiang He (江河)	49	August 13, 1987	Executive Director, vice general manager	April 12, 2006	To perform the duties as a member of the Board, to assist the general manager in the daily administration of the Company
Yu Yuanlin (余園林)	51	June 25, 2010	Executive Director, vice general manager, chief financial officer	June 24, 2015	To perform the duties as a member of the Board, and to be responsible for the Company's financial management and accounting
Li Xuefu (李學甫)	50	June 24, 2015	Non-executive Director	June 24, 2015	To perform the duties as a member of the Board, but not to be involved in day-to-day management of the Company
Wu Zhixu (伍志旭)	46	June 24, 2015	Non-executive Director	June 24, 2015	To perform the duties as a member of the Board, but not to be involved in day-to-day management of the Company
Sun Linfu (孫林夫)	52	November 23, 2015	Independent non-executive Director	November 23, 2015	To supervise and provide independent judgment for the Board
Yu Jiahe (于家和)	61	November 23, 2015	Independent non-executive Director	November 23, 2015	To supervise and provide independent judgment for the Board
Wong Hin Wing (黃顯榮)	52	November 23, 2015	Independent non-executive Director	November 23, 2015	To supervise and provide independent judgment for the Board

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table presents certain information in respect of our Supervisors:

Name	Age	Date of Joining the Company	Present Position	Date of Appointment as Supervisor	Roles and responsibilities
Lyu Jianming (呂檢明)	52	December 26, 2000	Chairman of the Supervisory Committee, employee Supervisor	June 24, 2015	To perform obligations as chairman of the Supervisory Committee and employee Supervisor
Zhang Zhumin (張主民)	42	June 24, 2015	Representative Supervisor of Shareholders	June 24, 2015	To perform obligations as representative Supervisor of Shareholders
Wang Huaming (王華明)	46	June 24, 2015	Representative Supervisor of Shareholders	June 24, 2015	To perform obligations as representative Supervisor of Shareholders

The following table presents certain information in respect of our members of senior management:

Name	Age	Date of Joining the Company	Present Position	Date of Appointment to the Present Senior Management Position	Roles and Responsibilities
Ren Yanjun (任延軍)	54	July 6, 1985	Chairman, executive Director, general manager	January 8, 2010	To supervise the strategic planning, development, operation and management of the Company, and to be generally responsible for administration work
Jiang He (江河)	49	August 13, 1987	Executive Director, vice general manager	March 16, 2003	To assist the general manager for the daily administration of the Company
Yu Yuanlin (余園林)	51	June 25, 2010	Executive Director, vice general manager, chief financial officer	October 12, 2012	Be responsible for the Company's financial management and accounting
Hu Bin (胡斌)	49	August 13, 1987	Vice general manager, chief engineer	August 14, 2004	Be responsible for the management of techniques and the National Engineering Technology Research Center for Large Railway Track Maintenance Machinery
Yang Chaokai (楊朝凱)	56	June 25, 1991	Union president, vice general manager	November 28, 2008	Be responsible for staff management
Huang Zhaoxiang (黃兆祥)	52	August 3, 1986	Vice general manager	March 16, 2003	Be responsible for safety and quality, environmental protection and training

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of Joining the Company	Present Position	Date of Appointment to the Present Senior Management Position	Roles and Responsibilities
Zhang Zhong (張忠)	52	August 10, 1986	Vice general manager	January 8, 2010	Be responsible for logistics management
Sun Guoqing (孫國慶)	55	February 21, 1983	Vice general manager	January 8, 2010	Be responsible for organizing, directing and coordinating the daily production
Chen Yongxiang (陳永祥)	49	August 11, 1989	Vice general manager	January 8, 2010	Be responsible for purchasing and managing non-current assets
Tong Pujiang (童普江)	38	August 9, 1999	Vice general manager	January 5, 2015	Be responsible for marketing and international business
Ma Changhua (馬昌華)	42	July 30, 1996	Secretary of the Board	February 3, 2015	Be responsible for daily work of the Board office and securities affairs department, and for information disclosure

BOARD OF DIRECTORS

The management of our business is supervised by our Board, which consists of nine Directors: four executive Directors, two non-executive Directors and three independent non-executive Directors. Our Directors are all elected at general meetings of our Shareholders for a term of three years, which is renewable upon re-election and re-appointment. The functions and duties of our Board include, but are not limited to convening Shareholders' meetings, reporting the Board's work at the Shareholders' meetings, implementing resolutions passed at the Shareholders' meetings, determining our business plans and investment plans, formulating our annual budget and final accounts, formulating our proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties specified in the Articles of Association.

Executive Directors

Mr. Ren Yanjun (任延軍), aged 54, is our chairman, executive Director and general manager. He joined the Company in July 1985. Mr. Ren was appointed as our general manager and Director in January 2010, and was appointed as our chairman, general manager and Director in January 2015.

Mr. Ren has 30 years of experience in manufacturing and repair of railway track maintenance machinery. From June 1985 to October 1987, Mr. Ren worked as an assistant engineer at the machine processing shop of Kunming Machinery Factory under the projects direction department of the MOR (鐵道部工程指揮部昆明機械廠) ("Kunming Machinery Factory"), our predecessor, primarily responsible for manufacturing and management of techniques in the

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

shop. From October 1987 to January 1991, he served successively as an assistant engineer and engineer at the equipment power shop of Kunming Machinery Factory, primarily responsible for the management of techniques in the shop. From January 1991 to December 1991, he served as the deputy head and an engineer at the training center of Kunming Machinery Factory, primarily responsible for product users' training. From December 1991 to September 1992, he served as a deputy division manager and engineer at the design division of Kunming Machinery Factory, primarily responsible for products design. From September 1992 to February 1995, he served as a manager and engineer at the Kunming Railway South Trading Company of Kunming Machinery Factory (昆明機械廠昆明鐵路南方貿易公司), primarily responsible for the trading and operation of the company. From February 1995 to November 2002, he served successively as a deputy division manager, division manager and senior engineer at the design division of Kunming Machinery Factory, primarily responsible for products design and management of techniques. From November 2002 to August 2004, he served as the department head and a senior engineer of the product development department of Kunming Machinery Factory, primarily responsible for products design and development. Mr. Ren served as our deputy general manager and senior engineer from August 2004 to January 2010, primarily responsible for marketing.

Mr. Ren obtained a senior engineer certificate issued by Factory Bureau under CRCCG in October 1997 and obtained a senior professional manager certificate issued by China Enterprise Confederation (中國企業聯合會) and China Entrepreneurs Association (中國企業家協會) in September 2006. He obtained a bachelor's degree from Southwest Jiaotong University (西南交通大學) in August 1983, majoring in mechanical engineering at the department of engineering.

Mr. Ma Yunkun (馬雲昆), aged 61, is our executive Director. He joined the Company in November 1986. Mr. Ma was appointed as our Director in March 2003 and was appointed as our senior economist in March 2006.

Mr. Ma has 29 years of experience in manufacturing and repair of railway track maintenance machinery. From November 1986 to July 1994, he served successively as a salesman, deputy division manager, division manager and assistant economist at the planning operation division of Kunming Machinery Factory, primarily responsible for marketing business. From July 1994 to March 2003, he served as the deputy factory manager and an economist at Kunming Machinery Factory, primarily responsible for marketing business. Mr. Ma served as our general manager, vice chairman, Director and economist from March 2003 to August 2004, primarily responsible for administration work. From August 2004 to January 2010, he served as our chairman, general manager, Director, economist and senior economist, primarily responsible for the Board and administration work. From January 2010 to January 2015, he served as our chairman, Director and senior economist, primarily responsible for the work of the Board. In January 2015, he was appointed as our Director and senior economist. Since September 2005, he has been a non-executive director of Zhuzhou CSR Times Electric Co., Ltd. (株州南車時代電氣股份有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 03898), which is primarily engaged in the field of rail transit.

Mr. Ma obtained a senior economist certificate issued by CRCCG in March 2006 and obtained a senior professional manager certificate issued by China Enterprise Confederation and China Entrepreneurs Association in December 2005. He obtained a college diploma from

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Yunnan University (雲南大學) in March 1992, majoring in management science. He obtained a bachelor's degree through distance learning from Lanzhou University (蘭州大學) in July 2007, majoring in administration management.

Mr. Jiang He (江河), aged 49, is our executive Director and vice general manager. He joined the Company in August 1987. Mr. Jiang was appointed as our vice general manager in March 2003 and was appointed as our Director in April 2006.

Mr. Jiang has 28 years of experience in manufacturing and repair of railway track maintenance machinery. From August 1987 to April 1991, he served as a technician of the assembly shop of Kunming Machinery Factory, primarily responsible for management of techniques in the shop. From April 1991 to December 1991, he served as a technician in the training center of Kunming Machinery Factory, primarily responsible for training. From December 1991 to September 1994, he served as a technician and assistant engineer of the assembly shop of Kunming Machinery Factory, primarily responsible for management of techniques in the shop. From September 1994 to October 1998, he served successively as a deputy division manager, division manager, assistant engineer and engineer at the inspection division of Kunming Machinery Factory, primarily responsible for inspection of our products. From October 1998 to December 2000, he served as the union president and an engineer at Kunming Machinery Factory, primarily responsible for activities in the union. From December 2000 to March 2003, Mr. Jiang served as the deputy factory manager and engineer at Kunming Machinery Factory, primarily responsible for testing and inspection of our products and training.

Mr. Jiang obtained a senior engineer certificate issued by CRCCG in January 2008. He completed the undergraduate courses at Dalian Railway Institute (大連鐵道學院) in July 1987, majoring in mechanical manufacturing processes and equipment. He obtained a bachelor's degree through distance learning from Southwest Jiaotong University in June 2005, majoring in mechanical design, manufacturing and automation. He obtained a master's degree from Southwest Jiaotong University in May 2009, majoring in business administration.

Mr. Yu Yuanlin (余園林), aged 51, is our executive Director, vice general manager and chief financial officer. He joined the Company in June 2010. Mr. Yu was appointed as our vice general manager and chief financial officer in October 2012 and was appointed as our executive Director in June 2015.

Mr. Yu has 32 years of experience in accounting and financial management. From August 1983 to August 1984, he served as a workshop accountant and payroll master at the textile factory equipment spare parts division of Hubei Puqi Textile Main Factory (湖北蒲圻紡織總廠), which was primarily engaged in the production and operation of textile products, primarily responsible for workshop accounting and payroll management. From August 1984 to January 1999, he served as an accounting clerk of the finance division, deputy division chief of the finance division and head of the financial department at the textile factory finance division of Hubei Puqi Textile Main Factory, primarily responsible for accounting, cost keeping and organizing finance computerization work. From January 1999 to December 2002, he served as the head of the finance department and deputy general manager of Hubei Pufang Sanlu Industrial Co., Ltd. (湖北蒲紡三陸實業股份有限公司), which was primarily engaged in the production and operation of textile products, textile equipment and special parts of textile

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

machinery, primarily responsible for accounting, basic management of corporate accounting, financial management and supervision, internal accounting control and supervision of significant financial affairs. From January 2003 to December 2006, Mr. Yu was appointed as a certified public accountant of the supervisory committee under SASAC, primarily responsible for financial supervision and inspection. From February 2007 to June 2008, he worked for the financial team for Share System Reform and Listing of CRCCG (中鐵建總公司股改上市辦財務組), primarily responsible for financial accounting affairs involved in share system reform and listing. From March 2007 to September 2009, he served as an office director at the audit committee of the board of China Railway Construction 11th Bureau Group Electric Engineering Co., Ltd. (中鐵十一局集團電務工程有限公司), which was primarily engaged in the operation of transportation equipment and construction engineering, primarily responsible for specific audit and internal audit. From September 2009 to June 2010, he served as a level-one staff at the project supervision (labor service management) center of Southern Engineering Co., Ltd. under the Electrification Bureau of China Railway Construction Corporation (中鐵建電氣化局集團南方工程有限公司項目監管(勞務管理)中心), which was primarily engaged in railway communication, signals, electricity and electronized construction engineering, primarily responsible for supervision of projects. From April 2010 to June 2010, he served as a financial controller and the head of the finance department of Guiyang project instruction department under CRCC (中國鐵建貴陽工程指揮部), which was primarily engaged in project engineering construction, primarily responsible for financial management and accounting. From June 2010 to October 2012, he served as the vice department head of our finance department and the vice chief financial officer of our Company, primarily responsible for financial management and accounting.

Mr. Yu obtained the qualification of certified public accountant issued by Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in July 1998. He obtained a college diploma from Hubei University (湖北大學) in October 1986, majoring in Chinese language and literature. Since 2012, he has studied for a master's degree in Shijiazhuang Railway University (石家莊鐵道大學), majoring in business management.

Non-executive Directors

Mr. Li Xuefu (李學甫), aged 50, is a non-executive Director of the Company. He joined the Company in June 2015 and was appointed as our non-executive Director.

Mr. Li has 24 years of experience in modern enterprise management and business management. From January 1991 to October 1998, he served as an engineer at the education and training department in CRCCG, primarily responsible for vocational education and staff training. From November 1998 to August 2002, he served as the vice head of the education and health department in CRCCG, primarily responsible for management of education and training. From August 2002 to December 2005, he served as the vice head of the education and health department and assistant director of Beijing training center in CRCCG, primarily responsible for vocational education and staff training in the whole system of CRCCG. From December 2005 to July 2008, he served as an office director under the board of directors of CRCCG, primarily responsible for providing services, communications, coordination and ideas for operation of and decision-making at the shareholder's meeting and the board of directors. From July 2008 to September 2014, he served as a director of the secretariat of the board of directors of CRCC, primarily responsible for communication of daily

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

work in the board of directors, preparing the relevant meetings and information disclosure. Since September 2014, he has served as the deputy chief economist of CRCC, assisting the general manager in operation management and significant decision. Since October 2014, he has served as the deputy chief economist and a supervisor of CRCC, primarily responsible for relevant duties assigned by the company and the supervisory committee, and inspection of the company's businesses and financial positions.

Mr. Li obtained the qualification of senior engineer issued by the former MOR in December 1998. He obtained a bachelor's degree from Shijiazhuang Railway College (石家莊鐵道學院) in July 1988, majoring in crane transportation and engineering machinery. He obtained a master's degree from North Jiaotong University (北方交通大學) in August 2000, majoring in business management.

Mr. Wu Zhixu (伍志旭), aged 46, is a non-executive Director of the Company. He joined the Company in June 2015 and was appointed as our non-executive Director.

Mr. Wu has 23 years of experience in legal service areas, such as reorganization and listing of enterprise, standardized daily operation of company and foreign investment. From November 1992 to October 1993, he served as a lawyer in Yunnan Trade Law Firm (雲南商貿律師事務所). From October 1993 to December 1999, he served as a lawyer and partner in Yunnan Haihe Law Firm (雲南海合律師事務所). From December 1999 to April 2014, he served as a director lawyer in Yunnan Qianhe Law Firm (雲南千和律師事務所). Since April 2005, he has served as a legal adviser of Kunming People's Government. From May 2008 to May 2011, he served as an independent director of Yunnan Xiyi Industry Corporation (雲南西儀工業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002265), which was primarily engaged in the cooling and heating processing of machines. From February 2011 to February 2014, he served as an independent director of Yunnan Lincang Xinyuan Germanium Industry Corporation (雲南臨滄鑫圓鎢業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002428), which was primarily engaged in the mining and extraction of minerals. Since June 2011, he has served as an independent director of Yunnan Tourism Corporation (雲南旅游股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002059), which was primarily engaged in the whole product chain of tourism. Since April 2014, he has served as a director lawyer in Beijing Deheng (Kunming) Law Firm (北京德恒(昆明)律師事務所). Since October 2010, he has served as vice president of the Yunnan Lawyers Association. Since November 2014, he has served as vice president of the Administrative Law Institute of the Yunnan Law Society. Since June 2013, he has served as the deputy secretary of the Association for Public Companies of Yunnan Province. Since August 2013, he has served as the deputy secretary of the Non-Party Intellectual Association of Yunnan Province (雲南省黨外知識分子聯誼會).

Mr. Wu obtained the qualification for lawyer engaging in securities businesses issued by the Ministry of Justice and CSRC in June 1993, and the qualification for Lawyer Providing Legal Services Regarding Definition of Property Rights for Collective Technology Enterprise issued by the Department of Lawyers under the Ministry of Justice, Department of Policy, Law and System Reform under the State Scientific and Technological Commission (國家科委政策法規與體制改革司), and the Department of Policy and Laws under the Administration for State-owned Assets (國家國有資產管理局政策法規司) in March 1998. He obtained the nationwide notary qualification certificate issued by the Ministry of Justice in August 1995 and

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

the lawyer qualification certificate issued by the Department of Justice of Yunnan in March 1993. He obtained the legal qualification certificate issued by the Ministry of Justice in February 2006. He obtained a bachelor's degree from Southwest College for Nationalists (西南民族學院) in July 1991, majoring in law. He obtained a postgraduate diploma from Yunnan University in July 1997, majoring in economic law.

Independent Non-executive Directors

Mr. Sun Linfu (孫林夫), aged 52, is an independent non-executive Director of the Company. He joined the Company in November 2015 and was appointed as our independent non-executive Director.

Mr. Sun has nearly 23 years of experience in advanced manufacturing and railway maintenance machinery industry. From October 1992 to September 1999, he served as the executive deputy director of the Computer-aided Design (CAD) Engineering Center of Southwest Jiaotong University. From September 1999 to October 2014, he served as the director of the CAD Engineering Center of Southwest Jiaotong University. He has been engaged in the long term research of the relevant aspects of advanced manufacturing in CAD techniques and strategies. From December 2006 to October 2014, he served as the dean of Sichuan Provincial Modern Service Technology Research Institute (四川省現代服務科技研究院) (formerly known as Sichuan Provincial Research Institute of Manufacturing Information (四川省製造業信息化研究院)), and has been engaged in the long term research of the techniques and strategies of modern service industries such as manufacturing information, service-oriented manufacturing and service-oriented technology as well as the integration of manufacturing and services.

Mr. Sun has been appointed as a professor of Southwest Jiaotong University since June 1996. He was appointed as the doctoral supervisor by Southwest Jiaotong University in April 2000. He obtained a bachelor's degree from Southwest Jiaotong University in August 1983, majoring in mechanical engineering. He obtained a master's degree from Southwest Jiaotong University in May 1986, majoring in bridge, tunnel and structural engineering. He obtained a doctor's degree from Southwest Jiaotong University in June 1993, majoring in bridge and tunnel engineering.

Mr. Yu Jiahe (于家和), aged 61, is an independent non-executive Director of the Company. He joined the Company in November 2015 and was appointed as our independent non-executive Director.

Mr. Yu has 36 years of experience in design and selection of railway maintenance machinery. From January 1975 to August 1976, he served as the machinery fitter in the Machinery Unit under Plant Construction Engineering Bureau of the MOR (鐵道部建廠工程局機械總隊), which was primarily engaged in railway engineering construction, primarily responsible for installation of machinery and equipment at harbors. From March 1980 to June 1980, he served as an intern in the Unit No. 1 under Plant Construction Bureau of the MOR (鐵道部建廠局一總隊), which was primarily engaged in railway engineering construction, participating in design of machinery. From June 1980 to October 1999, he successively served as an intern, assistant engineer, engineer, station head and senior engineer in the Design Institute of Railway Discipline (鐵道專業設計院), primarily responsible for design of railway

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

standard, and design and selection of large railway maintenance machinery. From October 1999 to May 2014, he assisted the foundation department of the transport bureau of the former MOR (鐵道部運輸局基礎部) from the Design Institute of Railway Discipline, primarily responsible for selection, manufacturing, use and routine management of large railway maintenance machinery, and for coordination and organization of field use.

Mr. Yu obtained the qualification of senior engineer issued by the Design Institute of Railway Discipline in March 1994. He obtained an academic certificate for university from Southwest Jiaotong University in February 1980, majoring in machinery manufacturing technique and equipment.

Mr. Wong Hin Wing (黃顯榮), aged 52, is an independent non-executive Director of the Company. He joined the Company in November 2015 and was appointed as our independent non-executive Director.

Mr. Wong has 31 years of experience in accounting, finance, investment management and advisory. Since 1997, Mr. Wong has been the chief executive officer and responsible officer of Legend Capital Partners, Inc. (安里俊投資有限公司), which was a licensed corporation under the SFO since 1997 and primarily engaged in Type 4, 6 and 9 regulated activities, primarily responsible for offering services in asset management, securities advisory and corporate finance as well as providing financial advisory and investment management services to enterprises in Asia. Prior to this, he worked with an international audit firm for four years and then a listed company as chief financial officer for seven years. He has been an independent non-executive director of AEON Credit Service (Asia) Co., Ltd. (AEON 信貸財務(亞洲)有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 00900) since 2004, which was primarily engaged in the consumer finance business, which included the issuance of credit cards and the provision of personal loan financing and hire purchase financing for vehicles and household and other consumer products, insurance broking and agency business and microfinance business, and an independent non-executive director of Dongjiang Environment Company Limited (東江環保股份有限公司), a company listed on the Shenzhen Stock Exchange and the Stock Exchange (A share stock code: 002672, H share stock code: 00895) since 2014, which was primarily engaged in the processing and sale of recycled products, the provision of waste treatment services, the construction and provision of environmental protection systems and services, and the trading of chemical products.

Mr. Wong obtained a master's degree in executive business administration from Chinese University of Hong Kong in December 1996. He has been a fellow member of the Hong Kong Institute of Certified Public Accountants since September 1987, the Institute of Chartered Accountants in England and Wales since October 2004, the Association of Chartered Certified Accountants since July 1987, the Hong Kong Institute of Directors since April 2002 and the Institute of Chartered Secretaries and Administration since February 1988. He has also been a member of the American Institute of Certified Public Accountants since February 1991 and a chartered member of the Chartered Institute for Securities & Investment since January 2004. He is also a member of Anhui Provincial Committee of the Chinese People's Political Consultative Conference and a member of the Nursing Council of Hong Kong.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company consists of three Supervisors. Except for the employee Supervisors elected by employees, the Supervisors are elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment. The functions and duties of the Supervisory Committee include, but are not limited to: reviewing and verifying financial reports, business reports and profit distribution proposals prepared by the Board; and, if in doubt, appointing certified public accountants and practicing auditors to re-examine the Company's financial information; monitoring the financial activities of the Company; to supervise the performance of the Directors, the general manager and other members of senior management, and monitoring whether they have acted in violation of the laws, regulations and Articles of Association in the performance of their duties; requesting the Directors, the general manager and members of senior management to rectify actions which are harmful for the Company's interests; and exercising other powers specified in the Articles of Association.

Mr. Lyu Jianming (呂檢明), aged 52, is the chairman of the Supervisory Committee and employee Supervisor of the Company. He joined the Company in December 2000. He was appointed as the chairman of the Supervisory Committee and employee Supervisor of the Company in June 2015.

Mr. Lyu has 15 years of experience in manufacturing and repair of railway track maintenance machinery. From December 2000 to May 2003, he served as a senior engineer at the product development department of Kunming Machinery Factory, primarily responsible for product design. From May 2003 to February 2006, he served as the deputy head and the head of the product inspection department of the Company, primarily responsible for product quality management. From February 2006 to April 2010, he served as the head of the production department of the Company, primarily responsible for production management. From April 2010 to December 2011, he served as a vice chief engineer and the head of technology management department of the Company, primarily responsible for technology management. From December 2011 to February 2013, he served as the assistant to the general manager and the head of technology management department of the Company, primarily responsible for technology management. From February 2013 to January 2014, he served as the assistant to the general manager and the head of the international department of the Company, primarily responsible for international businesses.

Mr. Lyu obtained a senior engineer certificate issued by the Aviation Industry Corporation of China (中國航天工業總公司) in August 1998. He obtained a bachelor's degree from Harbin University of Technology (哈爾濱工業大學) in July 1984, majoring in precision machine manufacturing process.

Mr. Zhang Zhumin (張主民), aged 42, joined the Company in June 2015 and was appointed as our representative Supervisor of Shareholders.

Mr. Zhang has 18 years of experience in financial management. From July 1997 to March 2003, he successively served as an accountant, billing clerk, financial manager and assistant accountant in Guangdong Securities Corporation (廣東證券股份有限公司), which was primarily engaged in securities business, primarily responsible for financial accounting and management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

of securities business. From April 2006 to April 2015, he successively served as the deputy head and head of the finance department, senior accountant and senior economist of Sinoma Technology and Equipment Group Co., Ltd. (中材裝備集團有限公司), which was primarily engaged in manufacturing of high-end equipment, primarily responsible for financial management. Since June 2015, he served as the head of the legal and risk control department, senior accountant, senior economist and corporate counsel of China Railway Construction Heavy Industry Group Co., Ltd., primarily responsible for legal affairs, internal control and risk prevention.

Mr. Zhang obtained a senior economist certificate issued by Sinoma Group Co., Ltd. (中國中材集團有限公司) in December 2007, and obtained a management advisor certificate issued by China Enterprise Confederation in November 2007. He obtained a senior accountant certificate issued by the Personnel Bureau of Tianjin in December 2006, and obtained the qualification certificate for corporate counsel issued by the Ministry of Personnel of China, SASAC and the Ministry of Justice in October 2006. He obtained a bachelor's degree from Hunan College of Finance and Economics (湖南財經學院) in June 1997, majoring in accounting. He obtained a master's degree from Jinan University (暨南大學) in January 2002, majoring in accounting.

Mr. Wang Huaming (王華明), aged 46, joined the Company in June 2015 and was appointed as our representative Supervisor of Shareholders.

Mr. Wang has 22 years of experience in corporate economic management. From September 1993 to May 2002, he served as an intern and a financial principal at the engineering unit and project department at the 1st Engineering Company under Shanghai Railway Bureau Engineering Corporation (上海鐵路局工程總公司第一工程公司), which was primarily engaged in general contracting of engineering construction projects, primarily responsible for financial accounting. From June 2002 to July 2004, he was a member of the finance department and a deputy director of the investment audit department under Anhui Engineering Co., Ltd. of Shanghai Railway Construction Group (上海鐵路建設集團安徽工程有限公司), which was primarily engaged in railway construction and installation engineering, primarily responsible for finance and accounting work and investment auditing affairs. From August 2004 to December 2012, he served as the chief financial officer of Anhui Engineering Company of Shanghai Railway Construction Group (renamed as Anhui Engineering Co., Ltd. of China Railway 24th Bureau (中鐵二十四局集團安徽工程有限公司)), primarily responsible for economic management and financial accounting. From July 2011 to December 2012, he concurrently served as the general counsel of Anhui Engineering Co., Ltd. of China Railway 24th Bureau, primarily responsible for corporate legal affairs. From January 2013 to August 2014, he served as the financial director and general counsel of China Railway Zhanjiang Development Co., Ltd., which was primarily engaged in construction of infrastructures, primarily responsible for financing and law-related management. Since September 2014, he served as the general manager of the supervision and audit department of China Railway Construction Investment Group, which was primarily engaged in infrastructure, real estate, mineral resources and equity investments, namely, the head of discipline inspection department, primarily responsible for discipline inspection and supervisory functions.

Mr. Wang obtained a senior accountant certificate issued by CRCCG in November 2008. He obtained a master's degree from the Party University under Anhui Provincial Communist Party Committee (安徽省委黨校) in July 2011, majoring in economic management.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Ren Yanjun (任延軍) is our chairman, executive Director and general manager. For further details of Mr. Ren's biography, please refer to the paragraph headed "Executive Directors" of this section.

Mr. Jiang He (江河) is our executive Director and vice general manager. For further details of Mr. Jiang's biography, please refer to the paragraph headed "Executive Directors" of this section.

Mr. Yu Yuanlin (余園林) is our executive Director, vice general manager and chief financial officer. For further details of Mr. Yu's biography, please refer to the paragraph headed "Executive Directors" of this section.

Mr. Hu Bin (胡斌), aged 49, is our vice general manager and chief engineer. He joined our Company in August 1987. He was appointed as our chief engineer in August 2004 and vice general manager in December 2011.

Mr. Hu has 29 years of experience in R&D and manufacturing of railway track maintenance machinery. From August 1987 to February 1996, he served successively as an intern, assistant engineer and engineer at the design division of Kunming Machinery Factory, primarily responsible for products design. From February 1996 to July 1998, he served successively as a deputy division manager and engineer at the design division of Kunming Machinery Factory, primarily responsible for technical work, including products design and manufacture. From July 1998 to April 2000, he served as the deputy department head and engineer of the product development department of Kunming Machinery Factory, primarily responsible for products design and development. From April 2000 to August 2004, he served as the deputy chief engineer and senior engineer at Kunming Machinery Factory, primarily responsible for management of techniques of products design and development. Since September 2007, he has served as a doctoral tutor of Kunming University of Science and Technology (昆明理工大學), majoring in mechanical design and theory.

Mr. Hu obtained a professorate senior engineer certificate issued by CRCCG in November 2006. He obtained a senior professional manager certificate issued by China Enterprise Confederation and China Entrepreneurs Association in September 2006. He obtained a bachelor's degree from Shanghai Railway College (上海鐵道學院) in July 1987, majoring in mechanization of railways.

Mr. Yang Chaokai (楊朝凱), aged 56, is our union president and vice general manager. He joined our Company in June 1991. He was appointed as union president in November 2008 and our vice general manager in June 2015.

Mr. Yang has 25 years of experience in labor and salary and manufacturing and repair of railway track maintenance machinery. From June 1991 to July 1994, he served as an officer at the organization department of the Party Committee of Kunming Machinery Factory, primarily responsible for the management of personnel. From July 1994 to October 1997, he served successively as a vice secretary, secretary, assistant economist and administration engineer of

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

the League Committee of Kunming Machinery Factory, primarily responsible for the work of the Communist Youth League. From October 1997 to April 2000, he served as the operation manager and administration engineer at the diversified operation office of Kunming Machinery Factory, primarily responsible for staff management and diversified operations. From April 2000 to March 2003, he worked as the administration engineer at the assembly shop of Kunming Machinery Factory, primarily responsible for staff management. From March 2003 to November 2008, he served successively as the vice manager and administration engineer at our general assembly shop, primarily responsible for staff management.

Mr. Yang obtained a senior administration engineer certificate issued by CRCCG in December 2013. He obtained a college diploma from the Correspondence Institute of the Party School of China (中央黨校函授學院) through distance learning in June 1993, majoring in economic management. He obtained a bachelor's degree from the Party University under Yunnan Provincial Communist Party Committee (雲南省委黨校) in December 2003, majoring in law.

Mr. Huang Zhaoxiang (黃兆祥), aged 52, is our vice general manager. He joined our Company in August 1986 and was appointed as our vice general manager in March 2003.

Mr. Huang has 30 years of experience in manufacturing and repair of railway track maintenance machinery. From August 1986 to February 1995, he served as an assistant engineer at the equipment power shop of Kunming Machinery Factory, primarily responsible for management of equipment and power. From February 1995 to October 1998, he served successively as the deputy division manager, division manager, assistant engineer and engineer at the equipment division of Kunming Machinery Factory, primarily responsible for the management of equipment. From October 1998 to March 2003, he worked as the deputy factory manager, engineer and senior engineer, primarily responsible for the basic construction and logistics management.

Mr. Huang obtained a senior engineer certificate issued by the Factory Bureau under CRCCG in April 2000, and obtained a senior professional manager certificate issued by China Enterprise Confederation and China Entrepreneurs Association in December 2005. He obtained a bachelor's degree from Southwest Jiaotong University in July 1986, majoring in mechanical engineering.

Mr. Zhang Zhong (張忠), aged 52, is our vice general manager. He joined our Company in August 1986. He was appointed as an engineer in October 1990 and our vice general manager in January 2010.

Mr. Zhang has 30 years of experience in manufacturing and repair of railway track maintenance machinery. From July 1984 to July 1986, he served as an intern and technician at Guiyang Rolling Stock Works of the MOR (鐵道部貴陽車輛廠), which was primarily engaged in manufacturing and repair of railway trucks and components, primarily responsible for techniques management. From August 1986 to August 1989, he served as an assistant engineer at the equipment power shop of Kunming Machinery Factory, primarily responsible for management of equipment and power. From August 1989 to August 1990, he worked as the head and assistant engineer at the energy office of Kunming Machinery Factory, primarily responsible for the energy management. From August 1990 to February 1995, he worked as a

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

deputy division manager, division manager and engineer at the equipment power shop of Kunming Machinery Factory, primarily responsible for management of equipment and power. From February 1995 to December 2004, he worked as the head and engineer at the foreign affairs office of Kunming Machinery Factory, primarily responsible for material tendering and bidding, material import and external matters. From December 2004 to January 2010, he served as a vice general economist, the manager of our procurement center and the general manager of Beijing marketing branch, primarily responsible for the management of material procurement, equipment management, energy management, international affairs and marketing management.

Mr. Zhang obtained an engineer certificate issued by our Company in October 1990. He obtained a bachelor's degree from Changsha Railway College (長沙鐵道學院) in July 1984, majoring in railway trains. In September 2005, he completed a two-year course program in Kunming University of Science and Technology (昆明理工大學) and was granted a certificate of completion, majoring in project management.

Mr. Sun Guoqing (孫國慶), aged 55, is our vice general manager. He joined our Company in February 1983 and was appointed as our vice general manager in January 2010.

Mr. Sun has 33 years of experience in manufacturing and repair of railway track maintenance machinery. From January 1983 to January 1989, he served as a fitter at the People's Liberation Army 6441 Factory (解放軍6441工廠), which was primarily engaged in the repair of construction purpose engineering machinery and vehicles of the Railway Corps, primarily responsible for assembly of mechanical products. From January 1989 to December 1992, he worked as a fitter at the assembly shop of Kunming Machinery Factory, primarily responsible for the assembly of mechanical products. From December 1992 to December 2004, he served successively as a dispatcher, deputy director, director and distinguished economist at the assembly shop of Kunming Machinery Factory, primarily responsible for duties at the assembly shop. From December 2004 to January 2011, he worked successively as the deputy chief economist, manager of our general assembly shop and distinguished economist, and was the chief dispatcher of our production and dispatching center, primarily responsible for the production and dispatching work of our Company. Since February 2011, he served as the deputy general manager of the Company and the manager of the general manufacturing factory, primarily responsible for organizing, controlling and coordinating daily operation.

Mr. Sun obtained a deputy economist certificate issued by the Factory Bureau under CRCCG in January 1998 and a senior professional manager certificate issued by China Enterprise Confederation and China Entrepreneurs Association in September 2006. He obtained a college diploma from Yunnan Administration College under Yunnan Provincial Party School (雲南省委黨校雲南行政學院) in January 1997, majoring in economic management. He obtained a bachelor's degree through correspondence courses from the Institute of Yunnan University of Finance and Economics (雲南財經大學函授) in June 2009, majoring in economic management.

Mr. Chen Yongxiang (陳永祥), aged 49, is our vice general manager. He joined the Company in August 1989 and was appointed as our vice general manager in January 2010.

Mr. Chen has 27 years of experience in manufacturing and repair of railway track maintenance machinery. From August 1989 to November 1998, he served successively as an intern, technical supervisor of workshop, assistant engineer and engineer at the machine

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

processing shop of Kunming Machinery Factory, primarily responsible for the technology management at the workshop. From November 1998 to December 2004, he served as the deputy director and engineer at the production preparation workshop of Kunming Machinery Factory, primarily responsible for production at such production preparation workshop. From December 2004 to May 2005, he worked as the manager and engineer of our metal materials processing shop, primarily responsible for duties in our metal materials processing shop. From May 2005 to January 2010, he worked as the manager and engineer at our machining shop, primarily responsible for duties in our machining shop.

Mr. Chen obtained an engineer certificate issued by Kunming Machinery Factory in May 1995. He obtained a bachelor's degree from East China Jiaotong University (華東交通大學) in July 1989, majoring in machining procedure and equipment, and a master's degree from Nankai University (南開大學) in June 2013, majoring in international economics and commercial relations.

Mr. Tong Pujiang (童普江), aged 38, is our vice general manager. He joined the Company in August 1999 and was appointed as our vice general manager in January 2015.

Mr. Tong has 17 years of experience in manufacturing and repair of railway track maintenance machinery. From August 1999 to May 2003, he served successively as an intern, technician and assistant engineer at the assembly shop of Kunming Machinery Factory, primarily responsible for the management of shop techniques. From May 2003 to February 2004, he served as a technician and assistant engineer at the testing shop of Kunming Machinery Factory, primarily responsible for the management of shop techniques. From February 2004 to August 2005, he worked as an officer and assistant engineer at our foreign affairs office, primarily responsible for the management of foreign affairs. From August 2005 to February 2011, he served as our company secretary, deputy chief, chief and engineer, primarily responsible for administrative monitoring, public relation maintenance, official document management and file management. From February 2011 to January 2013, he served as the assistant to the general manager, and the head of our human resource department and engineer, primarily responsible for human resource and personnel management. From January 2013 to January 2015, he worked as the assistant to our general manager, the manager of the general manufacturing factory and an engineer, primarily responsible for works in our Company's general manufacturing factory.

Mr. Tong obtained an engineer certificate issued by our Company in December 2006. He obtained a college diploma from Southwest Jiaotong University in July 1999, majoring in mechanical engineering and automation, and obtained a bachelor's degree from Southwest Jiaotong University in January 2010, majoring in electric engineering and automation. He graduated as a postgraduate student from Chinese Communist Party School (中共中央黨校) in June 2014, majoring in economic management.

Mr. Ma Changhua (馬昌華), aged 42, is the secretary of our Board. He joined the Company in July 1996. He was appointed as secretary of the Board in February 2015 and was appointed as a joint company secretary in November 2015.

Mr. Ma has 20 years of experience in manufacturing and repair of railway track maintenance machinery. From July 1996 to July 2001, he served as an intern and successively

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

served as an assistant engineer and engineer at the computer center under the chief engineer office in Kunming Machinery Factory, primarily responsible for maintenance of computer hardware and software, computer software development, network management and hardware maintenance. From March 2005 to February 2011, he served as our deputy head, head and engineer of information management department, primarily responsible for informatization. From February 2011 to June 2011, he served as our office director and the head and engineer of information management department, primarily responsible for administrative monitoring, public relation maintenance, official document management, file management and informatization. From July 2011 to August 2012, he served as our office director and engineer, primarily responsible for administrative monitoring, public relation maintenance, official document management and file management. From August 2012 to January 2014, he served as our office director, the assistant to the general manager and engineer, primarily responsible for assisting the general manager in informatization. From January 2014 to February 2015, he served as the assistant to the general manager and commander and engineer at construction instruction department of the northern base of the Company, primarily responsible for the construction projects at the northern base while assisting the general manager in informatization.

Mr. Ma obtained an engineer certificate issued by the Company in November 2001. Mr. Ma obtained a bachelor's degree from Xi'an Oil College (西安石油學院) in June 1996, majoring in computer and applications. He obtained a master's degree from Yunnan University in June 2005, majoring in software engineering. He obtained a master diploma from Nankai University in June 2014, majoring in international economics and commercial relations.

There is no other information relating to the relationship of any of our Directors and Supervisors with other Directors, Supervisors and members of the senior management that should be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix IA to the Listing Rules.

None of the Directors of our Company is interested in any business apart from our Group's business, which competes or is likely to compete, directly or indirectly, with our Group's business.

Except as disclosed herein, to the best of the Directors' knowledge and belief, having made all reasonable enquiries, there are no other matters relating to the appointment of Directors and Supervisors that shall be brought to the attention of Shareholders, nor is there any information of our Directors and Supervisors to be disclosed pursuant to the requirements of Rule 13.51(2) of the Listing Rules, including the matters related to their respective directorship and supervisorship in any public company, the securities of which are listed on any securities market in Hong Kong or overseas.

Except as disclosed herein, none of the senior management of our Company held any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, in the last three years immediately preceding the date of this prospectus.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Ma Changhua serves as one of the joint company secretaries of the Company. For further details of Mr. Ma's biography, please refer to the paragraph headed "Senior Management" of this section.

Mr. Law Chun Bui, aged 42, serves as one of the joint company secretaries of the Company. He joined the Company and was appointed as a joint company secretary in November 2015.

From March 2000 to December 2002, Mr. Law worked for Harbor Ring Management Limited as an assistant accounting manager. From March 2003 to October 2006, he was a senior accountant of Tonic Electronics Ltd. From October 2006 to April 2007, he was a finance manager of Fujikon Industrial Co. Ltd. Since December 2007, he has been a joint company secretary of CRCC.

Mr. Law is a member of Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr. Law obtained a bachelor's degree from Hong Kong University of Science and Technology in 1997, majoring in business administration. He obtained a master's degree from Hong Kong Polytechnic University in 2006, majoring in information systems.

BOARD COMMITTEES

Strategy and Investment Committee

The strategy and investment committee of the Company consists of three Directors: Mr. Ren Yanjun, Mr. Sun Linfu and Mr. Yu Jiahe. Mr. Ren Yanjun currently serves as the chairman of the strategy and investment committee of the Company. The strategy and investment committee is primarily responsible for studying and proposing suggestions on the Company's development strategy planning and significant investment decisions, which include, among other things:

- to review the Company's long-term development strategies;
- to review the major issues that affect the development of the Company; and
- to review the significant capital operations, asset management projects, significant investments, financing and guarantee projects and so forth which should be approved by the Board.

Audit and Risk Management Committee

The audit and risk management committee of the Company consists of three Directors: Mr. Yu Jiahe, Mr. Wong Hin Wing and Mr. Sun Linfu. Mr. Yu Jiahe currently serves as the chairman of the audit and risk management committee of the Company. The audit and risk

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

management committee is primarily responsible for supervising our internal control, financial information disclosure and internal audit matters, which include, among other things:

- to supervise and manage the audit work, and to propose appointment or removal of external audit agencies;
- to supervise the work of external audit agencies;
- to supervise internal audit system and its implementation, to review our financial and accounting policies and practices;
- to ensure communication and coordination between internal audit and external audit agencies;
- to supervise our financial information and its disclosure, and to review the major opinions on financial reporting as set out in the statements and reports; and
- to review our financial control, internal control and risk management system, to review major connected transactions, and to ensure that the management has discharged its duty to establish an effective internal control system.

Nomination Committee

The nomination committee of the Company consists of three Directors: Mr. Ren Yanjun, Mr. Sun Linfu and Mr. Yu Jiahe. Mr. Ren Yanjun currently serves as the chairman of the nomination committee of the Company. The nomination committee is primarily responsible for formulating the nomination procedures and standards for candidates for Directors, which include, among other things:

- to formulate the nomination procedures and standards for Directors and senior management, and to make suggestions on the proposed changes of the Board with the aim to facilitate the Company's strategies;
- to assess the independence of independent Directors; and
- to assess and review the candidates for Directors and senior management to be potentially appointed by the Board, and make suggestions to the Board on plans for appointment, re-appointment and succession of Directors.

Remuneration and Assessment Committee

The remuneration and assessment committee of the Company consists of three Directors: Mr. Yu Jiahe, Mr. Ren Yanjun and Mr. Sun Linfu. Mr. Yu Jiahe currently serves as the chairman of the remuneration and assessment committee of the Company. The remuneration and assessment committee is primarily responsible for formulating and reviewing the

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

compensation policies and schemes for the Company's Directors and senior management, which include, among other things:

- to make recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management;
- to study the performance assessment management measures for the Company's Directors and senior management, to formulate assessment standards, and to determine the assessment objectives; and
- to develop formal, fair, reasonable and transparent remuneration system, and to supervise the effective implementation of the Company's remuneration system.

COMPENSATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For each of the three years ended December 31, 2014 and the six months ended June 30, 2015, the aggregate amount of fees, salaries, allowances, discretionary bonus, incentive payments, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors, Supervisors and senior management were approximately RMB7,237,000, RMB8,897,000, RMB7,526,000 and RMB2,742,000, respectively.

The remuneration of our Directors, Supervisors and senior management is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

The total remuneration and benefits in kind (if applicable) received by the top five highest paid individuals (including Directors, Supervisors and senior management) in each of the three years ended December 31, 2014 and the six months ended June 30, 2015 were approximately RMB3,523,000, RMB4,272,000, RMB3,432,000 and RMB1,109,000, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining the Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, our Supervisors, former Supervisors or the five highest-paid individuals for the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

None of our Directors or Supervisors waived any remuneration for any of the last three years. Save as disclosed above, no other payments have been paid, or are payable, by us or any of our subsidiaries to our Directors, Supervisors or the five highest-paid individuals during the Track Record Period. Under the remuneration policy of our Company, the remuneration and assessment committee will consider factors such as salaries paid by comparable companies, tenure, commitment, responsibilities and performance of our Directors, Supervisors and the senior management as the case may be, in assessing the amount of remuneration payable to our Directors, Supervisors and such employees.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

Provision A.2.1 of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Listing Rules provides that the roles of chairman of the Board and general manager should be separate and should not be performed by the same individual. Mr. Ren Yanjun is the chairman of the Board and general manager of our Company. After taking into consideration the relevant principle of provision A.2.1 of the CG Code and reviewing the management structure of our Company, the Board believe that:

- (1) the composition of the Board of our Company is diverse and professional, and we have established a very structured and strict operation system and a set of procedural rules for meetings. The chairman of the Board, as a convener and chair person of the Board meetings, does not have any special power different from that of other Directors in the decision making process of the Board;
- (2) in the day-to-day operation of our Company, our Company has put in place an established system and structure, and decisions on all material matters will be subject to complete and stringent deliberation and decision making procedures in order to ensure that the general manager can perform his duties diligently and effectively; and
- (3) there is clear delineation in the responsibilities of the Board and the management set out in the Articles of Association of our Company.

In light of the above, the Board believes that the role of Mr. Ren Yanjun as the chairman of the Board and general manager provides our Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. The Board believes that the structure of vesting the role of both chairman and general manager in the same person will not impair the balance of power and authority between the Board and the management. The Board will review the efficiency of this management structure from time to time.

COMPLIANCE ADVISER

We have appointed Alliance Capital Partners Limited as our compliance adviser pursuant to Rules 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we must consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where contemplate to deal with a notifiable or connected transaction, including but not limited to share issues and share repurchases;
- (3) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities,

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

developments or results of operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and

- (4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares.

Pursuant to Rule 19A.06 of the Listing Rules, (i) the compliance adviser will inform our Company on a timely basis of any amendment or supplement to the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to us. Without limiting the generality of Chapter 3A of the Listing Rules, the compliance adviser will provide advice to us on the continuing requirements under the Listing Rules and applicable laws and regulations; and (ii) the compliance adviser will also act as our additional channel of communication with the Stock Exchange.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing on the Listing Date and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

SHARE CAPITAL

As of the Latest Practicable Date, our registered capital was RMB987,984,000, divided into 987,984,000 Domestic Shares of par value RMB1.00 each.

Assuming that the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate Percentage of Issued Share Capital</u>
987,984,000	Domestic Shares	65.00%
531,900,000	H Shares to be issued under the Global Offering	35.00%
<u>1,519,884,000</u>	<u>Total</u>	<u>100.00%</u>

Assuming that the Over-allotment Option is exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate Percentage of Issued Share Capital</u>
987,984,000	Domestic Shares	61.76%
611,685,000	H Shares to be issued under the Global Offering	38.24%
<u>1,599,669,000</u>	<u>Total</u>	<u>100.00%</u>

RANKING

The Domestic Shares and H Shares are both ordinary shares in our share capital. However, H Shares may only be subscribed for and traded in HK dollars. Domestic Shares, on the other hand, may only be subscribed for and traded in Renminbi. We must pay all dividends in respect of H Shares in HK dollars and all dividends in respect of Domestic Shares in Renminbi. Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares shall not be sold within a period of one year from June 24, 2015, the date on which we were converted into a joint stock limited company. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing. Upon the approval of the relevant PRC regulatory authorities, including the CSRC, the Domestic Shares may be converted into H Shares.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares on different parts of our register of shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix VI to this prospectus, our Domestic Shares and our H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer

SHARE CAPITAL

of Domestic Shares is subject to such restrictions as the PRC law may impose from time to time.

Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within six months after the Listing Date. We have not approved any share issue plan other than the Global Offering.

CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

Conversion of Unlisted Shares

Upon completion of the Global Offering, we will have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. Upon completion of the Global Offering, all unlisted Shares are Domestic Shares held by our Promoters, namely CRCC, China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company and therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws. Given the above, our PRC legal advisers, Jia Yuan Law Offices, have advised us that the use of the term “unlisted Shares” in the Articles of Association does not contravene and are not inconsistent with any PRC laws and regulations (including the Special Regulations and Mandatory Provisions).

According to the stipulations by the State Council’s securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required if any of our unlisted Shares are to be converted into and traded as H Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial Listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial Listing in Hong Kong.

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the

SHARE CAPITAL

Stock Exchange after our initial Listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

See “Risk Factors – Risks relating to the Global Offering – Future sales or perceived sales or conversion of substantial amounts of our securities in the public market, including any future public offering in the PRC, conversion of our unlisted Shares into H Shares or re-registration of Shares held on our Domestic share register into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future, and may result in dilution of your shareholdings.”

Mechanism and Procedure for Conversion

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Promoters currently proposes to convert any of the unlisted Shares held by it into H Shares.

TRANSFER OF STATE-OWNED SHARES

In accordance with relevant PRC regulations regarding the transfer of state-owned shares, our state-owned shareholders are required to transfer to NSSF such number of Domestic Shares, which in aggregate is equivalent to 10% of the number of the Offer Shares (531,900,000 H Shares before the exercise of the Over-allotment Option or 611,685,000 H Shares after the exercise in full of the Over-allotment Option). Pursuant to an approval issued by the SASAC to CRCCG on July 13, 2015, instead of transferring Domestic Shares to NSSF by our state-owned shareholders, CRCCG should remit to NSSF cash equivalent to 10% of the actual number of the new H Shares to be issued by the Company under the Global Offering multiplied with the Offer Price pursuant to and in satisfaction of the requirements of relevant PRC regulations regarding the transfer of state-owned shares.

We have been advised that the aforementioned transfer of state-owned shares has been approved by the relevant authorities and is legal under the PRC law.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份

SHARE CAPITAL

集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon listing.

GENERAL MEETING AND CLASS MEETING

For details of circumstances under which our Shareholders' general meeting and class meeting are required, please refer to the paragraphs headed "3. Right to Amend Existing Shares or Classes of Shares" and "6. General Meeting of Shareholders" in "Appendix VI – Summary of Articles of Association" to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following person will, immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of the Company:

<u>Shareholder</u>	<u>Number of Shares held after the Global Offering</u>	<u>Nature of Interest</u>	<u>Approximate percentage of shareholding in the relevant class of Shares after the Global Offering⁽¹⁾</u>	<u>Approximate percentage of shareholding in the total share capital of the Company after the Global Offering⁽²⁾</u>
CRCC ⁽³⁾	987,984,000 Domestic Shares	Beneficial owner / Interest of controlled corporation	100.00%	65.00%
CRCCG ⁽⁴⁾	987,984,000 Domestic Shares	Interest of controlled corporation	100.00%	65.00%

Notes:

- (1) The calculation is based on the percentage of shareholding in the Domestic Shares of the Company after the Global Offering.
- (2) The calculation is based on the total number of 1,519,884,000 Shares in issue immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
- (3) CRCC directly holds 100% equity interest in each of the other four Promoters (i.e. China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company). Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised), CRCC will directly and indirectly hold 987,984,000 Domestic Shares, representing 100.00% of the domestic share capital and approximately 65.00% of the total share capital of the Company, respectively.
- (4) CRCCG is a wholly PRC state-owned enterprise. CRCCG directly holds approximately 55.73% of the total shares in CRCC. Accordingly, immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised), CRCCG is deemed under the SFO to be interested in 987,984,000 Domestic Shares held by CRCC, China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company, representing 100.00% of the domestic share capital and approximately 65.00% of the total share capital of the Company, respectively.

So far as our Directors are aware, the following person will, immediately after completion of the Global Offering (assuming the Over-allotment Option is fully exercised), have an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the

SUBSTANTIAL SHAREHOLDERS

SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of the Company:

<u>Shareholder</u>	<u>Number of Shares held after the Global Offering</u>	<u>Nature of Interest</u>	<u>Approximate percentage of shareholding in the relevant class of Shares after the Global Offering⁽¹⁾</u>	<u>Approximate percentage of shareholding in the total share capital of the Company after the Global Offering⁽²⁾</u>
CRCC ⁽³⁾	987,984,000 Domestic Shares	Beneficial owner / Interest of controlled corporation	100.00%	61.76%
CRCCG ⁽⁴⁾	987,984,000 Domestic Shares	Interest of controlled corporation	100.00%	61.76%

Notes:

- (1) The calculation is based on the percentage of shareholding in the Domestic Shares of the Company after the Global Offering.
- (2) The calculation is based on the total number of 1,599,669,000 Shares in issue immediately after the Global Offering (assuming the Over-allotment Option is fully exercised).
- (3) CRCC directly holds 100% equity interest in each of the other four Promoters (i.e. China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company). Immediately after completion of the Global Offering (assuming the Over-allotment Option is fully exercised), CRCC will directly and indirectly hold 987,984,000 Domestic Shares, representing 100.00% of the domestic share capital and approximately 61.76% of the total share capital of the Company, respectively.
- (4) CRCCG is a wholly PRC state-owned enterprise. CRCCG directly holds approximately 55.73% of the total shares in CRCC. Accordingly, immediately after completion of the Global Offering (assuming the Over-allotment Option is full exercised), CRCCG is deemed under the SFO to be interested in 987,984,000 Domestic Shares held by CRCC, China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company, representing 100.00% of the domestic share capital and approximately 61.76% of the total share capital of the Company, respectively.

Our Directors and chief executive of the Company are not aware of any person (who is not a Director, Supervisor or chief executive of the Company), who will, immediately following the completion of the Global Offering, have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at general meetings of any member of our Group.

We are not aware of any arrangement which may result in a change of control of the Company at a subsequent date.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

I. RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

BACKGROUND

Immediately after the completion of the Global Offering, CRCC will directly and indirectly control approximately 65.00% of the enlarged issued share capital of our Company (assuming that the Over-allotment Option is not exercised), and CRCCG will, through CRCC (which was owned as to approximately 55.73% by CRCCG as of the Latest Practicable Date), indirectly control approximately 65.00% of the enlarged issued share capital of our Company (assuming that the Over-allotment Option is not exercised). As such, CRCC and CRCCG will continue to be our controlling shareholders.

NO COMPETITION WITH THE CONTROLLING SHAREHOLDERS

Our Businesses

After the completion of the Spin-off and separate Listing, our Group will be primarily engaged in our established business, i.e., (i) development, manufacturing and sales of a broad range of large railway track maintenance machines; (ii) manufacturing, purchase and sales of various parts and components of large railway track maintenance machines; (iii) overhaul services; and (iv) railway line maintenance services.

Controlling Shareholders' Businesses

After the completion of the Spin-off and separate Listing, the Retained Group (i.e. CRCC and its subsidiaries (excluding our Group)) will continue to be primarily engaged in: (i) construction operations; (ii) survey, design and consultancy operations; (iii) manufacturing operations (except the business of our Group); (iv) real estate development operations; and (v) logistics and materials trading.

CRCCG is a wholly PRC state-owned enterprise, wholly and directly owned by SASAC of the State Council. It primarily functions as an intermediate holding company to hold shares in CRCC, and CRCCG itself does not conduct any substantial business operations.

As indicated above, the principal business of our Group is of a different nature to that of the Retained Group and CRCCG, except that one of the members of the Retained Group, namely China Railway Construction Heavy Industry Co., Ltd. (中國鐵建重工集團有限公司) ("CRCHI"), is also engaged in the machinery manufacturing business. Although our Group and CRCHI are both engaged in the machinery manufacturing business, our Directors believe that there is a clear delineation between their respective businesses based on the following reasons:

- (i) according to the *Decision on Amendments to Certain Provisions of the Directory Catalogue on Adjustment of Industrial Structure (2011 version) of the National Development and Reform Commission* published on February 16, 2013, the businesses of our Group fall within the category of large railway track maintenance machinery, whilst the businesses of CRCHI fall within the category of machinery for construction of new railways; and

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

- (ii) the main products of our Group are railway track maintenance machines, which are primarily used for the repair and maintenance of railways, whilst the main products of CRCHI are shield method tunnel machinery/TBM (Tunnel Boring Machine), mine tunneling method tunnel machinery, concrete machinery, piling machinery, specialized engineering construction equipment and railroad switch, spring bar fastener, brake-shoe, cross-sleeper, switch tie, orbital plate, electrical products and steel structure, which are primarily used for the construction of new railways.

The products of our Group and CRCHI are completely different from each other and cannot be replaced by each other, since they are applied to completely different usage in different sub-industries for machinery manufacturing.

In addition, none of the subsidiaries of CRCC and CRCCG (other than our Company) are currently engaged, or have any capacity to engage, or plan to engage, whether directly or indirectly, in the current business undertaken by our Group. Each of our controlling shareholders has confirmed that none of them has any interest in a business which competes, or is likely to compete, with our Company, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

Non-Competition Agreement

CRCC, CRCCG and our Company have entered into a non-competition agreement dated November 23, 2015 (the “Non-Competition Agreement”), pursuant to which, our controlling shareholders have unconditionally and irrevocably undertaken to our Company (for the interests of our Company itself and other members of our Group) that, during the term of the Non-Competition Agreement, our controlling shareholders shall not, and shall procure that their respective associates (other than our Group) will not, directly or indirectly, whether on their own or jointly with another person or company, own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes or may compete with any business of our Company (the “Restricted Business”), subject to the following exceptions:

- (i) the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Business, provided that, (a) in the case of such shares, they are listed on a stock exchange; (b) the aggregated number of shares held by our controlling shareholders, together with their respective associates, whether directly or indirectly, does not amount to more than 10% of the issued shares of the company in question; and (c) our controlling shareholders and their respective associates do not control the composition of the majority of members of the board of directors of such company and shall not, taken together, have the largest shareholding in such company; and
- (ii) taking up any Business Opportunity (as defined below) in the circumstances as described below.

Our controlling shareholders have also undertaken in the Non-Competition Agreement that during the term of the Non-Competition Agreement if our controlling shareholders or any

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

of their associates (other than our Group) become aware of any business opportunity to own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes with the Restricted Business (the “Business Opportunity”), they or any of their respective associates (other than our Group) shall first refer the Business Opportunity to our Company in writing immediately upon becoming aware of it. Any decision on whether to take up the Business Opportunity shall be decided by our independent non-executive Directors. Our controlling shareholders or any of their associates (other than our Group) may only take up the Business Opportunity after our Company has issued a written confirmation signed by the independent non-executive Directors confirming that our Company has decided not to take up the Business Opportunity.

During the term of the Non-Competition Agreement, our controlling shareholders have undertaken in the Non-Competition Agreement that if our controlling shareholders or any of their associates (other than our Group) intend(s) to transfer, sell, lease or license royalties to a third party, any business engaged which competes or potentially competes with the Restricted Business or any other business and interest which would cause direct or indirect competition with the Restrained Business (collectively, the “Disposals”), our controlling shareholders or any of their associates (other than our Group) shall offer our Group the pre-emptive right in terms of such businesses and interest with the equal terms subject to relevant laws and regulations or contractual arrangements with third parties:

- (i) our controlling shareholders or any of their respective associates (other than our Group) shall provide our Group with written notice no later than the time of any such disposals (the “Disposal Notice”). For the avoidance of any doubt, our controlling shareholders or any of their respective subsidiaries (other than our Group) and/or their respective associates are entitled to provide information and/or Disposal Notice to other third parties at the same time or after providing the Disposal Notice to our Group;
- (ii) our Group shall reply to our controlling shareholders or their associates in writing within, whichever is the later of, the 30th day after receipt of the Disposal Notice and expiration of the period offered to third parties for them to reply by to our controlling shareholders or their associates before exercising their pre-emptive rights;
- (iii) if our Group intends to take up such pre-emptive rights, the terms shall be determined with reference to fair market price; and
- (iv) our controlling shareholders or any of their associates (other than our Group) shall not dispose of such businesses and interests to any third parties unless our Group has declined to purchase such businesses and interests in writing, or the notice of exercising such pre-emptive rights has not been received by our controlling shareholders or any of their associates from our Group within, whichever is the later of, the 30th day after receipt of the Disposal Notice and expiration of the period offered to other third parties for them to reply; or our Group fails to offer the same or more favorable terms of acquisitions than those offered by any third parties to our controlling shareholders or any of their associates (other than our Group). For the

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

avoidance of doubt, the terms of disposal offered by our controlling shareholders or any of their associates (other than our Group) to any third parties shall not be more favorable than those offered to our Group (the “Pre-emptive Rights”).

During the term of the Non-Competition Agreement, our controlling shareholders have undertaken in the Non-Competition Agreement that given no relevant laws and regulations are breached and agreements with third parties are complied with, our Group is entitled to acquire any businesses operated by our controlling shareholders or any of their associates (other than our Group) which competes or potentially competes with the Restrained Businesses or any businesses or any interests which are gained through the above-said Business Opportunities (the “Option for Purchase”). Our Group is entitled to exercise the Option for Purchase at any time, and our controlling shareholders or any of their associates (other than our Group) shall offer the Option for Purchase to our Group based on conditions as followed: the commercial terms of the acquisition shall be formed solely by the committee consisting of our independent non-executive Directors after consulting the views of independent experts and such commercial terms shall be based on negotiation between the parties in line with normal commercial practice of our Group which is fair, reasonable and in compliance with the interests of our Group as a whole, as in accordance with the negotiations with our controlling shareholders and their associates. However, if a third party has the pre-emptive rights in accordance with applicable laws and regulations and/or a prior legally binding document (including, but not limited, to articles of association and shareholders’ agreements), Options for Purchase of our Group shall be subject to such third-party rights. In such a case, our controlling shareholders or any of their associates (other than our Group) will use their best efforts to persuade the third party to waive its pre-emptive rights.

In order to properly manage any potential or actual conflict of interest between our Company and our controlling shareholders, our Company has adopted the following corporate governance measures:

- (i) the independent non-executive Directors should review, at least on an annual basis, the compliance by our controlling shareholders with the Non-Competition Agreement;
- (ii) our controlling shareholders further undertake with our Company that they will provide all information necessary for the annual review to be conducted by the independent non-executive Directors and the enforcement of the Non-Competition Agreement;
- (iii) our controlling shareholders further undertake with our Company that it would allow the authorized representatives or auditors of our Group to have reasonable access to the financial and corporate information necessary to its transactions with third parties, which would assist with the judgments of our Group in respect of whether our controlling shareholders and their associates have complied with this undertaking under the Non-Competition Agreement; and
- (iv) our Company shall disclose the review by the independent non-executive Directors relating to the compliance and enforcement of the Non-Competition Agreement

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

either through the annual report or by way of an announcement to the public. Our controlling shareholders shall make an annual declaration on its compliance with the terms of the Non-Competition Agreement in the annual report of the Company and such disclosure shall be consistent with the principles of making voluntary disclosures in the “Corporate Governance Report.”

The Non-Competition Agreement shall continue to be effective while the H Shares are listed on the Stock Exchange and while the controlling shareholders are our Company’s controlling shareholders (as defined under the Listing Rules).

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, the Directors are of the view that the Company is capable of carrying on its business independently from our controlling shareholders and their respective associates, after the H Shares are listed on the Stock Exchange.

A. Management Independence

1. Our Company

The Board is comprised of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. The senior management of our Company consists of 11 members. All members of senior management are full-time employees of our Company. The daily operational decisions of our Company are made by the executive Directors and are supported by the senior management of our Company.

2. CRCC and CRCCG

One out of our nine Directors is a supervisor and deputy chief economist in CRCC. None of our Directors holds any directorship or management position in CRCCG.

The following table sets forth the positions in CRCC held by such Director as of the Latest Practicable Date:

<u>Name</u>	<u>Position(s) held with our Company</u>	<u>Position(s) held with CRCC</u>
Li Xuefu (李學甫)	Non-executive Director	Supervisor and Deputy Chief Economist

Notwithstanding the fact that one Director is a supervisor and deputy chief economist in CRCC, the Directors are of the view that our Company is managed independently of our controlling shareholders for the following reasons:

- Except for Li Xuefu, all other members of the Board have no overlapping positions with our controlling shareholders and are independent from our controlling

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

shareholders or any of their close associates (other than our Group). In addition, the non-executive Director who has overlapping positions with CRCC shall abstain from such board meetings or such part of the meetings when matters involving the Retained Group and our Group and/or matters in which any such Director or his associates have a material interest are discussed, nor can such overlapping Director vote on any resolution in relation to such matters pursuant to the provisions of the Articles of Association of our Company. The Directors believe that the remaining Directors of the Board possess sufficient industry and business experience to make decisions and to monitor such transactions for our Company.

- The four executive Directors are responsible for the daily operational decisions of our Group. None of such four executive Directors holds any directorship or management positions with our controlling shareholders.
- The Director that is a supervisor and deputy chief economist in CRCC serves as non-executive Director of our Company and he is not involved in the day-to-day management of the business operation of our Group.

In light of the above, the Directors are of the view that the Directors and senior management of our Company are independent from those of our controlling shareholders.

B. Operational Independence

Our Company makes business decisions independently. Our Company holds all relevant licenses necessary to carry on its businesses and has sufficient capital, equipment and employees to operate its businesses independently.

On the basis of the following reasons, the Directors consider that our Company will continue to be operationally independent from our controlling shareholders after the Listing:

- (1) Our day-to-day management and operational decision-making have been made by our executive Directors and have been supported by an experienced full-time senior management team comprising of 11 members.
- (2) We have established our own operational structure made up of separate departments, each with a specific area of responsibility. We have also established a set of internal control procedures to facilitate the effective operation of our business.
- (3) Our Group has its own production facilities which are separated and distinct from those of our controlling shareholders. All administrative functions of our Group are carried out independently by staff employed by our Group directly and are carried out independently from our controlling shareholders notwithstanding that there will be sharing of certain information technology system for basic employee information management and personnel file management.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

- (4) Our Group has its own sources of raw materials, parts and components, which mainly comprise steel and key parts and components for the working units and system, that are independent from our controlling shareholders.
- (5) Our Group has its own sales and marketing staff, who conduct independent sales and marketing activities from our controlling shareholders.
- (6) Our Company has entered into the Large Maintenance Machinery and Accessories Sales Framework Agreement with CRCC. Pursuant to such agreement, our Group agrees to sell large maintenance machinery and accessories, as well as to provide other related or ancillary services to CRCC and/or its associates. The amounts of transactions with respect to the large maintenance machinery and accessories, as well as other related or ancillary services provided by our Group to CRCC and its associates were RMB155.7 million, RMB47.8 million, RMB78.0 million and RMB48.4 million, representing approximately 5.4%, 1.5%, 2.2% and 2.7% of our Group's total revenue, respectively for the three years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015. Our Company is of the view that the transactions contemplated under the Large Maintenance Machinery and Accessories Sales Framework Agreement only account for a small portion of our business operation and we do not rely on such transactions in any material respect to achieve our performance targets. Moreover, our Company could seek for other independent customers in the market at any time. The Directors are of the view that such agreement will not affect our independence of operation from our controlling shareholders. Further details, please refer to the section headed "Connected Transactions" of this prospectus.

C. Financial Independence

Our Company has an independent financial system and makes financial decisions according to our own business needs, and we are of the view that our Company will continue to be financially independent from our controlling shareholders on the basis of the following reasons:

- (1) as of the Latest Practicable Date, other than a dividend of RMB182.6 million and a special dividend of RMB115.6 million to the existing Shareholders, there were no amounts due to and due from our controlling shareholders and their respective associates, including any guarantees and indemnities provided by such companies for our benefit in securing loans; the dividend and the special dividend were paid on November 27, 2015; see "Financial Information – Dividend Distribution Prior to the Listing" on page 263 in this prospectus for more information on the dividend and the special dividend;
- (2) we have an independent financial system, and an independent finance team, which is responsible for our own treasury function, cash receipts and payments, and independent access to third party financing. We also have our own internal control and accounting systems, and accounting and finance department and all finance and administrative functions will be carried out independently by us without any assistance from our controlling shareholders; and

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

- (3) we have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations and independent access to third party financing.

In light of the above, the Directors are of the view that our Company is not financially dependent on our controlling shareholders.

CORPORATE GOVERNANCE MEASURES

Following the Listing, our Company will continue to enter into connected transactions with our controlling shareholders and their respective associates. Our controlling shareholders have also undertaken to our Company under the Non-Competition Agreement that they shall not and shall procure that their respective associates (other than our Group) shall not own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes or may compete with our Restricted Business. In order to further avoid potential conflicts of interests between our Company and our controlling shareholders, our Company has implemented the following measures:

- A. In preparation for the Listing, our Company has amended the Articles of Association to comply with the Listing Rules. In particular, the Articles of Association provide that, except for certain exceptions permitted under the Listing Rules or the Stock Exchange, all conflicted or overlapping Directors shall absent themselves from such board meetings or such part of the meetings when matters involving our controlling shareholders and our Group and/or matters in which any such Director or his associates have a material interest are discussed, nor can such overlapping Directors vote on any resolution in relation to such matters. Any such resolution shall only be passed by the affirmative votes of at least half of the total number of the voting Directors who are not associated with any counterparty of the transactions or have any interests therein.
- B. Our Company has agreed to appoint Alliance Capital Partners Limited as its compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the Listing Rules, including but not limited to various requirements relating to directors' duties and internal controls.
- C. Any decision to take up or not to take up any Business Opportunity shall be made by the independent non-executive Directors. The executive Director and non-executive Directors are not allowed to attend any of the Company's Board meetings or independent board committee meetings at which matters relating to the Non-Competition Agreement (including but not limited to whether to take up any Business Opportunity) are tendered for consideration.
- D. When considering whether to take up any Business Opportunity pursuant to the Non-Competition Agreement, the independent non-executive Directors will take into consideration the following factors:
 - whether we have already established a business presence in the relevant location;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND DIRECTORS

- whether the relevant business or company has a good and broad client base;
 - whether the relevant Business Opportunity is expected to present a sustainable level of profitability;
 - whether the relevant Business Opportunity accords with the then current development strategy of our Company; and
 - whether the relevant Business Opportunity in other respects would be in the best interests of our Company's shareholders as a whole.
- E. The independent non-executive Directors have the right, where necessary and at our cost, to engage an independent financial adviser to advise them on matters relating to the Non-Competition Agreement or on any Business Opportunity which may be referred to the Company by our controlling shareholders or any of their respective associates.
- F. The independent non-executive Directors will at the end of each calendar year review all the decisions made during the year, if applicable, in relation to whether to take any Business Opportunity which is referred to our Company by our controlling shareholders or any of their respective associates (other than our Group), and also disclose such decisions and the rationale for them in the annual report of our Company.

Our Company believes that the current independent non-executive Directors have sufficient experience and knowledge to exercise independent judgment of our Company's business. The three independent non-executive Directors are experts in the fields of railway maintenance machinery, finance and accounting respectively. The three independent non-executive Directors have, by attending board meetings and otherwise, gained and accumulated sufficient knowledge and familiarized themselves well with the operation and business of our Company after they were appointed. Please refer to the section headed "Directors, Supervisors and Senior Management" for the biographies of the independent non-executive Directors. As such, the Company believes that the Board can function properly even in the worst case scenario that all conflicting Directors abstain from the Board meetings.

II. RELATIONSHIP WITH THE DIRECTORS

As of the Latest Practicable Date, none of the Directors had interests in any company (other than our Group) which, directly or indirectly held interest in a business that may, directly or indirectly, compete with our Company's business.

FINANCIAL INFORMATION

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 IFRSs.

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 leading company in the large railway track maintenance machinery industry in China. Capitalizing on our leading market position, a comprehensive product portfolio, integrated industry value chain, strong R&D and product development capabilities, an extensive business network, excellent customer service, leading manufacturing and maintenance technologies and an advanced quality management system, we provide customers with comprehensive and systemic solutions. According to the CIC Report, in terms of sales volume in 2012, 2013 and 2014, we represented approximately 83.5%, 82.0% and 83.1%, respectively, of the total sales volume of large railway track maintenance machinery in China for those periods, making us the largest developer, manufacturer and service provider of large railway track maintenance machinery in the PRC as of December 31, 2014. According to the same source, in terms of sales revenue of manufacturers of such machines in 2014, we ranked No.1 in Asia and No.2 globally.

We generate our revenue principally from our four business lines, namely manufacturing and sales of machines, parts and components sales and services, overhaul services and railway line maintenance services.

In 2012, 2013 and 2014 and the six months ended June 30, 2015, our revenue amounted to RMB2,863.6 million, RMB3,169.0 million, RMB3,476.7 million and RMB1,794.6 million, respectively.

BASIS OF PRESENTATION

Our consolidated financial information has been prepared in accordance with IFRSs issued by the International Accounting Standards Board (the "IASB"). Our consolidated financial information is presented in RMB, rounded to the nearest thousand unless otherwise indicated, which is the functional currency of the Company and its subsidiaries established in the PRC carrying on the principal activities of the Group. The consolidated financial statements have

FINANCIAL INFORMATION

been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The key factors that affect our results of operations are as follows.

Investment in Railway Industry and Market Demand for Large Railway Track Maintenance Machinery Industry

The growth of the large railway track maintenance machinery industry is closely related to the continuous growth of the PRC railway transportation industry. The PRC government has invested in the development of the railway industry in the past decade. According to the “12th Five-Year Plan on the Development of China Railway Industry” (《國家鐵路「十二五」發展計劃》) published by the CRC (previously MOR) (中國鐵路總公司，原中國鐵道部) in May 2012, the total railway operation mileage in China will reach 120,000 km by the end of 2015. According to the CIC Report, it is expected that, by the end of 2019, the railway operation mileage in China will reach a total of 155,000 km. In addition, according to the CIC Report, it is expected that the total mileage of urban rail transit in China will reach 7,295 km and 11,700 km by 2020 and 2050, respectively. The booming development of railway transportation and urban rail transit systems in China will create significant market opportunities and increasing demand for large railway track maintenance machines. In addition, in 2012, the State Council issued the “12th Five-Year Plan on the Development of National Strategic Rising Industry” (《「十二五」國家戰略性新興產業發展規劃》), where the PRC government designated the railway transportation equipment industry as one of the industries with strategic national importance, with plans to further develop into advanced industries that are globally competitive. However, if there is any decline in the pace of growth of the PRC government’s investment in railway and urban rail transit infrastructure, our business, financial condition and prospects could be adversely affected. See “Risk Factors – Risks Relating to Our Industry and Business Operations – Our business and financial performance may be affected by changes in the PRC government policies in respect of the large railway track maintenance machinery industry; any decrease in public spending on, or any change in public procurement policies or industry standards relating to, rail transportation could impact our business.”

Pricing of Our Products and Services

The majority of our purchase orders are granted to us through public bidding. The costs of a project are based on a set of project-cost determination procedures. We formulate and adjust our product prices with reference to our domestic competitors’ prices as well as our overseas competitors’ prices, taking into account various factors, including production cost, product capabilities, prevailing market conditions, service quality, changes and improvements in technical innovations. Our contracts generally do not contain price adjustment provisions, and, as a result, we may not be able to claim for additional costs arising from price fluctuations with respect to components and parts and raw materials or changes in laws. Therefore, we may not be able to maintain the prices of our products and services at the same level in the future. Nevertheless, in our ordinary course of business, we may be able to obtain price adjustments, for both sales and purchases, through negotiation. If our pricing does not effectively cover the

FINANCIAL INFORMATION

possible increases in the cost of raw materials and parts and components, labor and other costs, or any additional requirements regarding technical specifications, our gross margins may decrease, which may have a material adverse effect on our financial condition and results of operations.

Product and Service Mix

During the Track Record Period, we generated our revenue primarily from manufacturing and sales of large railway track maintenance machines, which are categorized into seven major series based on the functions they could deliver, namely tamping machine series, stabilization machine series, ballast cleaning machine series, ballast regulator series, materials logistics machine series, rail processing machine series and other machinery, as well as manufacturing, purchasing and sales of parts and components of large railway track maintenance machines. We also generate revenue from the provision of overhaul services for large railway track maintenance machinery and railway line maintenance services. See “Business – Our Products and Services” for details. The profitability of both sales of goods and provision of services varies according to the types of products and services. For our manufacturing and sales of machines business, products manufactured with more sophisticated technologies and advanced designs are generally more profitable than conventional products. In addition, we manufacture, purchase and sell various types of parts and components, ranging from parts and components with high technology to general parts and components. Generally, parts and components with high technology and involving safety of railway transportation and operation of the large railway track maintenance machinery have higher gross margins than general parts and components. At the same time, we have sought to expand the operations of the other three business lines, where we generally derive higher margins from relevant services and products as a result of our strong R&D capacities and leading market position, with a particular focus on the overhaul services business and railway line maintenance services business. Railway line maintenance services projects in different areas, environment and railway lines can affect the gross margin of this business line significantly. We are still at the preliminary stage of developing our railway line maintenance services business, and are flexible in choosing projects with various estimated gross margins. For details, see “– Results of Operations.” Changes in our product or service mix may affect our profitability and total revenue. If we adjust our product or service mix to reflect prevailing market demand, our profit could, to some extent, be affected.

Cost of Raw Materials and Parts and Components

Our cost of sales during the Track Record Period was largely attributable to the cost of raw materials and parts and components. Our raw materials mainly include steel. In 2012, 2013 and 2014 and for the six months ended June 30, 2015, our raw materials and parts and components costs accounted for approximately 80.6%, 80.0%, 77.2% and 79.4% of our total cost of sales, respectively. As these raw materials and parts and components are commodities, their availability and price range depend on local and global market conditions.

Fluctuations in the prices of these raw materials and parts and components may affect our product costs directly and the production costs of the suppliers of our parts and components indirectly. Different products require different raw materials and parts and components, and some of our products are relatively more sensitive while others are less sensitive to such price changes. It is estimated that with an increase/decrease of 1% in the cost of raw materials and all

FINANCIAL INFORMATION

other variables held constant, our profit before tax would have decreased/increased by approximately RMB1.1 million, RMB0.9 million, RMB1.2 million and RMB0.5 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. However, price fluctuations with respect to raw materials and parts and components generally do not have a material impact on our results of operations, as we have adopted a number of measures to minimize the effect of price fluctuations. See “Business – Raw Materials, Parts and Components and Suppliers.”

Development of New Products

Our business prospects and competitiveness in the industry largely rely on our ability to develop new products and expand our business scope. We have a comprehensive R&D and innovation system that focuses on the development of our product innovation and integrated operational innovation capabilities, through which we have established a multi-faceted, integrated railway track repair and maintenance platform. We are also expanding our product line to cater to the ballastless track, subway and city light rail markets, to build a more comprehensive product line and thus to strengthen our market competitiveness.

Our success in developing new products has a positive effect on our financial position and results of operations. We believe that the development of new products will be an important factor for our future results of operations. Our ability to continuously develop products with advanced technologies and meet market development and customers’ requirements depends on our continuous investment in R&D. In 2012, 2013, 2014 and the six months ended June 30, 2015, our R&D expenses amounted to RMB193.5 million, RMB209.4 million, RMB167.0 million and RMB47.0 million, respectively, of which the main portion included the purchase cost of raw materials and parts and components for sample machines and salaries of key R&D personnel. For details of our R&D strategies, see “Business – Research and Development.”

Taxation

Currently, our Company and a number of our subsidiaries are entitled to a preferential income tax rate of 15% available to high and new technology enterprises or businesses that qualify for the preferential tax treatment under the Western Development Plan (“西部大開發”) of the PRC government. There is no assurance that we can continue to enjoy such preferential tax treatment after it expires. See “Risk Factors – Risks relating to our Industry and Business Operations – Any loss of or significant reduction in the preferential tax treatment and government grant we currently enjoy in China or our non-compliance with the relevant PRC tax laws and regulations may negatively affect our financial condition.” In addition, our Company and a number of our subsidiaries are entitled to various other preferential tax treatments, such as R&D expense super-deduction. According to the Enterprise Income Tax Law of the People’s Republic of China and its implementation rules that became effective as of January 1, 2008, for R&D expenditures incurred by enterprises in the development of new technology, new products and new skills, if these expenditures have not been reflected in the comprehensive income statement for the same period as intangible assets, enterprises are allowed to make a deduction of 150% of the actual R&D cost, referred to as “super-deduction”. “Super-deduction” does not have an expiry date, as long as the Company’s R&D expenses are incurred in the development of new technology, new products and new skills; if these expenditures have been reflected as intangible assets, enterprises are allowed to make an amortization of 150% of the cost of intangible assets. Other subsidiaries were subject to the statutory income tax rate of 25% applicable to Chinese enterprises during the Track Record Period.

FINANCIAL INFORMATION

The table below sets forth details of the preferential tax treatments enjoyed by us and our subsidiaries as of the Latest Practicable Date:

	<u>Tax benefit entitled</u>	<u>Relevant term</u>	<u>Latest renewal / application status</u>
Our Company	The Company is entitled to (i) a preferential income tax rate of 15% under the tax incentives of western development; and (ii) the preferential tax treatment of R&D expense super-deduction.	The term of the tax incentives of western development will expire on December 31, 2020.	N/A
Aotongda Company	It was entitled to a preferential income tax rate of 15% for the three years ended December 31, 2014 under the tax incentives of western development, but it did not meet the requirement of such policy from January 1, 2015. Subject to obtaining the certificate of “high and new technology enterprise”, it should be entitled to a preferential tax rate of 15%.	Subject to obtaining the certificate of “high and new technology enterprise”, the term will commence from January 1, 2015 and expire on December 31, 2017.	It has applied for the certificate of “high and new technology enterprise”. The application has completed the public recognition procedure carried out by the authorities and there were no objections for such application. Our Directors believe that it should be able to obtain the certificate before December 31, 2015.
Ruiweitong Company	It was identified as a “high and new technology enterprise” and was entitled to a preferential income tax rate of 15% for the three years ended December 31, 2014. Subject to the renewal of the certificate of “high and new technology enterprise”, it should be entitled to a preferential tax rate of 15%.	Subject to the renewal of the certificate of “high and new technology enterprise”, the term will commence from January 1, 2015 and expire on December 31, 2017.	It has applied for the renewal for the certificate of “high and new technology enterprise”. The application has completed the public recognition procedure carried out by the authorities and there were no objections for such application. Our Directors believe that it should be able to obtain the certificate before December 31, 2015.
Kunweitong Company	It was identified as a “high and new technology enterprise” and was entitled to a preferential income tax rate of 15% for the three years ended December 31, 2014.	Subject to the renewal of the certificate of “high and new technology enterprise”, the term will commence from January 1, 2015 and expire on December 31, 2017.	It has applied for the renewal for the certificate of “high and new technology enterprise”. The application has completed the public recognition procedure carried out by the

FINANCIAL INFORMATION

	<u>Tax benefit entitled</u>	<u>Relevant term</u>	<u>Latest renewal / application status</u>
	Subject to the renewal of the certificate of “high and new technology enterprise”, it should be entitled to a preferential tax rate of 15%.		authorities and there were no objections for such application. Our Directors believe that it should be able to obtain the certificate before December 31, 2015.
Guangweitong Company	It is entitled to a preferential income tax rate of 15% under the tax incentives of western development.	The term of the tax incentives of western development will expire on December 31, 2020.	N/A
Hengyuan Business Company	N/A. It is subject to PRC corporate income tax at a statutory rate of 25%.	N/A	N/A

As a result of the above preferential tax treatments and exemptions, our effective tax rate was 11.6%, 9.6%, 12.9% and 14.2% in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. The increase in our effective tax rate in 2014 and for the six months ended June 30, 2015 was mainly due to the decrease in R&D expenditures in 2014 as affected by the R&D project cycle. Termination or revision of the various preferential tax treatments that we and certain of our subsidiaries currently enjoy may have a negative impact on our results of operations and financial condition.

Exchange Rates

A substantial part of our operational costs and expenditures is denominated in RMB. During the Track Record Period, we generated substantially all of our revenue from our products and services from our business in the PRC. However, during the Track Record Period, certain purchases of raw materials and parts and components from overseas were denominated in foreign currency, mainly Euro and U.S. dollars. We expect that the amount of our cost of sales denominated in foreign currency may increase and that we may generate revenue denominated in foreign currency in the future due to the expansion of our overseas business. Substantial inflation or deflation of the RMB against foreign currency may adversely affect our overseas sales revenue or procurement, and, in turn, our profitability. See “Risk Factors – Risks relating to the PRC – Future fluctuations in the value of the Renminbi could have a material adverse effect on our financial condition and results of operations.”

SIGNIFICANT ACCOUNTING POLICIES

Our accounting policies are important for an understanding of our financial condition and results of operations. We have identified certain accounting policies and accounting estimates and judgments that are significant to the preparation of our financial information. We set out below those accounting policies and accounting estimates and judgments that we believe are most important for preparing our financial information.

FINANCIAL INFORMATION

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.

Accounting Policies and Estimates

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of machines, parts and components, when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Generally, revenue from the sale of machines is recognized upon the acceptance certificates for installation and debugging are signed by us and the customers together;
- (b) from the rendering of overhaul services, when such services have been fully rendered and accepted by the customers;
- (c) from the rendering of railway line maintenance services, on the percentage of completion basis, as further explained in the accounting policy for “Contracts for services” below;
- (d) rental income, on a time proportion basis over the lease term;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) dividend income, when the shareholders’ right to receive payment has been established.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise direct labor, the cost of subcontracting and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognized based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the

FINANCIAL INFORMATION

transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Categories	Annual rates
Buildings	2.71%
Machinery	9.50%
Production equipment	9.50%
Vehicles	19.00%
Measurement and experimental equipment	19.00%
Other equipment	19.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss

FINANCIAL INFORMATION

in the year the asset is derecognized and is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced depreciation charge.

Where we receive grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of comprehensive income over the expected useful lives of the relevant assets in equal annual installments.

Where we receive government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” in Note 3.2 in the Accountants’ Report included in Appendix I to this prospectus. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual installments.

There are no criteria, conditions or contingencies for us to recognize the government grants as income.

Useful lives and residual values of items of property, plant and equipment

Our management determines the estimated useful lives and related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and function. Management will increase depreciation charges where useful lives are less than the previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been

FINANCIAL INFORMATION

abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore in the depreciation charge in future periods.

Impairment of non-financial assets (other than goodwill)

We assessed whether there were any indicators of impairment for all non-financial assets as of December 31, 2012, 2013 and 2014 and June 30, 2015. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's-length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, the management must estimate the expected future cash flow from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. According to our assessment, indications of material impairment for non-financial assets did not exist during the Track Record Period.

Deferred tax assets

Deferred tax assets are recognized for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of trade receivables

Determining impairment of trade receivables involves (i) evaluation of collectability and ageing analysis and (ii) management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of our customers. Our management reassessed the estimation as of December 31, 2012, 2013 and 2014 and June 30, 2015.

Provision against obsolete inventories

Our management reviewed the condition of our inventories as of December 31, 2012, 2013 and 2014 and June 30, 2015 and made provision against obsolete and slow-moving inventory items that we identified as that were no longer suitable for use or sale. Our management estimates the net realizable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Our management reassessed the estimation as of December 31, 2012, 2013 and 2014 and June 30, 2015.

FINANCIAL INFORMATION

Provisions for warranties

Provisions for product warranties granted by us are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Development costs

We capitalize development costs for a project in accordance with the relevant accounting policy. Initial capitalization of costs is based on our management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, our management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. During the Track Record Period, all development costs were expensed based on our management's judgment.

Fair value of available-for-sale investments

Our available-for-sale investments as of December 31, 2012, 2013 and 2014 and June 30, 2015 were listed equity investments. The fair values are based on quoted market prices, after considering the non-liquidity discount effect. This valuation requires us to make estimates about the non-liquidity discount ratio and it is subject to uncertainty.

FINANCIAL INFORMATION

SELECTED FINANCIAL DATA

The following table sets forth our consolidated statements of comprehensive income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
REVENUE	2,863,645	3,169,030	3,476,720	1,745,343	1,794,593
Cost of sales	(2,152,881)	(2,366,612)	(2,658,016)	(1,383,202)	(1,373,827)
Gross profit	710,764	802,418	818,704	362,141	420,766
Other income and gains	50,470	54,365	66,926	26,722	12,835
Selling and distribution expenses	(58,099)	(58,088)	(71,554)	(28,679)	(25,144)
Administrative expenses	(384,990)	(411,188)	(357,152)	(145,691)	(144,256)
Other expenses	(6,843)	(21,491)	(17,893)	5,377	(864)
Finance costs	(57,479)	(47,578)	(23,488)	(12,765)	–
PROFIT BEFORE TAX	253,823	318,438	415,543	207,105	263,337
Income tax expense	(29,475)	(30,494)	(53,507)	(27,601)	(37,450)
PROFIT FOR THE YEAR/PERIOD	<u>224,348</u>	<u>287,944</u>	<u>362,036</u>	<u>179,504</u>	<u>225,887</u>
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Re-measurement gains/(losses) on available-for- sale investments, net of tax ⁽¹⁾	51,293	(7,231)	74,514	(16,270)	54,794
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Re-measurement gains/(losses) on defined benefit plans, net of tax	(119)	400	(17)	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	<u>51,174</u>	<u>(6,831)</u>	<u>74,497</u>	<u>(16,270)</u>	<u>54,794</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>275,522</u>	<u>281,113</u>	<u>436,533</u>	<u>163,234</u>	<u>280,681</u>

- (1) Other comprehensive income or losses mainly represent changes in the fair value of available-for-sale investments, net of tax. During the Track Record Period, we held certain equity interests in a Hong Kong listed company for investment purposes at an initial investment cost of RMB9.8 million in cash, the fluctuation in the share price of which would lead to the changes in fair value of our available-for-sale financial assets. For details, see “– Description of Selected Components of Our Income Statements – Other Comprehensive Income/ Losses.”

DESCRIPTION OF SELECTED COMPONENTS OF OUR INCOME STATEMENTS

Revenue

During the Track Record Period, we generated our revenue primarily from manufacturing and sales of large railway track maintenance machines, as well as the manufacturing,

FINANCIAL INFORMATION

purchasing and sales of parts and components of large railway track maintenance machines. We also generate revenue from provision of overhaul services for large railway track maintenance machines and railway line maintenance services.

The following table sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue:					
Manufacturing and Sales of Machines					
Tamping machine series	900,920	1,348,806	1,908,238	1,006,973	780,184
Stabilization machine series	152,574	322,316	448,814	213,893	102,752
Ballast cleaning machine series	440,671	203,791	132,918	38,092	112,320
Ballast regulator series	121,437	107,922	140,603	114,697	17,886
Materials logistics machine series	196,273	240,137	63,044	35,482	155,340
Rail processing machine series	229,739	87,156	82,934	82,828	49,193
Other machinery	45,781	79,040	14,940	8,435	39,132
Subtotal	2,087,395	2,389,168	2,791,491	1,500,400	1,256,807
Parts and Components Sales and					
Services	535,978	548,790	440,097	173,007	326,448
Overhaul Services	210,728	199,270	215,018	64,007	198,594
Railway Line Maintenance Services	29,544	31,802	30,114	7,929	12,744
Total	2,863,645	3,169,030	3,476,720	1,745,343	1,794,593

Revenue by geographical location

In 2012, 2013 and 2014, we derived all of our revenue from the PRC. In March 2015, we entered into a contract with China Railway Construction (HK) Limited in relation to carrying out railway line maintenance services at the Pat Heung transport hub of Shatin to Central Link and the Tsat Sing Kong transport hub of the Hong Kong high-speed railway. We completed the services in May 2015. In addition, in June 2015, we completed our first overseas sale of three stabilizing machines, developed using our proprietary technologies, to Kazakhstan. For the six months ended June 30, 2015, the revenue generated from our overseas business was RMB35.1 million, comprising revenue of RMB34.3 million generated from our overseas manufacturing and sales of machines business and revenue of RMB0.8 million generated from our overseas railway line maintenance services business.

Cost of Sales

Our cost of sales consists principally of the cost of raw materials and parts and components, staff costs and depreciation and subcontracting fees. Our cost of sales increased during the Track Record Period, primarily as a result of the expansion of our business, and the increase is generally in line with the increase in our revenue over the same period.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our cost of sales by business line for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cost of Sales:					
Manufacturing and Sales of					
Machines	1,614,253	1,822,924	2,261,534	1,215,264	1,011,030
Parts and Components Sales and					
Services	341,382	383,164	239,619	124,617	243,810
Overhaul Services	182,280	142,077	144,105	36,135	109,365
Railway Line Maintenance					
Services	14,966	18,447	12,758	7,186	9,622
Total	<u>2,152,881</u>	<u>2,366,612</u>	<u>2,658,016</u>	<u>1,383,202</u>	<u>1,373,827</u>

The following table sets forth a breakdown of the major components of our cost of sales by nature for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cost of Sales:					
Raw materials and parts and					
components	1,734,570	1,892,181	2,051,838	1,076,467	1,091,469
Staff costs	175,307	185,678	245,426	123,573	112,022
Depreciation	34,896	37,865	52,218	21,286	21,912
Subcontracting fees	111,408	126,974	156,855	85,243	76,270
Others ⁽¹⁾	96,700	123,914	151,679	76,633	72,154
Total	<u>2,152,881</u>	<u>2,366,612</u>	<u>2,658,016</u>	<u>1,383,202</u>	<u>1,373,827</u>

(1) Include principally expenses on fuel, power and machine repair and maintenance.

For the six months ended June 30, 2015, our cost of sales decreased slightly to RMB1,373.8 million from RMB1,383.2 million for the six months ended June 30, 2014, mainly due to (i) the decrease in staff costs as a result of the decreased business from our manufacturing and sales of machines business from the same period, which generally contributes to higher staff costs and (ii) the decrease in our subcontracting fees, which is consistent with the decrease in revenue from our manufacturing and sales of machines business for the same period, which was partially offset by the increase in the purchase of raw materials and parts and components, which is consistent with the increase in our revenue due to increased businesses.

In 2012, 2013 and 2014, our cost of sales steadily increased, mainly due to (i) an increase in purchase of raw materials and parts and components, which is consistent with the increase in our revenue; (ii) an increase in staff costs in 2012, 2013 and 2014; as a result of the increased business from our manufacturing and sales of machines business, which generally contributes

FINANCIAL INFORMATION

to higher staff costs; (iii) a substantial increase in depreciation in 2014 (depreciation remained steady in 2012 and 2013), which is due to the substantial decrease in work in progress and finished goods in inventories in 2014, leading to the substantial increase in depreciation; and (iv) the steady increase in the subcontracting fees in 2012, 2013 and 2014.

Gross Profit and Gross Margin

The table below sets forth a breakdown of our gross profit by business line for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Gross Profit:					
Manufacturing and Sales of Machines	473,142	566,244	529,957	285,136	245,777
Parts and Components Sales and Services	194,596	165,626	200,478	48,390	82,638
Overhaul Services	28,448	57,193	70,913	27,872	89,229
Railway Line Maintenance Services	14,578	13,355	17,356	743	3,122
Total	710,764	802,418	818,704	362,141	420,766

During the Track Record Period, our gross profit steadily increased. Compared to 2012, our gross profit increased in 2013, primarily due to the increase in gross profit from our manufacturing and sales of machines business. Compared to 2013, our gross profit increased in 2014, primarily due to the increase in gross profit from our other major business lines, except for our manufacturing and sales of machines business. Compared to the six months ended June 30, 2014, our gross profit increased for the six months ended June 30, 2015, primarily due to the increase of gross profit from our parts and components sales and services, overhaul services and railway line maintenance services businesses.

The table below sets forth details of our gross margin by business line for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	%	%	%	%	%
Gross Margin:					
Manufacturing and Sales of Machines	22.7	23.7	19.0	19.0	19.6
Parts and Components Sales and Services	36.3	30.2	45.6	28.0	25.3
Overhaul Services ⁽¹⁾	13.5	28.7	33.0	43.5	44.9
Railway Line Maintenance Services ⁽²⁾	49.3	42.0	57.6	9.4	24.5
Overall Gross Margin	24.8	25.3	23.5	20.7	23.4

(1) Gross margin of our overhaul services business increased generally during the Track Record Period as a result of our improved techniques and processes, enhanced cost control and capitalization on economies of scale.

(2) Gross margin of our railway line maintenance services largely relies on the services mix in this business line. It fluctuated during the Track Record Period. For details, see “ – Results of Operations.” Gross margin of our railway line maintenance services business is generally lower in the first half of the year compared to the full year, because we generally reduce our operations in winter as a result of the adverse weather conditions and the Chinese Lunar New Year holidays, while we continue to incur fixed costs.

FINANCIAL INFORMATION

During the Track Record Period, our gross profit was affected principally by (1) product price, (2) product mix and (3) cost of sales. In 2012, 2013, 2014 and the six months ended June 30, 2015, gross profit from our manufacturing and sales of machines business constituted approximately 66.6%, 70.6%, 64.7% and 58.4% of our total gross profit, while revenue from our manufacturing and sales of machines business constituted approximately 72.9%, 75.4%, 80.3% and 70.0% of our total revenue. As a result, our overall gross margin is substantially affected by the gross profit and revenue of this business line, which, in turn, is affected by its product mix. During the Track Record Period, a substantial part of our large railway track maintenance machines was sold to CRC and its affiliates through public tender for collective purchases, with relatively lower gross margin. We also sold our large railway track maintenance machines through individual orders, with relatively higher gross margin.

Other Income and Gains

Our other income and gains consist principally of government grants, interest income generated from bank deposits and payment we receive for providing training programs to our customers to operate our large railway track maintenance machines.

The following table sets forth a breakdown of the major components of our other income and gains for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Other income and gains:					
Rental income	1,935	1,854	1,981	1,023	1,092
Interest income	3,255	6,665	12,482	8,752	1,646
Government grants	26,769	22,631	25,132	10,053	3,194
Sale of scrap materials	6,050	3,010	3,364	1,832	820
Training	8,167	14,271	4,636	851	1,618
Gain on disposal of a subsidiary	-	-	2,895	2,895	-
Dividend income from available- for-sale investments	3,332	3,430	3,430	-	-
Others ⁽¹⁾	962	2,504	13,006	1,316	4,465
Total	50,470	54,365	66,926	26,722	12,835

(1) Primarily include payment from sales of certain know-how and income generated from disposal of certain assets.

During the Track Record Period, we applied for and received government grants from both central and local government authorities in the PRC, which mainly include government grants for the national research and development projects we undertook. Government authorities generally take into account the scope of our research and development projects and are expected to approve our application if such scope is within the applicable preferential policies. We are allowed to use the government grants awarded in accordance with the scope of research and development projects as approved. 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 government authorities in accordance with applicable national and local policies.

FINANCIAL INFORMATION

Selling and Distribution Expenses

Our selling and distribution expenses consist principally of salaries to our marketing and sales personnel and expenses in relation to business development and advertising. During the Track Record Period, the increase in our selling and distribution costs was primarily due to the expansion of our business.

The table below sets forth a breakdown of the major components of our selling and distribution expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Selling and Distribution Expenses					
Salaries	23,389	17,260	31,310	8,495	9,515
Business development and advertising expenses	23,313	29,536	27,746	14,665	9,388
Depreciation	1,707	2,311	2,306	1,143	1,145
Travelling expenses	3,548	4,315	4,923	1,732	2,610
Transportation expenses	2,464	2,353	2,773	1,029	1,210
Others ⁽¹⁾	3,678	2,313	2,496	1,615	1,276
Total	58,099	58,088	71,554	28,679	25,144

(1) Primarily include marketing expenses and maintenance fees of our selling and distribution department.

Administrative Expenses

Our administrative expenses consist principally of R&D expenses, salaries and benefits for administrative staff and amortization and depreciation. During the Track Record Period, a large part of our administrative expenses consisted of R&D expenses, which generally fluctuate in accordance with the cycle of R&D project schedules.

FINANCIAL INFORMATION

The table below sets forth a breakdown of the major components of our administrative expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Administrative Expenses				(unaudited)	
R&D expenses	193,478	209,357	166,962	69,718	47,035
Salaries	108,412	107,558	110,493	41,165	47,331
Amortization and depreciation	22,451	25,858	25,582	13,069	14,261
Taxes	11,058	13,304	11,702	6,261	6,371
Travelling expenses	5,517	5,179	5,020	1,620	2,579
Maintenance expenses ⁽¹⁾	7,883	5,867	6,221	1,402	2,907
Others ⁽²⁾	36,191	44,065	31,172	12,456	23,772
Total	384,990	411,188	357,152	145,691	144,256

(1) Primarily refer to expenses for the repair and maintenance of buildings.

(2) Primarily include miscellaneous operating expenses incurred by our administration departments. For the six months ended June 30, 2015, other expenses include certain fees paid to professional parties for their services rendered in relation to the Reorganization and the Global Offering.

Other Expenses

Our other expenses consist principally of costs in relation to our provision of training programs to customers on the use of large railway track maintenance machinery and provision of trade receivables in accordance with our accounting policy. In 2012, 2013 and 2014 and for the six months ended June 30, 2015, our other expenses were RMB6.8 million, RMB21.5 million, RMB17.9 million and RMB0.9 million, respectively.

Finance Costs

Our finance costs consist principally of interest expenses on bank loans and other borrowings from related parties, including our controlling shareholder and affiliates. In 2012, 2013 and 2014 and for the six months ended June 30, 2015, our finance costs were RMB57.5 million, RMB47.6 million, RMB23.5 million and nil, respectively.

Income Tax

Our income tax expenses consist principally of corporate income tax and movements in deferred tax assets. In 2012, 2013 and 2014 and for the six months ended June 30, 2015, our income tax was RMB29.5 million, RMB30.5 million, RMB53.5 million and RMB37.5 million, respectively, and our effective tax rate was 11.6%, 9.6%, 12.9% and 14.2%, respectively. As of the Latest Practicable Date and during the Track Record Period, we fulfilled all of our tax obligations and did not have any unresolved tax disputes. We have benefited from tax incentives. Any termination or significant reduction in the preferential tax treatment we

FINANCIAL INFORMATION

currently enjoy may adversely affect our financial condition. See “Risk Factors — Risks Relating to Our Industry and Business Operations — Any loss of or significant reduction in the preferential tax treatment and government grant we currently enjoy in China or our non-compliance with the relevant PRC tax laws and regulations may negatively affect our financial condition.”

Other Comprehensive Income/Losses

Other comprehensive income or losses mainly represent changes in fair value of the available-for-sale investments. During the Track Record Period, we held certain equity interests in a Hong Kong listed company for investment purposes, the fluctuation in the share price of which subsequently led to changes in fair value of our available-for-sale financial assets. This Hong Kong listed company mainly engages in application research and engineering research in the areas of electric traction technology, industrial and civilian converter technology. It designs and manufactures electrical control equipments for products extensively used in railways, rapid transit, systems and power industries, including railway track maintenance machinery industry. In 2006, when such company was listed on the Main Board of the Hong Kong Stock Exchange, based on our in-depth insights of the railway industry in the PRC, we used a small portion of our available cash amounting to RMB9.8 million to invest in this company, as we believed the rapid development of the PRC railway industry could improve the operating results of companies engaging in the railway industry and their stock prices.

We may invest, from time to time, in companies that engage in railway industry and other related industries, which we are familiar with and have an in-depth understanding of. We have an in-depth understanding of a stock when we have acquired knowledge of its shareholding structure, business, financial performance, management as well as opportunities and risks through the study of public information and when we have formed a reasonable evaluation of the stock prices based on our extensive experiences in the relevant industry. We usually hold such investment for long-term investment purposes. We have established a four-tier decision-making structure for approving our investment plans, namely, the general manager, the chairman of the Board of Directors, the Board of Directors and the general meeting of shareholders, depending on the size of the investment. We have been prudent in making our investment decisions and, as of the Latest Practicable Date, we only held equity interests in one listed company.

As of December 31, 2012, 2013 and 2014, June 30, 2015 and the Latest Practicable Date, we held a 0.9%, 0.83%, 0.83%, 0.83% and 0.83%, respectively, equity interest in the Hong Kong listed company mentioned above, with a fair value amounting to RMB148.2 million, RMB139.7 million, RMB227.4 million, RMB291.9 million and RMB272.7 million, respectively. We derived other comprehensive income of RMB51.2 million, RMB74.5 million and RMB54.8 million in 2012 and 2014 and for the six months ended June 30, 2015, respectively. We recorded other comprehensive losses of RMB6.8 million in 2013.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Revenue

Our total revenue increased by 2.8% to RMB1,794.6 million for the six months ended June 30, 2015 from RMB1,745.3 million for the six months ended June 30, 2014. The increase was mainly attributable to the substantial increase in revenue from our parts and components sales and services business, overhaul services business and railway line maintenance services business, the result of which was partly offset by the decrease in revenue from our manufacturing and sales of machines business.

	Six months ended June 30,				Change
	2014		2015		
	RMB'000	%	RMB'000	%	%
	(unaudited)				
Revenue:					
Manufacturing and Sales of Machines	1,500,400	86.0	1,256,807	70.0	(16.2)
Parts and Components Sales and Services	173,007	9.9	326,448	18.2	88.7
Overhaul Services	64,007	3.7	198,594	11.1	210.3
Railway Line Maintenance Services	7,929	0.4	12,744	0.7	60.7
Total	<u>1,745,343</u>	<u>100.0</u>	<u>1,794,593</u>	<u>100.0</u>	<u>2.8</u>

For the six months ended June 30, 2015, revenue from our manufacturing and sales of machines business decreased by 16.2% to RMB1,256.8 million from RMB1,500.4 million for the six months ended June 30, 2014, mainly because for the six months ended June 30, 2015, we delivered more products with lower unit prices due to the product mix, which led to a decrease in revenue for the six months ended June 30, 2015.

For the six months ended June 30, 2015, revenue from our parts and components sales and services business increased by 88.7% to RMB326.4 million from RMB173.0 million for the six months ended June 30, 2014, mainly because, for the six months ended June 30, 2014, certain major customers' demand for parts and components decreased temporarily, and for the six months ended June 30, 2015, the demand for our parts and components increased and resumed normal levels.

For the six months ended June 30, 2015, revenue from our overhaul services business increased substantially by 210.3% to RMB198.6 million from RMB64.0 million for the six months ended June 30, 2014, mainly because our customers delayed the machine delivery schedule by three to six months, which led to the decrease of revenue from our overhaul services business for the six months ended June 30, 2014; and for the six months ended June 30, 2015, the amount of our overhaul services business increased substantially, as a result of the abrupt rise in demand for overhaul services because a large number of large railway track maintenance machines were due for overhaul.

FINANCIAL INFORMATION

For the six months ended June 30, 2015, revenue from our railway line maintenance services business increased by 60.7% to RMB12.7 million from RMB7.9 million for the six months ended June 30, 2014, mainly because of the increase in our business operation and the expansion of the geographical coverage of our railway line maintenance services business in Southern China in the first half of 2015.

Cost of sales

Our cost of sales decreased by 0.7% to RMB1,373.8 million for the six months ended June 30, 2015 from RMB1,383.2 million for the six months ended June 30, 2014. The decrease was primarily due to the decrease in the cost of sales of our manufacturing and sales of machines business, the effect of which was partially offset by the increases in cost of sales of our parts and components sales and services business, overhaul services business and railway line maintenance services business.

	Six months ended June 30,				Change
	2014		2015		
	RMB'000	%	RMB'000	%	
	(unaudited)				%
Cost of Sales:					
Manufacturing and Sales of Machines	1,215,264	87.9	1,011,030	73.6	(16.8)
Parts and Components Sales and Services	124,617	9.0	243,810	17.7	95.6
Overhaul Services	36,135	2.6	109,365	8.0	202.7
Railway Line Maintenance Services	7,186	0.5	9,622	0.7	33.9
Total	<u>1,383,202</u>	<u>100.0</u>	<u>1,373,827</u>	<u>100.0</u>	<u>(0.7)</u>

For the six months ended June 30, 2015, the cost of sales from our manufacturing and sales of machines business decreased by 16.8% to RMB1,011.0 million from RMB1,215.3 million for the six months ended June 30, 2014, generally in line with the decrease in revenue from our manufacturing and sales of machines business.

For the six months ended June 30, 2015, the cost of sales from our parts and components sales and services business increased by 95.6% to RMB243.8 million from RMB124.6 million for the six months ended June 30, 2014, generally in line with the increase in revenue from our parts and components sales and services business.

For the six months ended June 30, 2015, the cost of sales from our overhaul services business increased by 202.7% to RMB109.4 million from RMB36.1 million for the six months ended June 30, 2014, generally in line with the substantial increase in revenue from our overhaul services business.

For the six months ended June 30, 2015, the cost of sales from our railway line maintenance services business increased by 33.9% to RMB9.6 million from RMB7.2 million for the six months ended June 30, 2014, generally in line with the increase in revenue from our railway line maintenance services business.

FINANCIAL INFORMATION

Gross profit and gross margin

Our overall gross profit increased by 16.2% to RMB420.8 million for the six months ended June 30, 2015 from RMB362.1 million for the six months ended June 30, 2014. Our overall gross margin remained relatively stable at 20.7% and 23.4% for the six months ended June 30, 2014 and 2015, respectively.

	Six months ended June 30,						
	2014			2015			Change in Gross Profit %
	Gross Profit	Percentage	Gross Margin	Gross Profit	Percentage	Gross Margin	
	RMB'000	%	%	RMB'000	%	%	
(unaudited)							
Manufacturing and Sales of Machines	285,136	78.7	19.0	245,777	58.4	19.6	(13.8)
Parts and Components Sales and Services	48,390	13.4	28.0	82,638	19.6	25.3	70.8
Overhaul Services	27,872	7.7	43.5	89,229	21.2	44.9	220.1
Railway Line Maintenance Services	743	0.2	9.4	3,122	0.8	24.5	320.2
Total gross profit/ Overall gross margin	362,141	100.0	20.7	420,766	100.0	23.4	16.2

Our overall gross margin increased to 23.4% for the six months ended June 30, 2015 from 20.7% for the six months ended June 30, 2014, mainly due to the increase in the gross profit of our parts and components sales and services business, overhaul services business and railway line maintenance services business, which was partially offset by the decrease in the gross profit of our manufacturing and sales of machines business.

The gross margin of our manufacturing and sales of machines business remained stable at 19.0% for the six months ended June 30, 2014 and 19.6% for the six months ended June 30, 2015. The gross margin of our parts and components sales and services business decreased from 28.0% for the six months ended June 30, 2014 to 25.3% for the six months ended June 30, 2015, primarily because of changes in product mix with respect to our parts and components sold. The gross margin of our overhaul services business increased to 44.9% for the six months ended June 30, 2015 from 43.5% for the six months ended June 30, 2014, mainly due to our improved techniques and processes, enhanced cost control and capitalization on economies of scale. The gross margin of our railway line maintenance services business increased from 9.4% for the six months ended June 30, 2014 to 24.5% for the six months ended June 30, 2015, mainly because (i) the revenue for our railway line maintenance services business steadily increased from 2014 to 2015, because of the increase in our business operations and the expansion of the geographical coverage of our railway line maintenance services business in Southern China in the first half of 2015 and (ii) our fixed costs in respect of our railway line maintenance services business remained stable for the six months ended June 30, 2014 and 2015. Gross margin for our railway line maintenance services business is generally lower in the first half of the year compared to the full year, because we generally reduce our operations in

FINANCIAL INFORMATION

winter as a result of the adverse weather conditions and the Chinese Lunar New Year holidays, while we continue to incur fixed costs.

Other income and gains

Our other income and gains decreased by 52.0% to RMB12.8 million for the six months ended June 30, 2015 from RMB26.7 million for the six months ended June 30, 2014. The decrease was mainly caused by a decrease of RMB7.1 million in interest income due to decreased bank deposits after repaying our borrowings in 2014 and a decrease of RMB6.9 million in government grants, which reflected the prevailing government policies relating to the disbursement of government grants, the effect of which was partially offset by an increase in income generated from providing training programs to our customers.

Selling and distribution expenses

Our selling and distribution expenses decreased by 12.3% to RMB25.1 million for the six months ended June 30, 2015 from RMB28.7 million for the six months ended June 30, 2014, primarily due to a decrease in sales and services fees in connection with the decrease in product repair and maintenance carried out.

Administrative expenses

Our administrative expenses remained stable at RMB145.7 million for the six months ended June 30, 2014 and RMB144.3 million for the six months ended June 30, 2015.

Other expenses

For the six months ended June 30, 2014, we recorded other income and gains of RMB5.4 million, mainly due to a reversal of provision for trade receivables. For the six months ended June 30, 2015, our other expenses amounted to RMB0.9 million.

Finance costs

Our finance costs were RMB12.8 million for the six months ended June 30, 2014. Our finance costs for the six months ended June 30, 2015 were nil, because our borrowings balance were nil as of December 31, 2014 and we did not incur any new borrowings for the six months ended June 30, 2015.

Profit before tax

As a result of the foregoing, our profit before tax increased by 27.2% to RMB263.3 million for the six months ended June 30, 2015 from RMB207.1 million for the six months ended June 30, 2014.

FINANCIAL INFORMATION

Income tax

Our income tax increased by 35.7% to RMB37.5 million for the six months ended June 30, 2015 from RMB27.6 million for the six months ended June 30, 2014. Our effective tax rate was 13.3% and 14.2% for the six months ended June 30, 2014 and 2015, respectively, the increase of which was primarily due to the decrease in R&D expenses that are entitled to preferential tax treatments.

Profit for the period

As a result of the foregoing, our net profit increased by 25.8% to RMB225.9 million for the six months ended June 30, 2015 from RMB179.5 million for the six months ended June 30, 2014.

2014 Compared to 2013

Revenue

Our total revenue increased by 9.7% to RMB3,476.7 million in 2014 from RMB3,169.0 million in 2013.

	2013		2014		Change
	RMB'000	%	RMB'000	%	%
Revenue:					
Manufacturing and Sales of Machines	2,389,168	75.4	2,791,491	80.3	16.8
Parts and Components Sales and Services	548,790	17.3	440,097	12.7	(19.8)
Overhaul Services	199,270	6.3	215,018	6.2	7.9
Railway Line Maintenance Services	31,802	1.0	30,114	0.8	(5.3)
Total	3,169,030	100.0	3,476,720	100.0	9.7

In 2014, revenue from our manufacturing and sales of machines business increased by 16.8% to RMB2,791.5 million from RMB2,389.2 million in 2013, mainly due to an increase in sales of machines under the tamping machine series that remained stable in price, which was partly offset by decreases in sales of machines under the materials logistics machine series and ballast cleaning machine series. Changes in purchase orders from our customers mainly reflect changes in their operation plans for railway maintenance.

In 2014, revenue from our parts and components sales and services business decreased by 19.8% to RMB440.1 million from RMB548.8 million in 2013, mainly due to a temporary decrease of demands for our parts and components by certain major customers in 2014.

In 2014, revenue from our overhaul services business increased by 7.9% to RMB215.0 million from RMB199.3 million in 2013, principally remaining stable.

In 2014, our revenue from our railway line maintenance services business decreased slightly by 5.3% to RMB30.1 million from RMB31.8 million in 2013.

FINANCIAL INFORMATION

Cost of sales

Our cost of sales increased by 12.3% to RMB2,658.0 million in 2014 from RMB2,366.6 million in 2013, primarily due to the expansion of our business operations.

	2013		2014		Change
	RMB'000	%	RMB'000	%	%
Cost of Sales:					
Manufacturing and Sales of Machines	1,822,924	77.0	2,261,534	85.1	24.1
Parts and Components Sales and Services	383,164	16.2	239,619	9.0	(37.5)
Overhaul Services	142,077	6.0	144,105	5.4	1.4
Railway Line Maintenance Services	18,447	0.8	12,758	0.5	(30.8)
Total	2,366,612	100.0	2,658,016	100.0	12.3

In 2014, cost of sales from our manufacturing and sales of machines business increased by 24.1% to RMB2,261.5 million from RMB1,822.9 million in 2013, primarily in line with the increase in our revenue from this business line in 2014.

In 2014, cost of sales from our parts and components sales and services business decreased by 37.5% to RMB239.6 million from RMB383.2 million in 2013, generally in line with the decrease in revenue from our parts and components sales and services business for the same year.

In 2014, cost of sales from our overhaul services business increased by 1.4% to RMB144.1 million from RMB142.1 million in 2013, principally remaining stable.

In 2014, cost of sales from our railway line maintenance services business decreased by 30.8% to RMB12.8 million from RMB18.4 million in 2013, primarily in line with the decrease in revenue for this business line for the same year.

Gross profit and gross margin

Our overall gross profit increased by 2.0% to RMB818.7 million in 2014 from RMB802.4 million in 2013. The overall gross margin decreased to 23.5% in 2014 from 25.3% in 2013.

	2013			2014			Change in Gross Profit
	Gross Profit	Percentage	Gross Margin	Gross Profit	Percentage	Gross Margin	
	RMB'000	%	%	RMB'000	%	%	
Manufacturing and Sales of							
Machines	566,244	70.6	23.7	529,957	64.7	19.0	(6.4)
Parts and Components Sales and							
Services	165,626	20.6	30.2	200,478	24.5	45.6	21.0
Overhaul Services	57,193	7.1	28.7	70,913	8.7	33.0	24.0
Railway Line Maintenance Services ...	13,355	1.7	42.0	17,356	2.1	57.6	30.0
Total gross profit/Overall gross margin	802,418	100.0	25.3	818,704	100.0	23.5	2.0

FINANCIAL INFORMATION

In 2014, due to changes in product mix (mainly because we sold more stabilization machine series and ballast regulator series in 2014 which generally have lower gross margins within our product spectrum), the gross margin of our manufacturing and sales of machines business decreased to 19.0% in 2014 from 23.7% in 2013. In 2014, we sold more parts and components with higher margins, which led to an increase in gross margin of our parts and components sales and services business to 45.6% in 2014 from 30.2% in 2013. The gross margin of our overhaul services business experienced an increase to 33.0% in 2014 from 28.7% in 2013, mainly due to our efforts in cost control and utilization of improved technology and processes. The gross margin of our railway line maintenance services business increased to 57.6% in 2014 from 42.0% in 2013 as a result of changes in product mix in this business in 2014.

Other income and gains

Our other income and gains increased by 23.1% to RMB66.9 million in 2014 from RMB54.4 million in 2013. The increase was primarily due to an increase of RMB5.8 million in interest income as a result of increases in our deposits to financial institutions, government grants and investment gains from disposal of a subsidiary, the effect of which was partially offset by a decrease in income generated from providing training programs to customers in 2014.

Selling and distribution expenses

Our selling and distribution expenses increased by 23.2% to RMB71.6 million in 2014 from RMB58.1 million in 2013, primarily due to an increase in the performance bonus paid to our marketing staff.

Administrative expenses

Our administrative expenses decreased by 13.1% to RMB357.2 million in 2014 from RMB411.2 million in 2013, primarily due to a decrease in R&D expenses as affected by the R&D project cycle.

Other expenses

Our other expenses decreased by 16.7% to RMB17.9 million in 2014 from RMB21.5 million in 2013, corresponding to a decrease in the training programs we provided to our customers.

Finance costs

Our finance costs decreased by 50.6% to RMB23.5 million in 2014 from RMB47.6 million in 2013, primarily because we repaid our bank borrowings in 2014.

FINANCIAL INFORMATION

Profit before tax

As a result of the foregoing, our profit before tax increased by 30.5% to RMB415.5 million in 2014 from RMB318.4 million in 2013.

Income tax

Our income tax increased by 75.5% to RMB53.5 million in 2014 from RMB30.5 million in 2013. Our effective tax rate was 9.6% in 2013 and 12.9% in 2014. The increase of our effective tax rate from 2013 to 2014 was primarily because (i) we incurred fewer R&D expenses in 2014, which resulted in a lower amount that we could claim as super-deduction and enjoy the preferential tax treatment and (ii) in 2013, Aotongda Company was granted preferential tax treatment under the Western Development Plan, which allowed us to use part of its tax payment in 2012 to offset its tax payment in 2013.

Profit for the year

As a result of the foregoing, our net profit increased by 25.7% to RMB362.0 million in 2014 from RMB287.9 million in 2013.

2013 Compared to 2012

Revenue

Our total revenue increased by 10.7% to RMB3,169.0 million in 2013 from RMB2,863.6 million in 2012.

	2012		2013		Change
	RMB'000	%	RMB'000	%	%
Revenue:					
Manufacturing and Sales of Machines	2,087,395	72.9	2,389,168	75.4	14.5
Parts and Components Sales and Services	535,978	18.7	548,790	17.3	2.4
Overhaul Services	210,728	7.4	199,270	6.3	(5.4)
Railway Line Maintenance Services	29,544	1.0	31,802	1.0	7.6
Total	2,863,645	100.0	3,169,030	100.0	10.7

In 2013, revenue from our manufacturing and sales of machines business increased by 14.5% to RMB2,389.2 million from RMB2,087.4 million in 2012, mainly due to increases in sales of machines under the tamping machine series and stabilization machine series, which was partially offset by decreases in the sales of machines under the ballast cleaning machine series and ballast regulator series.

In 2013, revenue from our parts and components sales and services business slightly increased by 2.4% to RMB548.8 million from RMB536.0 million in 2012.

FINANCIAL INFORMATION

In 2013, revenue from our overhaul services business slightly decreased by 5.4% to RMB199.3 million from RMB210.7 million in 2012, mainly due to a decrease in the overhaul volume.

In 2013, revenue from our railway line maintenance services business increased by 7.6% to RMB31.8 million from RMB29.5 million in 2012, mainly due to an increased number of railway line maintenance projects completed in that year.

Cost of sales

Our cost of sales increased by 9.9% to RMB2,366.6 million in 2013 from RMB2,152.9 million in 2012, primarily due to business expansion.

	2012		2013		Change
	RMB'000	%	RMB'000	%	%
Cost of Sales:					
Manufacturing and Sales of Machines	1,614,253	75.0	1,822,924	77.0	12.9
Parts and Components Sales and Services	341,382	15.9	383,164	16.2	12.2
Overhaul Services	182,280	8.4	142,077	6.0	(22.1)
Railway Line Maintenance Services	14,966	0.7	18,447	0.8	23.3
Total	2,152,881	100.0	2,366,612	100.0	9.9

In 2013, cost of sales from our manufacturing and sales of machines business increased by 12.9% to RMB1,822.9 million from RMB1,614.3 million in 2012, corresponding to the increase in revenue from our manufacturing and sales of machines business in 2013.

In 2013, cost of sales from our parts and components sales and services business increased by 12.2% to RMB383.2 million from RMB341.4 million in 2012, in line with the increase in revenue from our parts and components sales and services business in 2013.

In 2013, cost of sales from our overhaul services business decreased by 22.1% to RMB142.1 million from RMB182.3 million in 2012, corresponding to the decrease in revenue from our overhaul services business in 2013.

In 2013, cost of sales from our railway line maintenance services business increased by 23.3% to RMB18.4 million from RMB15.0 million in 2012, generally in line with the increase in revenue from this business line in 2013.

FINANCIAL INFORMATION

Gross profit and gross margin

Our overall gross profit increased by 12.9% to RMB802.4 million in 2013 from RMB710.8 million in 2012. Our overall gross margin increased to 25.3% in 2013 from 24.8% in 2012.

	2012			2013			Change in Gross Profit
	Gross Profit	Percentage	Gross Margin	Gross Profit	Percentage	Gross Margin	
	RMB'000	%	%	RMB'000	%	%	
Manufacturing and Sales of							
Machines	473,142	66.6	22.7	566,244	70.6	23.7	19.7
Parts and Components Sales and							
Services	194,596	27.3	36.3	165,626	20.6	30.2	(14.9)
Overhaul Services	28,448	4.0	13.5	57,193	7.1	28.7	101.0
Railway Line Maintenance							
Services	14,578	2.1	49.3	13,355	1.7	42.0	(8.4)
Total gross profit/Overall gross margin	710,764	100.0	24.8	802,418	100.0	25.3	12.9

The gross margin of our manufacturing and sales of machines business of 23.7% in 2013 and 22.7% in 2012 remained stable. The decrease in gross margin of our parts and components sales and services business to 30.2% in 2013 from 36.3% in 2012 was mainly due to changes in product mix with respect to our parts and components sold (mainly because we sold more parts and components with higher gross margins within our product spectrum in 2012). The increase in gross margin of our overhaul services business to 28.7% in 2013 from 13.5% in 2012 was primarily due to improved techniques and processes and enhanced cost control. The decrease in gross margin of our railway line maintenance services business to 42.0% in 2013 from 49.3% in 2012 was primarily due to changes in services mix in this business line.

Other income and gains

Our other income and gains increased by 7.7% to RMB54.4 million in 2013 from RMB50.5 million in 2012, mainly due to an increase of RMB6.1 million in income generated from providing training programs to our customers and an increase of RMB3.4 million in interest income, which was partially offset by a decrease in government grants in 2013.

Selling and distribution expenses

Our selling and distribution expenses remained stable in 2012 and 2013, being RMB58.1 million and RMB58.1 million, respectively.

Administrative expenses

Our administrative expenses increased by 6.8% to RMB411.2 million in 2013 from RMB385.0 million in 2012, primarily due to an increase in our R&D expenses.

FINANCIAL INFORMATION

Other expenses

Our other expenses increased by 214.1% to RMB21.5 million in 2013 from RMB6.8 million in 2012, primarily due to increases in provision of impairment of trade receivables and training expenses.

Finance costs

Our finance costs decreased by 17.2% to RMB47.6 million in 2013 from RMB57.5 million in 2012, mainly due to a decrease in our average loan balance.

Profit before tax

As a result of the foregoing, our profit before tax increased by 25.5% to RMB318.4 million in 2013 from RMB253.8 million in 2012.

Income tax

Our income tax increased by 3.5% to RMB30.5 million in 2013 from RMB29.5 million in 2012. Our effective tax rate was 11.6% in 2012 and 9.6% in 2013. Our effective tax rate decreased primarily because Aotongda Company was granted preferential tax treatment under the Western Development Plan in 2013, which allowed us to use part of its tax payment in 2012 to offset its tax payment in 2013.

Profit for the year

As a result of the foregoing, our net profit increased by 28.3% to RMB287.9 million in 2013 from RMB224.3 million in 2012.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our liquidity requirements through cash flow from operations. 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 of October 31, 2015, being the latest practicable date to determine our indebtedness, we had RMB2,750.0 million of banking facilities available, of which approximately RMB1,113.6 million was not utilized, and cash and cash equivalents of RMB298.2 million.

FINANCIAL INFORMATION

Cash Flow

The following table sets forth a summary of our cash flow for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net cash from/(used in) operating activities	(662,803)	1,456,073	(254,156)	(282,428)	(76,042)
Net cash from/(used in) investing activities	(89,684)	(82,816)	38,830	(7,755)	(13,729)
Net cash from/(used in) financing activities	401,893	(210,371)	(1,117,335)	(485,774)	(69,898)
Cash and cash equivalents at the beginning of year/ period	846,131	495,294	1,657,225	1,657,225	320,902
Effect of foreign exchange rate changes, net	(243)	(955)	(3,662)	594	168
Cash and cash equivalents at the end of year/period	<u>495,294</u>	<u>1,657,225</u>	<u>320,902</u>	<u>881,862</u>	<u>161,401</u>

Net cash from/(used in) operating activities

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

Cash flow from operating activities can be significantly affected by factors such as the timing of collections of trade and bill receivables and advances from customers and amounts of trade and other payable during the regular course of business.

For the six months ended June 30, 2015, we recorded net cash outflow from operating activities of RMB76.0 million, primarily as a result of the cash inflow from operating activities before movements in working capital of RMB299.5 million (reflecting the profit before tax after adjustments of certain items), and adjusted for: (i) a decrease in other payables and accruals of RMB138.0 million mainly because our major customer typically makes its advance payments on its purchase orders collectively at the end of the year or at the beginning of the year; (ii) an increase in trade and bills receivables of RMB201.8 million, primarily because our major customer typically settles the payments for its purchase orders collectively at the end of the year or at the beginning of the year; (iii) a decrease in trade and bills payables of RMB87.3 million, primarily as a result of the settlement of some of our outstanding invoices under our trade contracts; and (iv) income tax paid of RMB39.0 million, the effect of which was partially offset by a decrease in pledged deposits of RMB90.0 million.

In 2014, we recorded net cash outflows from operating activities of RMB254.2 million, primarily as a result of the cash inflow from operating activities before movements in working capital of RMB509.6 million (reflecting the profit before tax after adjustments of certain items), and adjusted for: (i) a decrease in other payables and accruals of RMB1,183.4 million, primarily because our major customer typically invites tenders of collective purchases at the end of the year and makes its advance payments collectively at the end of the year or at the beginning of the next year based on the deliveries of products, and we received the collective

FINANCIAL INFORMATION

advance payments from our major customer in early 2015 rather than at the end of 2014; and (ii) an increase in trade and bills receivables of RMB120.4 million, primarily due to the increased sales of large railway track maintenance machines in 2014, the effect of which was partially offset by (i) a decrease in inventories of RMB517.1 million primarily due to an improvement in inventory management; and (ii) an increase in trade and bills payables of RMB59.3 million, primarily due to increased purchases of raw materials and parts and components in 2014 in line with our business expansion.

In 2013, we recorded net cash inflows from operating activities of RMB1,456.1 million, primarily as a result of the cash inflow from operating activities before movements in working capital of RMB449.0 million (reflecting the profit before tax after adjustments of certain items), and adjusted for: (i) an increase in other payables and accruals of RMB1,035.5 million, primarily due to increased purchase orders we received for large railway track maintenance machinery and the collective payments made by our major customer in early 2013 for its purchases in 2012 and at the end of 2013 for its purchases in 2013; (ii) an increase in trade and bills payables of RMB97.6 million, primarily due to an increase in purchases of raw materials and parts and components in line with our business expansion; and (iii) a decrease in inventories of RMB33.3 million, primarily due to a decrease in the amount of finished goods in our inventory as these were delivered to our customers in 2013, the effect of which was partially offset by (i) an increase in pledged deposits of RMB106.3 million; (ii) an increase in trade and bills receivables of RMB21.8 million; and (iii) income tax paid of RMB13.1 million.

In 2012, we recorded net cash outflows from operating activities of RMB662.8 million, primarily as a result of the cash inflow from operating activities before movements in working capital of RMB374.3 million (reflecting the profit before tax after adjustments of certain items), and adjusted for: (i) a decrease in other payables and accruals of RMB985.8 million, primarily because our major customer made collective payments at the end of 2011 but not in 2012; (ii) an increase in inventories of RMB227.2 million, primarily due to an increase in our inventory levels of raw materials and parts and components to meet business expansion requirements; (iii) an increase in pledged deposits of RMB45.0 million; and (iv) income tax paid of RMB38.6 million, the effect of which was partially offset by (i) an increase in trade and bills payables of RMB218.7 million, primarily due to an increase in purchases of raw materials and parts and components in line with our business expansion, and (ii) a decrease in prepayments, deposits and other receivables of RMB54.2 million, primarily due to the decrease in the amount of raw materials and parts and components which were paid for but not yet received as of December 31, 2012.

Net cash used in/generated from investing activities

Our cash outflow from investing activities primarily consists of payments for the purchase of property and plant and equipment and intangible assets. Our cash inflow from investing activities primarily consists of proceeds from disposal of property, plant and equipment and proceeds from disposal of a prepaid land lease payment.

For the six months ended June 30, 2015, we recorded net cash outflow of RMB13.7 million, primarily due to (i) payments for the acquisition of items of property, plant and equipment of RMB10.7 million for purchases of manufacturing, testing and experiment equipment and (ii) payments for the acquisition of other intangible assets of RMB4.2 million that we used to purchase software utilized in manufacturing.

FINANCIAL INFORMATION

In 2014, we incurred net cash inflow of RMB38.8 million, primarily due to (i) proceeds from disposal of a prepaid land lease payment of RMB58.5 million and (ii) proceeds from disposal of a subsidiary of RMB7.5 million, which was partially offset by payments for acquisition of items of property, plant and equipment in line with our business expansion.

In 2013, we incurred net cash outflow of RMB82.8 million, primarily due to payments for the acquisition of items of property, plant and equipment of RMB85.7 million in line with our business expansion, which was partially offset by dividend income on available-for-sale investments of RMB3.4 million.

In 2012, we incurred net cash outflow of RMB89.7 million, primarily due to (i) payments for the acquisition of items of property, plant and equipment of RMB126.6 million, which was in line with our business expansion and (ii) payments for the acquisition of prepaid land lease payments of RMB18.4 million, which was partially offset by (i) refunding from prepaid land lease payment refunds of RMB53.8 million and (ii) dividend income on available-for-sale investments of RMB3.3 million.

Net cash used in/generated from financing activities

Our cash inflow from financing activities primarily consists of proceeds from interest-bearing borrowings. Our cash outflow from financing activities primarily consists of repayment of loans and payment of interest expenses and dividends.

For the six months ended June 30, 2015, we recorded net cash outflow of RMB69.9 million due to dividend payment.

In 2014, we recorded net cash outflow of RMB1,117.3 million, primarily due to (i) the repayment of bank loans and other borrowings of RMB1,173.0 million; (ii) the prepayment of RMB240.8 million for the acquisition of the equity interest of a subsidiary in relation to our acquisition of the equity interest of Ruiweitong Company; and (iii) dividends paid to Shareholders of RMB70.0 million, which is partially offset by new bank loans and other borrowings of RMB390.0 million.

In 2013, we recorded net cash outflow of RMB210.4 million primarily due to (i) the repayment of bank loans and other borrowings of RMB1,385.0 million; and (ii) dividends paid to Shareholders of RMB65.8 million, which is partially offset by (i) new bank loans and other borrowings of RMB888.0 million and (ii) capital contributions from Shareholders of RMB400.0 million.

In 2012, we recorded net cash inflow of RMB401.9 million, primarily due to new bank loans and other borrowings of RMB830.0 million, which is partially offset by (i) the repayment of bank loans and other borrowings of RMB300.0 million; and (ii) dividends paid to Shareholders of RMB70.6 million.

Capital Expenditures

In the past, we incurred capital expenditures primarily for the acquisition of property, plant and equipment. Our capital expenditures were RMB147.2 million, RMB86.5 million, RMB32.5 million and RMB14.9 million in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively.

FINANCIAL INFORMATION

The following table sets forth the components of our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	126,587	85,672	30,425	10,665
Prepaid land lease payment	18,446	12	–	–
Intangible assets	2,136	775	2,112	4,236
Total	147,169	86,459	32,537	14,901

As of June 30, 2015, we did not have any capital commitments contracted for but not yet incurred. We estimate that our capital expenditures for the years ending December 31, 2015, 2016 and 2017 will be approximately RMB27.8 million, RMB671.0 million and RMB450.5 million, respectively. These capital expenditures will be financed by the proceeds from the Global Offering. See “Future Plans and Use of Proceeds.”

Although these are our current estimations with respect to our capital expenditures, such estimations may change as a result of changes in circumstances and the actual amount of expenditures 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 flow, as well as 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 generated from operations and borrowings. 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, if necessary, adjust the investment, financing and dividend payout plans so as to ensure we maintain sufficient working capital.

As of October 31, 2015, the latest practicable date for the purpose of our indebtedness statement, we had RMB2,750.0 million of bank facilities available, of which RMB1,113.6 million was unutilized and unrestricted.

Taking into account our available banking facilities and cash flow from operating activities, our Directors are of the opinion, and the Sole Sponsor concurs, that we have sufficient working capital to meet our financial requirements for at least the next 12 months from the date of this prospectus.

We manage our capital structure by making periodic adjustments to it in light of changes in economic conditions and the risk characteristics of our underlying assets. If our existing cash

FINANCIAL INFORMATION

resources are insufficient to meet our requirements, we may seek to obtain credit facilities, or sell or issue equity securities, which might result in dilution to our shareholders. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all, and our business and financial results may be adversely affected in such situations.

Net Current Assets

As of December 31, 2012, 2013 and 2014 and June 30, 2015, we had net current assets of RMB375.6 million, RMB1,045.9 million, RMB1,139.3 million and RMB1,207.9 million, respectively.

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

	As of December 31,			As of	As of
	2012	2013	2014	June 30, 2015	October 31, 2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
CURRENT ASSETS					
Prepaid land lease payments	8,464	6,833	6,644	6,644	10,330
Inventories	1,886,461	1,850,505	1,325,702	1,330,908	1,400,281
Trade and bills receivables	430,841	445,104	552,221	757,354	1,010,112
Prepayments, deposits and other receivables	66,801	149,758	56,794	46,991	114,044
Pledged deposits	45,001	151,303	166,000	76,001	38,002
Cash and cash equivalents	495,294	1,657,225	320,902	161,401	298,185
Tax recoverable	14,209	–	–	–	–
Total current assets	<u>2,947,071</u>	<u>4,260,728</u>	<u>2,428,263</u>	<u>2,379,299</u>	<u>2,870,954</u>
CURRENT LIABILITIES					
Trade and bills payables	822,235	919,830	966,456	879,188	1,081,776
Other payables and accruals	450,684	1,486,144	279,284	258,852	230,082
Interest-bearing bank and other borrowings	1,280,000	783,000	–	–	195,000
Tax payable	5,162	12,275	28,694	19,501	1,861
Defined benefit obligations	2,390	1,910	1,130	675	383
Provisions	6,150	6,811	8,453	8,213	8,783
Government grants ⁽¹⁾	4,871	4,871	4,926	4,926	4,926
Total current liabilities	<u>2,571,492</u>	<u>3,214,841</u>	<u>1,288,943</u>	<u>1,171,355</u>	<u>1,522,811</u>
NET CURRENT ASSETS	<u>375,579</u>	<u>1,045,887</u>	<u>1,139,320</u>	<u>1,207,944</u>	<u>1,348,143</u>

(1) Government grants may be recorded as liabilities when they are related to an asset, as appropriate. For details, see “Financial Information – Significant Accounting Policies – Government Grants.” As of December 31, 2012, 2013 and 2014 and June 30, 2015, the total amount of government grants recognized as liabilities was RMB43.1 million, RMB38.2 million, RMB29.0 million and RMB26.5 million (including current and non-current portion), respectively. Such government grants will be released to the statement of comprehensive income over the expected useful life of the relevant assets.

Our net current assets, the difference between total current assets and total current liabilities, remained positive during the Track Record Period.

FINANCIAL INFORMATION

Our net current assets increased by 11.6% to RMB1,348.1 million as of October 31, 2015 from RMB1,207.9 million as of June 30, 2015, because the increase in total current assets was greater than the increase in total current liabilities. The increase in total current assets was due to (i) the increase in trade and bills receivables, because we generally receive collective payments at the end of the year or the beginning of the next year according to the delivery schedules of the products; and (ii) the increase in prepayments, deposits and other receivables, because of the increase in deductible input VAT due to the more input VAT incurred than output VAT for September and October 2015. The increase in our total current liabilities was primarily due to an increase in interest-bearing bank and other borrowings. For details of the interest-bearing bank loans incurred during the four months ended October 31, 2015, see “Financial Information – Indebtedness.”

Our net current assets increased by 6.0% to RMB1,207.9 million as of June 30, 2015 from RMB1,139.3 million as of December 31, 2014, because the decrease in total current liabilities was greater than the decrease in total current assets. The decrease in our total current liabilities was due to (i) the decrease in other payables and accruals mainly because our major customer typically makes its advance payments on its purchase orders collectively at the end of the year or at the beginning of the year and (ii) the decrease in trade and bills payables as we settled some of our outstanding invoices under our trade contracts. The decrease in our total current assets was primarily due to (i) a decrease in cash and cash equivalents as our major customer typically makes its payments in relation to its purchase orders collectively at the end of the year or at the beginning of the year and (ii) a decrease in pledged deposits as we settled some of our outstanding invoices under our trade contracts, resulting in the decrease in pledged deposits used to secure these bills payables.

Our net current assets increased by 8.9% to RMB1,139.3 million as of December 31, 2014 from RMB1,045.9 million as of December 31, 2013, because the decrease in total current liabilities was greater than the decrease in total current assets. The decrease in our total current liabilities was due to (i) a decrease in other payables and accruals mainly because our major customer decreased its advances for purchases of large railway track maintenance machines; in addition, our major customer typically invites tenders for collective purchases at the end of the year and makes collective payments at the end of the year or the beginning of the next year according to the delivery schedules of the products, and we received collective payments from our major customer in early 2015 rather than at the end of 2014 and (ii) the repayment of all of our interest-bearing bank and other borrowings before December 31, 2014, while we had interest-bearing bank and other borrowings of RMB783.0 million as of December 31, 2013, which we used for the construction of our Kunming plant. The decrease in our total current assets was primarily due to (i) a decrease in cash and cash equivalents primarily as a result of our loan repayment in 2014; (ii) a decrease of RMB524.8 million in inventory balance as of December 31, 2014 that resulted from the improvement in our inventory management; and (iii) a decrease of RMB93.0 million in prepayments, deposits and other receivables primarily because we received the payment of RMB58.5 million in 2014 in respect of our sale of prepaid land lease rights in 2013.

Our net current assets increased by 178.5% to RMB1,045.9 million as of December 31, 2013 from RMB375.6 million as of December 31, 2012, because the increase in our total current assets was greater than the increase in our total current liabilities. The increase in our total current assets was mainly attributable to (i) an increase in cash and cash equivalents mainly because our major customer made collective payments to us in early 2013 for its purchases in 2012 and in late 2013 for its purchases in 2013 and (ii) an increase in

FINANCIAL INFORMATION

prepayments, deposits and other receivables primarily due to increased purchases of raw materials and parts and components in line with our business expansion. The increase in our total current liabilities was primarily due to (i) an increase of RMB1,035.5 million in other payables and accruals mainly as a result of increased purchase orders we received for large railway track maintenance machinery and the collective payments made by the major customer in early 2013 for its purchases in 2012 and at the end of 2013 for its purchases in 2013 and (ii) an increase of RMB7.1 million in tax payable as a result of an increase in revenue from 2012 to 2013.

Inventories

As of December 31, 2012, 2013 and 2014 and June 30, 2015, inventories amounted to RMB1,886.5 million, RMB1,850.5 million, RMB1,325.7 million and RMB1,330.9 million, respectively, which represented 64.0%, 43.4%, 54.6% and 55.9% of our total current assets, respectively.

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

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and parts and components	712,492	736,925	579,329	651,208
Materials in transit	67,629	11,273	61,326	28,757
Work in progress	313,059	337,491	307,715	333,631
Finished goods	795,877	770,102	387,096	329,086
Provision for impairment	(2,596)	(5,286)	(9,764)	(11,774)
Total	<u>1,886,461</u>	<u>1,850,505</u>	<u>1,325,702</u>	<u>1,330,908</u>

Our raw materials and parts and components comprise principally steel and key parts and components for our working devices and systems. Materials in transit represent those raw materials and parts and components we purchased from suppliers that are still being transported as of the respective dates indicated above. Our finished goods primarily comprise various types of large railway track maintenance machines.

Inventories are stated at cost, which is calculated using the weighted average method, or at 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 is below their estimated net realizable value. Due to changes in market conditions, actual saleability of goods and practical usage of goods may be different from our estimations, which may affect our financial condition.

Our inventories remained stable at RMB1,330.9 million as of June 30, 2015 and RMB1,325.7 million as of December 31, 2014. Our inventories decreased by 28.4% to RMB1,325.7 million as of December 31, 2014 from RMB1,850.5 million as of December 31, 2013, primarily due to a decrease in the amount of finished goods in our inventory and a decrease in the amount of raw materials and parts and components in our inventory as a result of our efforts in improving inventory utilization efficiency. Our inventories decreased by 1.9% to RMB1,850.5 million as of December 31, 2013 from RMB1,886.5 million as of December 31, 2012, primarily due to a decrease in the amount of finished goods in our inventory as a result of product deliveries made in 2013.

FINANCIAL INFORMATION

The increase in provision for impairment for inventories during the Track Record Period was primarily caused by a temporary increase in aged stock of certain raw materials and parts and components due to an upgrade of certain machine models affecting the utilization of certain raw materials and parts and components.

As of October 31, 2015, RMB500.4 million, or 37% of our inventories, as of June 30, 2015 was utilized.

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

	Year ended December 31,			Six months ended June 30,
	2012	2013	2014	2015
	Inventory turnover days ⁽¹⁾	301	288	218

(1) Average inventory turnover days for the relevant periods is the average of opening and closing inventory balances divided by the cost of sales for that period and multiplied by 365 days (for 2012, 2013 and 2014) or 180 days (for the six months ended June 30, 2015).

The decrease in our inventory turnover days during the Track Record Period was mainly due to our efforts to improve the inventory utilization rate through adopting various measures to decrease our inventory level and reduce the lead time in purchasing relevant raw materials and parts and components used in production.

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.

The table below sets forth the components of our trade and bills receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivables	5,300	22,100	4,233	16,025
Trade receivables	446,542	451,571	580,147	770,157
Provision for impairment ⁽¹⁾	(21,001)	(28,567)	(32,159)	(28,828)
Total	430,841	445,104	552,221	757,354

(1) As of December 31, 2012, 2013 and 2014 and June 30, 2015, the ratio of provision for impairment (calculated by dividing the provision for impairment by trade receivables) was 4.7%, 6.3%, 5.5% and 3.7%, respectively. Our policy for impairment of trade receivables is based on the evaluation of collectability and the ageing analysis of trade receivables, as reassessed by our management. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of the customers. Our management reassesses the estimation at the end of each reporting period.

FINANCIAL INFORMATION

The increase in our trade receivables as of December 31, 2012, 2013 and 2014 primarily reflected the increase in our sales. As of June 30, 2015, our trade receivables increased as our major customer typically settles the payments under its purchase orders collectively at the end of the year or at the beginning of the year.

We generally offer a credit period of six months to CRC and its affiliates. We generally give our customers other than CRC a credit period of one month. However, based on the evaluation result and depending on our business development objectives, we may allow additional flexibility by offering a credit period of approximately six months to certain strategically important customers or customers with whom we have established a long-term relationship.

Our senior management regularly reviews the recoverability of our overdue balances and, when appropriate, provides for impairment of these trade receivables. Impairment losses in respect of trade 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 receivables directly. We generally receive payments on time as our customers are primarily large state-owned enterprises with good credit track records.

The following table sets forth an aging analysis of trade and bills receivables, based on the billing date and net of provisions, as of the dates indicated:

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	284,304	196,758	382,610	538,990
6 months to 1 year	39,557	86,663	46,966	99,846
1 to 2 years ⁽¹⁾	78,317	139,806	67,700	42,731
2 to 3 years ⁽¹⁾	16,785	12,607	44,171	67,881
Over 3 years ⁽¹⁾	11,878	9,270	10,774	7,906
Total	430,841	445,104	552,221	757,354

(1) The outstanding trade and bills receivables over one year are principally related to outstanding payments by the railway construction companies and certain CRC's affiliates. The outstanding payments over one year due by railway construction companies were primarily due to temporary shortfall of working capital experienced by such companies. The outstanding payments over one year due by certain CRC's affiliates were primarily because their certain demands of large railway track maintenance products had not been reflected in the procurement plan, and it takes time for such companies to complete their respective internal approval process. These railway construction companies and certain CRC's affiliates are all state-owned entities with good credit. During the Track Record Period, we did not experience any write-off for such outstanding trade and bills receivables.

As of December 31, 2012, 2013 and 2014 and June 30, 2015, we had provision for impairment losses in relation to trade and bills receivables of RMB21.0 million, RMB28.6 million, RMB32.2 million and RMB28.8 million, respectively. In addition, we reversed RMB1.8 million and RMB3.3 million of provisions to the trade and bills receivables previously made in 2012 and for the six months ended June 30, 2015.

As of October 31, 2015, RMB379.4 million, or 49%, of our trade receivables as of June 30, 2015 were settled.

FINANCIAL INFORMATION

The following table sets forth our trade and bills receivable turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2012	2013	2014	2015
	Trade and bills receivable turnover days ⁽¹⁾	54	50	52

(1) Average trade and bills receivable turnover days for the relevant periods is the average of opening and closing balances divided by the revenue for that period and multiplied by 365 days (for 2012, 2013 and 2014) or 180 days (for the six months ended June 30, 2015).

Our trade and bills receivable turnover days remained relatively stable for 2012, 2013 and 2014. Our trade and bills receivables turnover days increased to 66 days for the six months ended June 30, 2015, mainly due to the slower collection of bills and trade receivables in the first six months of 2015, as our major customer typically settles the payments under its purchase orders collectively at the end of the year or at the beginning of the year.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables mainly include prepayments to suppliers, bidding deposits and performance warranty deposits.

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

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits and other receivables	29,124	75,571	10,265	10,939
Provision for impairment of deposits and other receivables	(5,384)	(5,448)	(282)	(395)
Prepayments	36,124	44,451	46,441	27,023
Deductible input VAT	6,937	19,037	370	9,424
Prepaid urban construction tax	–	16,147	–	–
	66,801	149,758	56,794	46,991

Our prepayments, deposits and other receivables decreased by 17.3% to RMB47.0 million as of June 30, 2015 from RMB56.8 million as of December 31, 2014, primarily due to our receipt of goods for which we had previously prepaid in 2014. Our prepayments, deposits and other receivables increased by 124.2% from RMB66.8 million as of December 31, 2012 to RMB149.8 million as of December 31, 2013, primarily because we sold certain prepaid land lease rights in 2013 resulting in an increase of RMB58.5 million in other receivables. Our prepayments, deposits and other receivables decreased by 62.1% from RMB149.8 million as of

FINANCIAL INFORMATION

December 31, 2013 to RMB56.8 million as of December 31, 2014, primarily because we received the payment of RMB58.5 million in 2014 in respect of our sale of prepaid land lease rights in 2013.

Trade and Bills Payables

Our trade payables mainly comprise our payables to suppliers for purchases of raw materials and parts and components to be used in our products.

Our trade and bills payables increased from RMB822.2 million as of December 31, 2012 to RMB919.8 million as of December 31, 2013, and further to RMB966.5 million as of December 31, 2014. The increase in our trade payables during the Track Record Period was primarily due to the expansion of our business operations to meet the increasing demand for our products. Our trade and bills payables decreased to RMB879.2 million as of June 30, 2015 from RMB966.5 million as of December 31, 2014, primarily because we settled some of our outstanding invoices under our trade contracts.

Normally, our trade and bills payable are settled within 60 days. Some suppliers may allow a credit period of more than three months based on their long-term relationship with us and our good credit track record.

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

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	770,630	790,336	794,760	724,044
6 months to 1 year	44,884	107,313	166,115	150,594
1-2 years	5,242	15,922	2,044	1,169
2-3 years	416	4,923	561	559
Over 3 years	1,063	1,336	2,976	2,822
Total	<u>822,235</u>	<u>919,830</u>	<u>966,456</u>	<u>879,188</u>

FINANCIAL INFORMATION

The following table sets forth our trade and bills payable turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2012	2013	2014	2015
	Trade and bills payable turnover days ⁽¹⁾	121	134	130

(1) Average trade and bills payable turnover days for the relevant periods is the average of opening and closing balances divided by the cost of sales for that period and multiplied by 365 days (for 2012, 2013 and 2014) or 180 days (for the six months ended June 30, 2015).

The increase in our trade and bills payable turnover days from 121 days in 2012 to 134 days in 2013 was primarily due to longer credit terms from our suppliers as a result of our good credit track record. Our trade and bills payable turnover days in 2013 and 2014 principally remained stable. Our trade and bills payable turnover days decreased to 121 days for the six months ended June 30, 2015 from 130 days in 2014, primarily because we settled some of our outstanding invoices under our trade contracts in the six months ended June 30, 2015, resulting in the decrease in turnover days for the same period.

As of October 31, 2015, approximately RMB210.6 million or 30% of our trade payables outstanding as of June 30, 2015 were paid.

Other Payables and Accruals

Our other payables and accruals mainly comprise receipts in advance, payables for staff costs, payables for taxes and surcharges and other accruals and payables. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our other payables and accruals were RMB450.7 million, RMB1,486.1 million, RMB279.3 million and RMB258.9 million, respectively.

The following table sets forth the components of our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Advance from customers	268,546	1,305,006	147,181	62,087
Accrued salaries, wages and benefits	57,494	46,458	18,715	10,672
Dividends payable	–	–	–	115,589
Dividends payable to non-controlling shareholders	–	2	587	2,524
Other tax payables	27,060	19,131	54,838	3,974
Other payables	97,584	115,547	57,963	64,006
Total	450,684	1,486,144	279,284	258,852

FINANCIAL INFORMATION

Our other payables and accruals decreased by 7.3% to RMB258.9 million as of June 30, 2015 from RMB279.3 million as of December 31, 2014, primarily due to (i) a decrease of RMB85.1 million in advances from customers mainly because our major customer typically makes its advance payments on its purchase orders collectively at the end of the year or at the beginning of the year and (ii) a decrease of RMB50.9 million in other tax payables mainly because we delivered a larger proportion of products at the end of the year rather than in the first six months of the year, resulting in a larger amount of value-added tax payable in respect of such product deliveries as of December 31, 2014 compared to June 30, 2015, which was partially offset by an increase of RMB115.6 million in dividends payable as a result of the proposed payment of the special dividend based on our consolidated net profit for the period from April 1, 2015 to June 30, 2015.

Our other payables and accruals substantially decreased by 81.2% to RMB279.3 million as of December 31, 2014 from RMB1,486.1 million as of December 31, 2013, primarily due to a substantial decrease of RMB1,157.8 million in advances from customers, mainly because (i) our major customer reduced its advances for purchases of large railway track maintenance machines and (ii) our major customer typically invites tenders for collective purchases at the end of the year and makes collective payments at the end of the year or the beginning of the next year, according to product deliveries, and we received the collective payments in 2013 but not in 2014.

Our other payables and accruals increased by 229.8% to RMB1,486.1 million as of December 31, 2013 from RMB450.7 million as of December 31, 2012, primarily due to (i) the increased purchase orders we received from customers for our large railway track maintenance machines and (ii) the collective payment from our major customer at the beginning of 2013 for its purchases in 2012 and at the end of 2013 for its purchases in 2013.

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 of June 30, 2015, our borrowings were nil. The following table sets forth the components of our current interest-bearing borrowings as at the dated indicated:

	As of December 31,			As of	As of
	2012	2013	2014	June 30,	October 31,
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	330,000	13,000	–	–	195,000
Other loans	950,000	770,000	–	–	–
Total	1,280,000	783,000	–	–	195,000

As of December 31, 2012, 2013 and 2014 and June 30, 2015, all of our bank loans and other loans were unsecured.

FINANCIAL INFORMATION

Our bank loans were incurred primarily for working capital. Other loans represent borrowings from our controlling shareholder that we used for the construction of our Kunming plant, which we fully repaid in 2014.

As of October 31, 2015, the latest practicable date for stating our indebtedness statement, we had RMB2,750.0 million of bank facilities available, of which RMB1,113.6 million was unutilized and unrestricted.

As of October 31, 2015, the latest practicable date for stating our indebtedness statement, we did not have any issued but unredeemed, or any authorized or otherwise created but not issued, debt securities, term loans, acceptance liabilities (except general trading bills), acceptance credit, hire purchase commitments, mortgages and pledges, material contingent liabilities or unperformed guarantees.

The table below sets forth details of our bank loans incurred since July 1, 2015 to the Latest Practicable Date:

<u>Lending bank</u>	<u>Amount</u>	<u>Term</u>	<u>Interest rate</u>	<u>Key covenants</u>
Industrial and Commercial bank	RMB195.0 million	Six months	Floating interest rate	Among other customary covenants included in commercial bank loan agreements, we are required to obtain the lender's written consent or make arrangements satisfactory to the lender, if we intend to carry out merger, split, capital reduction, changes in ownership, transfer of significant assets and debt, significant investment, a substantial increase in the debt financing and other actions that may adversely affect the interests the lender.
China CITIC Bank	RMB350.0 million	One year	Floating interest rate	Among other customary covenants included in commercial bank loan agreements, we are required to provide thirty-day advanced notice to the lender and repay the loans and interests or provide other arrangements as instructed by the lender, if our operating system or form of management changes or may change, including but not limited to conversion, reorganization, merger, joint ventures, change of business scope and registered capital. In addition, we are required to inform in writing to the lender of any existing or proposed connected transactions which constitute no less than 10% of our net assets.

As of October 31, 2015 and the Latest Practicable Date, our interest-bearing bank and other borrowings was RMB195.0 million and RMB545 million, respectively. We intend to repay such bank loans with cash flow from our operating activities.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that, to the best of their knowledge, we have not made any material defaults in the

FINANCIAL INFORMATION

payment of trade and non-trade payables or bank borrowings or any defaults in the material financial covenants.

Save as otherwise disclosed herein, our Directors confirm that, from June 30, 2015 to the date of this prospectus, there has been no material change in our indebtedness.

CONTINGENT LIABILITIES

Other than as disclosed above, as of the Latest Practicable Date, we did not have any material purchase commitments, guarantees or other material contingent liabilities.

COMMITMENTS

Operating Leases

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

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	629	210	763	673
2-3 years	215	–	1,024	563
Total	844	210	1,787	1,236

Capital Commitments

In addition to the operating lease commitments, we had the following capital commitments for the acquisition of property, plant and equipment and purchase of intangible assets as of the dates indicated:

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for	2,299	–	3,908	–
Authorized but not contracted for	–	11,250	–	–
	2,299	11,250	3,908	–

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any off-balance sheet arrangements.

FINANCIAL INFORMATION

FINANCIAL RATIOS

The table below sets forth a summary of our key financial ratios during the Track Record Period:

Financial ratio	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2012	2013	2014	2015
Current ratio ⁽¹⁾	115%	133%	188%	203%
Quick ratio ⁽²⁾	41%	75%	86%	90%
Gearing ratio ⁽³⁾	67%	31%	0%	0%
Return on total assets ⁽⁴⁾	5%	6%	7%	11%
Return on equity ⁽⁵⁾	12%	13%	13%	15%

- (1) Current ratio equals current assets divided by current liabilities as of the end of the period.
- (2) Quick ratio equals current assets (excluding inventory) divided by current liabilities as of the end of the period.
- (3) Gearing ratio equals total interest-bearing bank and other borrowings divided by total equity as of the end of the period.
- (4) Return on total assets equals annual/annualized profit divided by average balance of our total assets for the beginning and the end of the year/period.
- (5) Return on equity equals annual/annualized profit divided by average balance of our total equity for the beginning and the end of the year/period.

Current ratio

Our current ratio increased from 115% as of December 31, 2012 to 133% as of December 31, 2013, primarily due to the increase in our current assets. The current ratio further increased to 188% as of December 31, 2014, mainly because the decrease in the current liabilities exceeded the decrease in current assets. Our current ratio increased to 203% as of June 30, 2015 from 188% as of December 31, 2014, mainly because the decrease in the current liabilities exceeded the decrease in current assets. See “– Net Current Assets” for further details of changes in our current assets and current liabilities over the Track Record Period.

Quick ratio

The continued increase in our quick ratio during the Track Record Period was mainly attributable to the effect of (i) the increase in our current assets in 2013, (ii) the decrease in current liabilities in 2014 and the six months ended June 30, 2015 exceeding the decrease in

FINANCIAL INFORMATION

current assets in 2014 and the six months ended June 30, 2015, respectively and (iii) the decrease in our inventory as of December 31, 2013 and 2014. See “– Net Current Assets” for further details of changes in our current assets and current liabilities over the Track Record Period.

Gearing ratio

The gearing ratio decreased from 67% as of December 31, 2012 to 31% as of December 31, 2013, and further decreased to nil and nil as of December 31, 2014 and June 30, 2015, respectively, due to the continuous decrease in interest-bearing bank and other borrowings during the Track Record Period. As of December 31, 2014 and June 30, 2015, we did not have any interest-bearing bank and other borrowings. For details, see “– Indebtedness.”

Return on total assets

Our return on total assets was 5%, 6%, 7% and 11% in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. The variations in our return on total assets primarily reflected changes in our profit levels for the corresponding years or periods. For details, see “– Description of Selected Components of Our Income Statements.”

Return on equity

Our return on equity was 12%, 13%, 13% and 15% in 2012, 2013 and 2014 and for the six months ended June 30, 2015, respectively. The variations in our return on equity primarily reflected changes in our profit levels for the corresponding years and periods. For details, see “– Description of Selected Components of Our Income Statements.”

LISTING EXPENSES

By the completion of the Global Offering, we expect to incur listing expenses of approximately RMB129.4 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, including underwriting commissions and maximum discretionary incentive fees, where applicable), of which an estimated amount of approximately RMB11.6 million will be recognized as our administrative expenses and an estimated amount of approximately RMB117.8 million will be recognized directly in equity. As of June 30, 2015, we incurred approximately RMB5.0 million of listing expenses for the Global Offering, which was recognized as our administrative expenses. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our Directors do not expect such expenses to materially impact our results of operations for 2015.

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.

FINANCIAL INFORMATION

Credit risk

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

We only trade with recognized and creditworthy customers with no requirement for collateral. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. As our major customers are either PRC government agencies at the national, provincial and local levels or other SOEs, we believe that they are reliable and of high credit quality and, hence, there is no significant credit risk arising from these customers. Our senior management reviews and assesses the creditworthiness of our existing customers on an ongoing basis.

Liquidity risk

Our objective is to ensure continuity of sufficient funding and funding 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 longer terms.

In addition, we actively and regularly review and manage our capital structure to maintain a balance between higher equity returns that might be associated with a higher level of borrowings and the advantages and security provided by maintaining a sound capital position. We make adjustments to the capital structure in light of changes in economic conditions. No changes were made in the objectives, policies or procedures for managing capital in 2012, 2013 and 2014 and for the six months ended June 30, 2015.

Interest rate risk

We are exposed to the risk of changes in market interest rates relating primarily to our interest-bearing bank borrowings with a variable interest rate. We review and monitor our 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.

As of December 31, 2012 and 2013, floating interest rate borrowings accounted for about 22% and 98% of our borrowings, respectively, and fixed interest rate borrowings accounted for about 78% and 2%, respectively. As of December 31, 2014 and June 30, 2015, no borrowings were made by us. As of December 31, 2012 and 2013, it was estimated that with a general increase/decrease of 1% in interest rates of net floating rate borrowings, with all other variables

FINANCIAL INFORMATION

held constant, our profit before tax would have decreased/increased by approximately RMB0.3 million and RMB1.2 million, respectively. Other components of our consolidated profit and loss 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. As our business was mainly focused on the PRC market during the Track Record Period, our revenue and expenses are mainly denominated in Renminbi and over 95% of our financial assets and liabilities are denominated in Renminbi. However, we normally use foreign currencies to settle our purchase of machinery and equipment from overseas suppliers and we may also use foreign currencies in our future overseas operations. In 2012, 2013, 2014 and for the six months ended June 30, 2015, purchase costs that were denominated in foreign currencies amounted to approximately 19.7%, 23.3%, 21.9% and 27.1% of the total purchase costs for the same period, respectively. No representation is made that the foreign currency-denominated amounts have been, could have been or may be converted to Renminbi, or vice versa, at the exchange rates we used in the calculation.

Renminbi 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 revenue from our sales which are denominated in foreign currency. See “Risk Factors – Risks relating to the PRC – The PRC government’s control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares,” and “Risk Factors – Risks relating to the PRC – Future fluctuations in the value of the Renminbi could have a material adverse effect on our financial condition and results of operations.”

For details on our recognized assets (referring to cash and cash equivalents and pledged deposits) denominated in foreign currencies, primarily the Euro and U.S. dollars, see Notes 23 in the Accountants’ Report included in Appendix I to this prospectus.

DIVIDEND POLICY

In 2012, 2013 and 2014, our Company distributed dividends of approximately RMB70.6 million, RMB65.8 million and RMB70.0 million, respectively. In March 2015, we declared dividends of RMB69.9 million, which we paid to our Shareholders in April 2015 by cash. Our Articles of Association provide that dividends may be paid in 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. We expect that the profit to be distributed in cash every year will be approximately 20-40% of the distributable profit (being the lower of the amounts determined in accordance with PRC GAAP and the IFRSs). The amounts of dividends to be declared and paid will depend on the following factors: our general business condition and results of operations, our financial results, our working capital, our capital requirements, our future prospects, our cash flow and any other factors which our Board may deem relevant. In principle, we distribute our dividend once a year. We may declare interim dividend distributions, taking into account the factors that our Board deems relevant.

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 dividend payments will be the lesser of (i) the net profit

FINANCIAL INFORMATION

determined in accordance with the accounting rules and regulations of the PRC and (ii) the net profit determined in accordance with IFRSs. 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.

DIVIDEND DISTRIBUTION PRIOR TO THE LISTING

In accordance with the resolutions of the Shareholders' meeting dated June 24, 2015 and November 16, 2015, respectively, our accumulated distributable profits prior to the Global Offering are distributed as follows:

- (i) Our existing Shareholders were entitled to a dividend of RMB182.6 million, which amounted to the accumulated distributable profits of our Group as of March 31, 2015.
- (ii) Our existing Shareholders were entitled to a special dividend of RMB115.6 million, which was determined based on our consolidated net profits attributable to equity owner/shareholders of our Company for the period from April 1, 2015 to June 30, 2015.
- (iii) Our Company intends to reserve the accumulated profits from July 1, 2015 to the last day immediately prior to the Listing for the distribution of dividends to our existing and new Shareholders. The actual amount of such dividends will be determined upon the completion of the audit of our financial statements for the year ending December 31, 2015.

We paid the dividend and special dividend as described respectively in (i) and (ii) above with bank borrowings and cash at hand on November 27, 2015.

DISTRIBUTABLE RESERVES

As of June 30, 2015, the aggregate amount of distributable reserves of our Group was approximately RMB182.6 million (being the retained profits of our Group).

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following 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 of June 30, 2015 as if the Global Offering had taken place on June 30, 2015.

FINANCIAL INFORMATION

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 of June 30, 2015 or at any future date.

	Consolidated net tangible assets attributable to Shareholders of the Company as of June 30, 2015⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company upon completion of the Global Offering⁽³⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company per Share upon completion of the Global Offering⁽⁴⁾	
	RMB'000	RMB'000	RMB'000	RMB⁽⁵⁾	HK\$⁽⁶⁾
Based on an Offer Price of HK\$5.21 per Share	2,929,816	2,159,195	5,089,011	3.35	4.06
Based on an Offer Price of HK\$5.76 per Share	2,929,816	2,390,318	5,320,134	3.50	4.25

- (1) The consolidated net tangible assets attributable to the Shareholders of our Company as of June 30, 2015 is extracted from the Accountants' Report set out in Appendix I in this prospectus, which is based on the consolidated net assets attributable to the Shareholders of our Company as of June 30, 2015 of RMB2,935.6 million after deducting intangible assets of RMB5.8 million. For the avoidance of doubt, the consolidated net tangible assets attributable to the Shareholders of our Company as of June 30, 2015 have reflected the special dividend representing the retained profits of our Group earned and accrued from April 1, 2015 to June 30, 2015 as declared by our Company pursuant to the special dividend resolution on June 24, 2015. Pursuant to the dividend resolution on November 16, 2015, our Company declared a dividend of RMB182.6 million, which amounted to the accumulated distributable profits of our Group as of March 31, 2015. See footnotes 3 and 4 hereto for the pro forma information of the adjusted consolidated net tangible assets attributable to the Shareholders of our Company after taking into account the effect of the dividend which amounted to the accumulated distributable profits of our Group as of March 31, 2015.
- (2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK\$5.21 and HK\$5.76, after deducting the underwriting fees and other related expenses payable by our Company, without taking account of the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted into Renminbi at the PBOC rate of HK\$1.00 = RMB0.82406 prevailing on November 23, 2015.
- (3) If taking into account the effect of the dividend of RMB182.6 million, which amounted to the accumulated distributable profits of our Group as of March 31, 2015, the unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company would be RMB4,906,430,000 (based on an Offer Price of HK\$5.21 per Share), or RMB5,137,553,000 (based on an Offer Price of HK\$5.76 per Share).
- (4) If taking into account the effect of the dividend of RMB182.6 million, which amounted to the accumulated distributable profits of our Group as of March 31, 2015, the unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of our Company per Share would be RMB3.23 or HK\$3.92 (based on an Offer Price of HK\$5.21 per Share), or RMB3.38 or HK\$4.10 (based on an Offer Price of HK\$5.76 per Share).
- (5) The unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of our Company per Share is arrived by dividing the unaudited pro forma adjusted net tangible assets by 1,519,884,000 Shares, being the number of shares in issue assuming that the Global Offering had been completed on June 30, 2015, without taking account of the exercise of the Over-allotment Option.

FINANCIAL INFORMATION

- (6) The unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of our Company per Share amounts in RMB are converted into Hong Kong dollars at HK\$1.00 = RMB0.82406 prevailing on November 23, 2015.

PROPERTY VALUATION

JLL, an independent property valuer, has valued our property at No. 384 Yangfangwang, Jinma Town, Guandu District, Kunming, Yunnan Province, China as of September 30, 2015. The information below is extracted from JLL’s valuation report, as contained in the property valuation report included in Appendix III to this prospectus, which is a summary of the valuation of such property and key parameters used by JLL during the valuation process. For details of the valuation and the key parameters used by JLL during the valuation process, see “Appendix III – Property Valuation Report” in this prospectus. The market value used by JLL was based on multiple assumptions subject to changes, which could serve to affect the market value. See “Risk Factors – Risks Relating to Our Industry and Business Operations – The appraised value of our properties may be different from their actual realizable value and is subject to change.”

<u>Property</u>	<u>Market value in existing state as of September 30, 2015</u>	<u>Valuation method and key parameters</u>
Four parcels of land, 42 buildings and various structures located at No. 384 Yangfangwang Jinma Town Guandu District Kunming City Yunnan Province The PRC	RMB823,892,000	Due to the nature of the property and the particular location in which it is situated, there are unlikely to be relevant market comparable sales readily available. The property interest has therefore been valued by Cost Approach with reference to its depreciated replacement cost. Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

A reconciliation of our selected property interests as of September 30, 2015 and such property interests in our consolidated financial statements as of June 30, 2015 as required under Rule 5.07 of the Listing Rules is set forth below:

	(RMB in millions)
Net book value as of June 30, 2015	810.49
Deductions	(6.47)
Net book value as of September 30, 2015	804.02
Valuation surplus/deficit as of September 30, 2015	19.87
Valuation of selected property interests as of September 30, 2015	823.89

FINANCIAL INFORMATION

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

Our Directors confirm that, as of 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

It is the view of our Directors that each of the related-party transactions set out in Note 35 in the Accountants' Report included in Appendix I to this prospectus was conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties or terms, which are considered fair, reasonable and in the interest of our Company and our Shareholders as a whole.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, as of the date of the prospectus, there has been no material adverse change in our financial or trading position since June 30, 2015 (being the date to which our Company's latest consolidated audited financial results were prepared), and there is no event since June 30, 2015 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For a detailed description of our future plans, see “Business – Our Business Strategies.”

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$2,760.4 million (assuming an Offer Price of HK\$5.485 per H share, being the mid-point of the Offer Price range stated in this prospectus) (equivalent to approximately RMB2,274.8 million), after deducting the underwriting commissions and estimated expenses payable by us in relation to the Global Offering, and assuming no exercise of the Over-allotment Option.

Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

- approximately HK\$1,104.2 million (equivalent to approximately RMB909.9 million), representing approximately 40% of the net proceeds from the Global Offering, will be used for the construction of our International Technology Cooperation Center Project, including acquisition of land, construction of infrastructure and purchase of equipment. Our estimated investment on the International Technology Cooperation Center Project is approximately RMB1.4 billion, including approximately RMB263.7 million on acquisition of land, RMB475.6 million on construction of infrastructure, RMB514.0 million on purchase of equipment and RMB198.9 million on miscellaneous expenses;
- approximately HK\$828.1 million (equivalent to approximately RMB682.4 million), representing approximately 30% of the net proceeds from the Global Offering, will be used for upgrading our business network by developing our sales offices into 4S stores that integrate functions of sales, service, spare parts and survey, so as to provide comprehensive customer services and systemic solutions to our large railway track maintenance machine customers. We intend to upgrade our existing sales offices in Beijing, Kunming, Shanghai and Xi’an into 4S stores, establish two 4S stores in Wuhan and Guangzhou by the end of 2016 and another two 4S stores subsequently in Chengdu and Shenyang. Such upgrade and establishment of 4S stores are expected to cost approximately RMB531.5 million. Extra amounts will be set aside in response to possible contingencies that may arise during the upgrade and establishment of 4S stores.
- approximately HK\$552.1 million (equivalent to approximately RMB455.0 million), representing approximately 20% of the net proceeds from the Global Offering, will be used for general domestic and overseas acquisitions that, among others, relate to the large railway track maintenance machinery industry, and will enable us to strengthen and complement our core value chain. As of the Latest Practicable Date, we have not yet identified any targets to be acquired or entered into any definitive agreement with any party to acquire any business or entity. We place particular emphasis on exploring acquisition targets, potentially located in Europe, with high growth potential that engage in large railway track maintenance machinery research

FUTURE PLANS AND USE OF PROCEEDS

and development, as we believe that such acquisitions will serve as the means for us to directly satisfy the European large railway track maintenance machinery product qualifications and enter into the European large railway track maintenance machinery market; and

- approximately HK\$276.0 million (equivalent to approximately RMB227.5 million), representing not more than 10% of the net proceeds from the Global Offering, will be used to supplement working capital.

If the Offer Price is fixed at HK\$5.76 per H Share, being the high end of the Offer Price range stated in this prospectus and assuming no exercise of the Over-allotment Option, the net proceeds will be increased by approximately HK\$140.2 million. If the Offer Price is fixed at HK\$5.21 per H Share, being the low end of the Offer Price range stated in this prospectus and assuming no exercise of the Over-allotment Option, the net proceeds will be reduced by approximately HK\$140.2 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes accordingly.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) HK\$443.0 million (assuming an Offer Price of HK\$5.76 per H Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK\$421.9 million (assuming an Offer Price of HK\$5.485 per H Share, being the mid-point of the Offer Price range stated in this prospectus), (iii) HK\$400.7 million (assuming an Offer Price of HK\$5.21 per H Share, being the low-end of the Offer Price range stated in this prospectus).

Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purpose accordingly on a pro rata basis in the event that the Over-allotment Option is exercised. If any part of our plan does not proceed as planned for reasons such as changes in government policies that would render any of our plans not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering. To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, they will be placed in short-term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

OUR CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investor agreements with three cornerstone investors (the “Cornerstone Investors”) who have agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of HK\$407.1 million.

Assuming an Offer Price of HK\$5.21 (being at the low end of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be approximately 78,139,000 H Shares, representing approximately (i) 14.69% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 5.14% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 4.88% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$5.485 (being at the approximate mid-point of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be approximately 74,221,500 H Shares, representing approximately (i) 13.95% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 4.88% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 4.64% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$5.76 (being at the high end of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be approximately 70,678,000 H Shares, representing approximately (i) 13.29% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 4.65% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 4.42% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and is not our connected person (as defined in the Listing Rules). The Cornerstone Investors will acquire the Offer Shares pursuant to, and as part of, the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company. None of the Cornerstone Investors will have any representation on the Board or becomes a substantial Shareholder of our Company upon completion of the Global Offering and will not subscribe for any Offer Shares under the Global Offering other than pursuant to the cornerstone investor agreements referred to below.

The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering – The Hong Kong Public Offering –

OUR CORNERSTONE INVESTORS

Reallocation” in this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around December 15, 2015.

OUR CORNERSTONE INVESTORS

We set out below a brief description of our Cornerstone Investors:

CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited

CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited (“CSR ZELRI (Hong Kong)”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$30 million at the Offer Price. Assuming the Offer Price of HK\$5.21, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that CSR ZELRI (Hong Kong) would subscribe for would be 44,629,500, representing approximately 2.94% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$5.485, being the approximate mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CSR ZELRI (Hong Kong) would subscribe for would be 42,392,000, representing approximately 2.79% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$5.76, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that CSR ZELRI (Hong Kong) would subscribe for would be 40,368,000, representing approximately 2.66% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised.

CSR ZELRI (Hong Kong) was incorporated on May 31, 2012 in Hong Kong and is 100% owned by CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (“CSR ZELRI”) and an oversea investment platform of CSR ZELRI. CSR ZELRI is a wholly-owned subsidiary of CRRC Corporation Limited, which is one of the largest rolling stock suppliers in the world and listed on the Shanghai Stock Exchange and the Stock Exchange (A share stock code: 601766, H share stock code: 1766). CSR ZELRI has four business segments, namely electrical drive automation, application of polymer based composite, new energy equipment and power electronic (fundamental) circuits.

Jiantou Investment (Hong Kong) Limited

Jiantou Investment (Hong Kong) Limited (“JIC (Hong Kong)”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of RMB80 million at the Offer Price. Assuming the Offer Price of HK\$5.21, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that JIC (Hong Kong) would subscribe for would be 18,633,000, representing approximately 1.23% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised.

OUR CORNERSTONE INVESTORS

Assuming the Offer Price of HK\$5.485, being the approximate mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that JIC (Hong Kong) would subscribe for would be 17,699,000, representing approximately 1.16% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$5.76, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that JIC (Hong Kong) would subscribe for would be 16,854,000, representing approximately 1.11% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised.

JIC (Hong Kong) is a wholly-owned subsidiary of JIC Investment Co., Ltd. (“JIC Investment”). JIC Investment is a state-owned enterprise established in Beijing and mainly engaged in direct equity investment and fund management. JIC Investment is a wholly-owned subsidiary of China Jianyin Investment Limited (“JIC”), an integrated investment group incorporated in PRC. JIC uses equity investment as its major business strategy and is a wholly-owned subsidiary of Central Huijin Investment Ltd.

Yunnan Energy Financial Holding Co., Ltd.

Yunnan Energy Financial Holding Co., Ltd. (“Yunnan Energy Finance”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$10 million at the Offer Price. Assuming the Offer Price of HK\$5.21, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that Yunnan Energy Finance would subscribe for would be 14,876,500, representing approximately 0.98% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$5.485, being the approximate mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Yunnan Energy Finance would subscribe for would be 14,130,500, representing approximately 0.93% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$5.76, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that Yunnan Energy Finance would subscribe for would be 13,456,000, representing approximately 0.89% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised.

Yunnan Energy Finance was incorporated in the PRC in July 2013. Its main businesses include investment and management of equity and bonds, entrusted asset management and economic data consulting services. Yunnan Energy Finance is a wholly owned subsidiary of Yunnan Provincial Energy Investment Group Co., Ltd. (“Yunnan Energy Investment Group”). Yunnan Energy Investment Group is a state owned enterprise supervised by the State-owned Asset Supervision and Administration Commission of Yunnan Provincial People’s Government. Its main businesses include investment and management of energy, including electric power, natural gas and coal; investment and management of electric power related businesses and products, including environmental protection and new energy; and investment in petroleum, gas and pipeline network projects.

OUR CORNERSTONE INVESTORS

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements;
- (b) the Listing Committee having granted the listing of, and permission to deal in, the H Shares and that such approval or permission not having been revoked prior to the commencement of dealings in the H Shares;
- (c) no relevant laws or regulations shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or in the cornerstone investment agreements, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (d) the respective representations, warranties, undertakings and confirmations of the relevant Cornerstone Investor under the relevant cornerstone investment agreement are accurate and true in all respects and not misleading and that there is no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON DISPOSAL OF H SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “Lock-up Period”), dispose of any of the H Shares they have purchased pursuant to the relevant cornerstone investor agreements, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

UNDERWRITING

HONG KONG UNDERWRITERS

CLSA Limited
Deutsche Bank AG, Hong Kong Branch
China International Capital Corporation Hong Kong Securities Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse. The Global Offering comprises the Hong Kong Public Offering of initially 53,190,000 Hong Kong Offer Shares and the International Offering of initially 478,710,000 International Offer Shares, in each case, subject to reallocation on the basis as described in the section “Structure of the Global Offering” as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on December 2, 2015. Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (i) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering on the Main Board of the Stock Exchange and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us agreeing upon the Offer Price), the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If any of the events set out below occurs at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Stock Exchange:

there shall develop, occur, exist or come into effect:

- (i) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, any member of the European Union, Japan, Singapore or any other jurisdiction relevant to any member of the Group (collectively, the “Relevant Jurisdictions”); or
- (ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, investment markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or
- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (iv) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of the Company or any other member of the Group or our controlling shareholders listed or quoted on a stock exchange; or
- (v) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC, the European

UNDERWRITING

- Union (or any member thereof), Japan, Singapore or any other Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of the Relevant Jurisdictions; or
- (vi) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or
 - (vii) the imposition of economic sanctions, or the withdrawal of trading privileges, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
 - (viii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the RMB against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
 - (ix) any proceedings of any third party being threatened or instigated against any member of the Group; or
 - (x) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
 - (xi) the chairman or chief executive officer of the Company vacating his office; or
 - (xii) an authority or a political body or organization in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
 - (xiii) a contravention by any member of the Group of the Listing Rules or applicable laws; or
 - (xiv) a prohibition on the Company from offering, allotting, issuing or selling any of the H Shares (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
 - (xv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any

UNDERWRITING

aspect of the Global Offering with the Listing Rules or any other applicable laws; or

- (xvi) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the H Shares) pursuant to the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (xviii) any change or development or event involving a prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xix) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group;

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator and the Sole Sponsor (A) has or will have or may have a material adverse effect on the assets, liabilities, business, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (C) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (D) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

there has come to the notice of the Sole Global Coordinator or the Sole Sponsor:

- (i) that any statement contained in any of this prospectus or the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or authorized to be used by or on behalf of the Company in connection with the Hong Kong Public Offering

UNDERWRITING

(including any supplement or amendment thereto) was, when it was issued, or has become, untrue or incorrect in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in this prospectus or the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or authorized to be used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from this prospectus or the Application Forms or any notices, announcements, advertisements, communications or other documents issued or authorized to be used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- (iv) any event, act or omission which gives or is likely to give rise to any liability of the Company pursuant to the Hong Kong Underwriting Agreement; or
- (v) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Company and the other members of the Group, taken as a whole; or
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect or misleading in any respect, any of the representations, warranties, agreements and undertakings of the Company as set out in the Hong Kong Underwriting Agreement; or
- (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the H Shares to be issued or sold (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

UNDERWRITING

- (ix) any person (other than the Sole Sponsor) has withdrawn or is subject to withdraw its consent to being named in this prospectus or to the issue of this prospectus;

then the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor, after consulting the Company to the extent reasonably practicable, shall be entitled by written notice to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

(A) *Undertakings by the Company*

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that it will not issue any further H Shares or other securities convertible into equity securities of the Company (whether or not of a class already listed) or enter into any agreement or arrangement to such issue within six months from the Listing Date (whether or not such issue of H Shares or such other securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or under any of the circumstances provided under Rule 10.08 of the Listing Rules.

(B) *Undertakings by the Controlling Shareholders*

Pursuant to Rule 10.07 of the Listing Rules, each of the controlling shareholders has undertaken to the Stock Exchange and to the Company that they will not and will procure that the relevant registered holder(s) will not:

- (i) in the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the H Shares commence on the Stock Exchange (the “First Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares of the Company; or
- (ii) in the period of six months commencing from the expiry of the First Six-Month Period (the “Second Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares referred to in paragraph (i) above, and to such extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the controlling shareholders has undertaken to the Stock Exchange and to the Company that, within the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges and/or charges any shares or other securities of the Company beneficially owned by it in favor of an authorized institution (as defined in the

UNDERWRITING

Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company, the Sole Global Coordinator and the Sole Sponsor in writing of such pledge and/or charge together with the number of Shares or other securities so pledged and/or charged; and

- (b) when it receives any indications, either verbal or written, from the pledgee or chargee of any Shares or other securities of the Company pledged or charged that any of such Shares or securities will be disposed of, immediately inform the Company, the Sole Global Coordinator and the Sole Sponsor in writing of such indications.

We will also, as soon as we have been informed of the above matters (if any) by the controlling shareholder, inform the Stock Exchange and disclose such matters as soon as possible by way of an announcement to be published as required under the Listing Rules.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by the Company

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the First Six-Month Period, the Company hereby undertakes to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor not to, and to procure each other member of the Group not to, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable or any interest in any of the foregoing), or deposit any H Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without

UNDERWRITING

limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable or any interest in any of the foregoing); or

- (iii) enter into any transaction with the same economic effect as any transaction specified in clause (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in clause (i), (ii) or (iii) above;

in each case, whether any of the transactions specified in clause (i), (ii) or (iii) above is to be settled by delivery of H Shares or other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such H Shares or other shares or securities will be completed within the First Six-month Period). During the Second Six-Month Period, the Company shall not enter into any of the transactions specified in clause (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction such that any controlling shareholder, directly or indirectly, would cease to be a controlling shareholder of the Company. In the event that the Company enters into any of the transactions specified in clause (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Hong Kong Underwriters' Interests in the Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and save as disclosed in this prospectus, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested legally or beneficially, directly or indirectly, in any H Shares or other securities of the Company or any other member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any H Shares or other securities of the Company or any other member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, the Company expects to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement and subject to the Over-allotment Option, the

UNDERWRITING

International Underwriters or their respective affiliates would, subject to certain conditions set out therein, severally agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering – The International Offering” for further details.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require us to offer up to an aggregate of 79,785,000 H Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any.

Commissions and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price of the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commission. For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to amount in aggregate to approximately HK\$157.0 million (assuming an Offer Price of HK\$5.485 per Offer Share (which is the mid-point of the indicative Offer Price range), the Over-allotment Option is not exercised and the full payment of a discretionary incentive fee), are payable and borne by the Company.

Indemnity

The Company has agreed to indemnify the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them for certain losses which they may suffer or incur, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor is an indirect wholly-owned subsidiary of CITIC Securities Company Limited, in which 15.59% of the outstanding shares were indirectly owned by CITIC Limited as

UNDERWRITING

of the Latest Practicable Date. China CITIC Bank Corporation Limited (“China CITIC Bank”), a subsidiary of CITIC Limited, has granted a bank loan of RMB350 million to the Company. As China CITIC Bank does not form part of the sponsor group, the fact that it has granted a bank loan to the Company will not impair the independency of the Sole Sponsor. Based on the foregoing facts and taking into consideration all the other criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules, the Sole Sponsor is of the view that it satisfies the independence criteria applicable in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “Syndicate Members”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any

UNDERWRITING

transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of initially 53,190,000 H Shares (subject to adjustment as mentioned below) for subscription by the public in Hong Kong as described in the section “The Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of 478,710,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in accordance with Regulation S as described in “The International Offering” below.

Investors may either:

- (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The Offer Shares will represent approximately 35.00% of the issued share capital of the Company immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 38.24% of the issued share capital of the Company immediately following the completion of the Global Offering.

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 53,190,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. The number of H Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 3.50% of the issued share capital of the Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers,

STRUCTURE OF THE GLOBAL OFFERING

dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the section “Conditions of the Global Offering” below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A (26,595,000 Offer Shares) and pool B (26,595,000 Offer Shares) with any odd board lots being allocated to pool A. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 26,595,000 Hong Kong Offer Shares (being 50% of the 53,190,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public

STRUCTURE OF THE GLOBAL OFFERING

Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- 53,190,000 Offer Shares available in the Hong Kong Public Offering, representing 10% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 159,570,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 212,760,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 265,950,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator and the Sole Sponsor deem appropriate. In addition, the Sole Global Coordinator and the Sole Sponsor may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator and the Sole Sponsor have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Sponsor and the Sole Global Coordinator deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for

STRUCTURE OF THE GLOBAL OFFERING

whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is breached and/or untrue (as the case may be) or if it has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of the H Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$5.76 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$2,909.02 for one board lot of 500 H Shares. If the Offer Price, as finally determined in the manner described in the section "Pricing and Allocation" below, is less than the maximum Offer Price of HK\$5.76 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for the Hong Kong Offer Shares."

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

The International Offering will consist of an offering of initially 478,710,000 H Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell its H Shares, after the Listing. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong

STRUCTURE OF THE GLOBAL OFFERING

Public Offering and to ensure that they are excluded from any allotment of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in the section “The Hong Kong Public Offering – Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to offer up to an aggregate of 79,785,000 H Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, among others, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional International Offer Shares to be offered pursuant thereto will represent approximately 4.99% of the issued share capital of the Company immediately following the completion of the Global Offering. The Sole Global Coordinator may also cover such over-allocations by purchasing H Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out any covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of our H Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it, to conduct any such stabilizing action. Such stabilizing action, if taken: (i) will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and in what the Stabilizing Manager reasonably regards as the best interest of the Company; (ii) may be discontinued at any time; and (iii) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (iii) purchasing, or agreeing to purchase, the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares, (v) selling or agreeing to sell any H Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Stabilizing actions by the Stabilizing Manager, its affiliates or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the H Shares;

STRUCTURE OF THE GLOBAL OFFERING

- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market, may have an adverse impact on the market price of the H Shares;
- no stabilizing action can be taken to support the price of the H Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on January 7, 2016, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO will be made within seven days of the expiration of the stabilization period.

Over-allocation

Following any over-allocation of H Shares in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may cover such over-allocations by, among others, exercising the Over-allotment Option in full or in part, by using H Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market at prices that do not exceed the Offer Price, or a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of H Shares which can be over-allocated will not exceed the number of H Shares which may be sold pursuant to the exercise in full of the Over-allotment Option, being 79,785,000 H Shares, representing 15% of the Offer Shares initially available under the Global Offering.

PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about December 8, 2015 and, in any event, no later than December 10, 2015, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Price will not be more than HK\$5.76 per Offer Share and is expected to be not less than HK\$5.21 per Offer Share unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK\$5.76 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$2,909.02 for one board lot of 500 H Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus.

The Joint Bookrunners and the International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator, on behalf of the Underwriters, may, where they deem appropriate, based on the level of interest expressed by prospective investors and institutional investors during the book-building process in respect of the International Offering, and with the consent of the Company, reduce the number of Offer Shares offered and/or the Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.crcce.com.cn) and the website of the Stock Exchange (www.hkexnews.hk) notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in this prospectus and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator and the Sole Sponsor may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the

STRUCTURE OF THE GLOBAL OFFERING

International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in “How to Apply for the Hong Kong Offer Shares – Publication of Results.”

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

The Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section “Underwriting.”

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) on the Main Board of the Stock Exchange and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;
- (ii) the Offer Price having been duly agreed between the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters);
- (iii) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before December 10, 2015, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among others, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.crce.com.cn on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to Apply for the Hong Kong Offer Shares – Despatch/Collection of H Share Certificates and Refund Monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates issued in respect of the Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects and the right of termination described in “Underwriting” has not been exercised at any time prior to 8:00 a.m. on the Listing Date.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option).

No part of our Company’s Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and the Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

STRUCTURE OF THE GLOBAL OFFERING

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, December 16, 2015, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, December 16, 2015.

The H Shares will be traded in board lots of 500 H Shares each and the stock code of the H Shares will be 1786.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director, a Supervisor or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, December 3, 2015 to 12:00 noon on Tuesday, December 8, 2015 from:

- (i) any of the following offices of the Joint Bookrunners:

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

China International Capital Corporation Hong Kong Securities Limited
29th Floor
One International Finance Center
1 Harbour View Street
Central
Hong Kong

(ii) any of the following branches of the receiving bank:

Bank of Communications Co., Ltd. Hong Kong Branch

	<u>Branch</u>	<u>Address</u>
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	King's Road Sub-Branch	G/F., Kailey Court, 67-71 King's Road
	Quarry Bay Sub-Branch	Shops 3 and 4 on G/F., 981A-981F King's Road, Chung Hing Mansion, Quarry Bay
Kowloon	Kowloon Sub-Branch	G/F., 563 Nathan Road
	Hunghom Sub-Branch	Shop A6, G/F., Whampoa Estate Planet Square, 1-3 Tak Man Street
	Ngau Tau Kok Sub-Branch	Shop G1 & G2, G/F., Phase I, Amoy Plaza, 77 Ngau Tau Kok Road
New Territories	Sheung Shui Sub-Branch	Shops 1010-1014, G/F., Sheung Shui Centre, Sheung Shui
	Fanling Sub-Branch	Shop No. 84A-84B, G/F., Flora Plaza, Fanling
	Tiu Keng Leng Sub-Branch	Shops Nos. L2-064 and L2-065, Level 2, Metro Town, Tiu Keng Leng

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, December 3, 2015 until 12:00 noon on Tuesday, December 8, 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE or YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. – CRCC Equipment Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Thursday, December 3, 2015 – 9:00 a.m. to 5:00 p.m.
- Friday, December 4, 2015 – 9:00 a.m. to 5:00 p.m.
- Saturday, December 5, 2015 – 9:00 a.m. to 1:00 p.m.
- Monday, December 7, 2015 – 9:00 a.m. to 5:00 p.m.
- Tuesday, December 8, 2015 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, December 8, 2015, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Kong Offer Shares allocated to you, and the Company and/or its agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you fulfill the criteria mentioned in the “Personal Collection” section in this prospectus to collect H Share certificate(s) and/or refund cheque(s);

- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** service at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, December 3, 2015 until 11:30 a.m. on Tuesday, December 8, 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, December 8, 2015 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$ 2 for each “CRCC High-Tech Equipment Corporation Limited” **White Form eIPO** application submitted via the website www.eipo.com.hk to support the funding of “Source of Dong Jiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (ii) HKSCC Nominees will do the following things on your behalf:
- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
 - agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
 - agree to disclose your personal data to the Company, our H Share Registrar, the receiving bank, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.
- agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

senior officer of the Company, with each CCASS Participant giving electronic application instructions):

- (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders; and
 - authorize the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Thursday, December 3, 2015 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, December 4, 2015 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Saturday, December 5, 2015 – 8:00 a.m. to 1:00 p.m.⁽¹⁾
- Monday, December 7, 2015 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, December 8, 2015 – 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing / Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Thursday, December 3, 2015 until 12:00 noon on Tuesday, December 8, 2015 (24 hours daily, except on Saturday and the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Tuesday, December 8, 2015, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the H Share Registrar, the receiving banker, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Tuesday, December 8, 2015.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE and YELLOW** Application Forms have tables showing the exact amount payable for H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for H Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

For further details on the Offer Price, see the section headed “Structure of the Global Offering – Pricing and Allocation.”

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, December 8, 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, December 8, 2015 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, December 15, 2015 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at www.crce.com.cn and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.crce.com.cn and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Tuesday, December 15, 2015;
- from the designated results of allocations website at www.iporeresults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, December 15, 2015 to 12:00 midnight on Monday, December 21, 2015;
- by telephone enquiry line by calling 2862-8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, December 15, 2015 to Friday, December 18, 2015;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, December 15, 2015 to Thursday, December 17, 2015 at all the designated receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or through **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believe(s) that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$5.76 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, December 15, 2015.

14. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

before Tuesday, December 15, 2015. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Wednesday, December 16, 2015 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, December 15, 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, December 15, 2015, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, December 15, 2015, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

account as stated in your Application Form on Tuesday, December 15, 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 15, 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, December 15, 2015, or such other date as notified by the Company in the newspapers as the date of despatch/collection of H Share certificates/ e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, December 15, 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, December 15, 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, December 15, 2015. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 15, 2015 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, December 15, 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, December 15, 2015.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Offer Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Offer Shares to be admitted into CCASS.

The following is the text of a report on CRCC High-Tech Equipment Corporation Limited prepared for the purpose of incorporation in this prospectus received from the auditors and reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong.



22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

3 December 2015

The Directors
CRCC High-Tech Equipment Corporation Limited

CITIC CLSA Capital Markets Limited

Dear Sirs,

We set out below our report on the financial information of CRCC High-Tech Equipment Corporation Limited (中國鐵建高新裝備股份有限公司, the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2012, 2013 and 2014 and 30 June 2015, together with the notes thereto (the “Financial Information”), and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months ended 30 June 2014 (the “Interim Comparative Information”), for inclusion in the prospectus of the Company dated 3 December 2015 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was established in 1954 under the name Mechanical Maintenance, Operation and Leasing Station of the 6th Engineering Division of Newly-built Railways Construction Central Bureau under the Ministry of Railways (the “MOR”) (鐵道部新建鐵路工程總局第六工程局機械修理經租站) in Shaanxi Province, the People’s Republic of China (the “PRC”). In 1991, the Company was renamed as Kunming Machinery Factory of China Railway Construction Corporation (“CRCCG”) (中國鐵道建築總公司昆明機械廠). Pursuant to an approval issued by CRCCG on 8 August 2002, the Company was reformed into a limited liability company under the Company Law of the PRC under the name Kunming China Railway Large Maintenance Machinery Group Co., Ltd. (昆明中鐵大型養路機械集團有限公司). Upon completion of the equity transfers between the then shareholders, on 21 May 2007, the Company became a limited liability company wholly owned by CRCCG, which is wholly owned by the State-owned Assets Supervision and Administration Commission of the PRC (“SASAC”). On 15 November 2007, CRCCG entered into an equity transfer agreement with its subsidiary China Railway Construction Corporation Limited (“CRCC”), pursuant to which CRCCG injected 100% of the equity interest in the Company as a contribution into CRCC, and the Company became a wholly-owned subsidiary of CRCC.

In March 2015, CRCC transferred 0.5% of the equity interest in the Company to China Railway Construction Investment Group Co., Ltd., CRCC International Group Co., Ltd., China Civil Engineering Construction Ltd. and CRCC China-Africa Construction Limited, respectively, which are all wholly-owned subsidiaries of CRCC. Pursuant to the promoter agreement dated 12 May 2015 entered into among CRCC, China Railway Construction Investment Group, CRCC International Group Co., Ltd., China Civil Engineering Construction Ltd. and CRCC China-Africa Construction Limited, the Company was converted from a limited liability company into a joint stock limited company on 24 June 2015 and was renamed as CRCC High-Tech Equipment Corporation Limited.

As at the date of this report, the Company has direct interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the Accounting Standards for Business Enterprises and other related regulations issued by the Ministry of Finance (the “MOF”) of the PRC (collectively the “PRC GAAP”). Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors’ responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

We have also performed a review of the Interim Comparative Information in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the IAASB. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2012, 2013 and 2014 and 30 June 2015 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

(A) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Section II Notes	Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
REVENUE	6	2,863,645	3,169,030	3,476,720	1,745,343	1,794,593
Cost of sales	8	(2,152,881)	(2,366,612)	(2,658,016)	(1,383,202)	(1,373,827)
Gross profit		710,764	802,418	818,704	362,141	420,766
Other income and gains	6	50,470	54,365	66,926	26,722	12,835
Selling and distribution expenses		(58,099)	(58,088)	(71,554)	(28,679)	(25,144)
Administrative expenses		(384,990)	(411,188)	(357,152)	(145,691)	(144,256)
Other expenses		(6,843)	(21,491)	(17,893)	5,377	(864)
Finance costs	7	(57,479)	(47,578)	(23,488)	(12,765)	–
PROFIT BEFORE TAX	8	253,823	318,438	415,543	207,105	263,337
Income tax expense	10	(29,475)	(30,494)	(53,507)	(27,601)	(37,450)
PROFIT FOR THE YEAR/PERIOD		<u>224,348</u>	<u>287,944</u>	<u>362,036</u>	<u>179,504</u>	<u>225,887</u>
OTHER COMPREHENSIVE INCOME						
Other comprehensive income to be reclassified to profit or loss in subsequent periods:						
Re-measurement gains/(losses) on available-for-sale investments, net of tax						
		51,293	(7,231)	74,514	(16,270)	54,794
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:						
Re-measurement gains/(losses) on defined benefit plans, net of tax						
		(119)	400	(17)	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX		<u>51,174</u>	<u>(6,831)</u>	<u>74,497</u>	<u>(16,270)</u>	<u>54,794</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>275,522</u>	<u>281,113</u>	<u>436,533</u>	<u>163,234</u>	<u>280,681</u>
Profit attributable to:						
Owners of the parent	11	224,693	286,885	354,860	181,886	225,826
Non-controlling interests		(345)	1,059	7,176	(2,382)	61
		<u>224,348</u>	<u>287,944</u>	<u>362,036</u>	<u>179,504</u>	<u>225,887</u>
Total comprehensive income attributable to:						
Owners of the parent		275,867	280,054	429,357	165,616	280,620
Non-controlling interests		(345)	1,059	7,176	(2,382)	61
		<u>275,522</u>	<u>281,113</u>	<u>436,533</u>	<u>163,234</u>	<u>280,681</u>
Earnings per share attributable to the ordinary equity holders of the parent:						
Basic and diluted (expressed in RMB per share) ...	13	<u>0.38</u>	<u>0.49</u>	<u>0.36</u>	<u>0.18</u>	<u>0.23</u>

(B) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Section II</i>	As at 31 December			As at	
		<i>Notes</i>	2012	2013	2014	30 June
			RMB'000	RMB'000	RMB'000	2015
					RMB'000	
NON-CURRENT ASSETS						
Available-for-sale investments	15	148,239	139,731	227,395	291,858	
Property, plant and equipment	16	1,060,849	1,072,160	1,010,673	985,852	
Prepaid land lease payments	17	366,813	293,562	278,009	274,687	
Other intangible assets	18	1,908	1,848	3,099	5,773	
Long-term prepayments	22	9,000	12,326	259,990	260,085	
Deferred tax assets	19	10,962	14,776	23,002	15,355	
Total non-current assets		<u>1,597,771</u>	<u>1,534,403</u>	<u>1,802,168</u>	<u>1,833,610</u>	
CURRENT ASSETS						
Prepaid land lease payments	17	8,464	6,833	6,644	6,644	
Inventories	20	1,886,461	1,850,505	1,325,702	1,330,908	
Trade and bills receivables	21	430,841	445,104	552,221	757,354	
Prepayments, deposits and other receivables	22	66,801	149,758	56,794	46,991	
Tax recoverable		14,209	–	–	–	
Pledged deposits	23	45,001	151,303	166,000	76,001	
Cash and cash equivalents	23	495,294	1,657,225	320,902	161,401	
Total current assets		<u>2,947,071</u>	<u>4,260,728</u>	<u>2,428,263</u>	<u>2,379,299</u>	
CURRENT LIABILITIES						
Trade and bills payables	24	822,235	919,830	966,456	879,188	
Other payables and accruals	25	450,684	1,486,144	279,284	258,852	
Interest-bearing bank and other borrowings	26	1,280,000	783,000	–	–	
Tax payable		5,162	12,275	28,694	19,501	
Defined benefit obligations		2,390	1,910	1,130	675	
Provisions	27	6,150	6,811	8,453	8,213	
Government grants	28	4,871	4,871	4,926	4,926	
Total current liabilities		<u>2,571,492</u>	<u>3,214,841</u>	<u>1,288,943</u>	<u>1,171,355</u>	
NET CURRENT ASSETS		<u>375,579</u>	<u>1,045,887</u>	<u>1,139,320</u>	<u>1,207,944</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,973,350</u>	<u>2,580,290</u>	<u>2,941,488</u>	<u>3,041,554</u>	
NON-CURRENT LIABILITIES						
Defined benefit obligations		5,353	3,178	2,149	1,753	
Government grants	28	38,260	33,334	24,038	21,574	
Deferred tax liabilities	19	14,291	13,014	26,164	35,833	
Total non-current liabilities		<u>57,904</u>	<u>49,526</u>	<u>52,351</u>	<u>59,160</u>	
Net assets		<u>1,915,446</u>	<u>2,530,764</u>	<u>2,889,137</u>	<u>2,982,394</u>	
EQUITY						
Equity attributable to owners of the parent						
Paid-in/share capital	29	587,984	987,984	987,984	987,984	
Reserves	30(a)	1,278,861	1,493,122	1,852,472	1,947,605	
		<u>1,866,845</u>	<u>2,481,106</u>	<u>2,840,456</u>	<u>2,935,589</u>	
Non-controlling interests		48,601	49,658	48,681	46,805	
Total equity		<u>1,915,446</u>	<u>2,530,764</u>	<u>2,889,137</u>	<u>2,982,394</u>	

(C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent									
	Paid-in capital	Capital reserve*	Special reserve*	Surplus reserve*	Retained profits*	Available-for-sale investments revaluation reserve*	Defined benefit plans revaluation reserve*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2012	587,984	762,028	–	75,723	216,544	29,684	(10,357)	1,661,606	48,946	1,710,552
Profit/(loss) for the year	–	–	–	–	224,693	–	–	224,693	(345)	224,348
Other comprehensive income for the year:										
Re-measurement gains on available-for-sale investments, net of tax	–	–	–	–	–	51,293	–	51,293	–	51,293
Re-measurement losses on defined benefit plans, net of tax	–	–	–	–	–	–	(119)	(119)	–	(119)
Total comprehensive income for the year	–	–	–	–	224,693	51,293	(119)	275,867	(345)	275,522
Dividends declared	–	–	–	–	(70,628)	–	–	(70,628)	–	(70,628)
Appropriation to statutory surplus reserve (note (ii))	–	–	–	15,149	(15,149)	–	–	–	–	–
Transfer to special reserve (note (i))	–	–	6,484	–	(6,484)	–	–	–	–	–
Utilisation of special reserve (note (i))	–	–	(6,484)	–	6,484	–	–	–	–	–
As at 31 December 2012 and 1 January 2013	587,984	762,028	–	90,872	355,460	80,977	(10,476)	1,866,845	48,601	1,915,446
Profit for the year	–	–	–	–	286,885	–	–	286,885	1,059	287,944
Other comprehensive income for the year:										
Re-measurement losses on available-for-sale investments, net of tax	–	–	–	–	–	(7,231)	–	(7,231)	–	(7,231)
Re-measurement gains on defined benefit plans, net of tax	–	–	–	–	–	–	400	400	–	400
Total comprehensive income for the year	–	–	–	–	286,885	(7,231)	400	280,054	1,059	281,113
Capital contribution from shareholders (note 29)	400,000	–	–	–	–	–	–	400,000	–	400,000
Dividends declared	–	–	–	–	(65,793)	–	–	(65,793)	(2)	(65,795)
Appropriation to statutory surplus reserve (note (ii))	–	–	–	25,663	(25,663)	–	–	–	–	–
Transfer to special reserve (note (i))	–	–	6,675	–	(6,675)	–	–	–	–	–
Utilisation of special reserve (note (i))	–	–	(6,675)	–	6,675	–	–	–	–	–
As at 31 December 2013 and 1 January 2014	987,984	762,028	–	116,535	550,889	73,746	(10,076)	2,481,106	49,658	2,530,764
Profit for the year	–	–	–	–	354,860	–	–	354,860	7,176	362,036
Other comprehensive income for the year:										
Re-measurement gains on available-for-sale investments, net of tax	–	–	–	–	–	74,514	–	74,514	–	74,514
Re-measurement losses on defined benefit plans, net of tax	–	–	–	–	–	–	(17)	(17)	–	(17)
Total comprehensive income for the year	–	–	–	–	354,860	74,514	(17)	429,357	7,176	436,533
Dividends declared	–	–	–	–	(70,007)	–	–	(70,007)	(587)	(70,594)
Appropriation to statutory surplus reserve (note (ii))	–	–	–	27,780	(27,780)	–	–	–	–	–
Transfer to special reserve (note (i))	–	–	8,664	–	(8,664)	–	–	–	–	–
Utilisation of special reserve (note (i))	–	–	(8,664)	–	8,664	–	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(7,566)	(7,566)
As at 31 December 2014	987,984	762,028	–	144,315	807,962	148,260	(10,093)	2,840,456	48,681	2,889,137

(C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the parent									
	Paid-in/ share capital	Capital reserve*	Special reserve*	Surplus reserve*	Retained profits*	Available- for-sale investments revaluation reserve*	Defined benefit plans revaluation reserve*	Total	Non- controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015	987,984	762,028	–	144,315	807,962	148,260	(10,093)	2,840,456	48,681	2,889,137
Profit for the period	–	–	–	–	225,826	–	–	225,826	61	225,887
Other comprehensive income for the period:										
Re-measurement gains on available-for-sale investments, net of tax	–	–	–	–	–	54,794	–	54,794	–	54,794
Total comprehensive income for the period	–	–	–	–	225,826	54,794	–	280,620	61	280,681
Dividends declared	–	–	–	–	(69,898)	–	–	(69,898)	(1,937)	(71,835)
Special dividend declared (note 12(i))	–	–	–	–	(115,589)	–	–	(115,589)	–	(115,589)
Converted into a joint stock limited company (note 29(ii))	–	797,191	–	(153,656)	(643,535)	–	–	–	–	–
Appropriation to statutory surplus reserve (note (ii))	–	–	–	22,185	(22,185)	–	–	–	–	–
Transfer to special reserve (note (i))	–	–	4,326	–	(4,326)	–	–	–	–	–
Utilisation of special reserve (note (i))	–	–	(4,326)	–	4,326	–	–	–	–	–
As at 30 June 2015	987,984	1,559,219	–	12,844	182,581	203,054	(10,093)	2,935,589	46,805	2,982,394
As at 1 January 2014	987,984	762,028	–	116,535	550,889	73,746	(10,076)	2,481,106	49,658	2,530,764
Profit/(loss) for the period (unaudited)	–	–	–	–	181,886	–	–	181,886	(2,382)	179,504
Other comprehensive income for the period (unaudited):										
Re-measurement losses on available-for-sale investments, net of tax (unaudited)	–	–	–	–	–	(16,270)	–	(16,270)	–	(16,270)
Total comprehensive income for the period (unaudited)	–	–	–	–	181,886	(16,270)	–	165,616	(2,382)	163,234
Dividends declared (unaudited)	–	–	–	–	(70,007)	–	–	(70,007)	(587)	(70,594)
Appropriation to statutory surplus reserve (note (ii)) (unaudited)	–	–	–	18,788	(18,788)	–	–	–	–	–
Transfer to special reserve (note (i)) (unaudited)	–	–	3,671	–	(3,671)	–	–	–	–	–
Utilisation of special reserve (note (i)) (unaudited)	–	–	(3,671)	–	3,671	–	–	–	–	–
Disposal of a subsidiary (unaudited)	–	–	–	–	–	–	–	–	(7,566)	(7,566)
As at 30 June 2014 (unaudited)	987,984	762,028	–	135,323	643,980	57,476	(10,076)	2,576,715	39,123	2,615,838

* As at 31 December 2012, 2013 and 2014 and 30 June 2015, these reserve accounts comprise the consolidated reserves of RMB1,278,861,000, RMB1,493,122,000, RMB1,852,472,000 and RMB1,947,605,000, respectively, in the consolidated statements of financial position.

Notes:

- (i) In preparation of the Financial Information, the Group has appropriated a certain amount of retained profits to a special reserve fund for the Relevant Periods and the six months ended 30 June 2014 respectively for safety production expense purpose as required by directives issued by the relevant PRC government authorities. The Group charged the safety production expense to profit or loss when such expense was incurred, and at the same time an equal amount of special reserve fund was utilised and transferred back to retained profits.

(C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

- (ii) In accordance with the PRC Company Law and the articles of association of the Company, the Company is required to appropriate 10% of its net profits after tax, as determined under the PRC GAAP, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Company, the statutory surplus reserve may be used either to offset losses, or to be converted to increase share capital provided that the balance after such conversion is not less than 25% of the registered capital of the Company.

(D) CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>Section II</i> <i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		253,823	318,438	415,543	207,105	263,337
Adjustments for:						
Finance costs	7	57,479	47,578	23,488	12,765	–
Foreign exchange differences, net	8	243	955	3,662	(594)	(168)
Interest income	6	(3,255)	(6,665)	(12,482)	(8,752)	(1,646)
Gains on disposal of a subsidiary	6	–	–	(2,895)	(2,895)	–
Dividend income from available-for-sale investments	6	(3,332)	(3,430)	(3,430)	–	–
Depreciation of items of property, plant and equipment	8	58,612	74,123	69,879	34,290	34,314
Amortisation of other intangible assets	8	321	835	861	480	1,562
Amortisation of prepaid land lease payments	8	8,464	6,833	6,692	3,369	3,322
Amortisation of long-term deferred expense		275	–	–	–	13
Impairment/(reversal of impairment) of trade receivables	8	(1,770)	7,566	3,592	(7,756)	(3,331)
Impairment/(reversal of impairment) of other receivables	8	(322)	64	1,389	(5)	113
Write-down of inventories to net realisable value	8	2,596	2,690	4,478	848	2,010
(Gains)/losses on disposal of items of property, plant and equipment		1,124	25	(1,224)	395	–
		374,258	449,012	509,553	239,250	299,526
Decrease/(increase) in inventories		(227,203)	33,266	517,129	525,826	(7,216)
Decrease/(increase) in trade and bills receivables		(10,647)	(21,829)	(120,385)	(20,246)	(201,802)
Decrease/(increase) in prepayments, deposits and other receivables		54,214	(18,284)	20,586	(23,013)	9,582
Decrease/(increase) in pledged deposits		(45,001)	(106,302)	(14,697)	60,302	89,999
Increase/(decrease) in trade and bills payables		218,677	97,595	59,266	(40,351)	(87,268)
Increase/(decrease) in other payables and accruals		(985,793)	1,035,457	(1,183,351)	(1,006,407)	(137,958)
Decrease in defined benefit obligations		(2,636)	(2,185)	(1,829)	(549)	(851)
Increase/(decrease) in provisions		720	661	1,642	510	(240)
Decrease in government grants		(4,069)	(4,926)	(9,241)	(2,463)	(2,464)
Cash flows from/(used in) operations		(627,480)	1,462,465	(221,327)	(267,141)	(38,692)
Interest received		3,255	6,665	12,482	8,752	1,646
Income tax paid		(38,578)	(13,057)	(45,311)	(24,039)	(38,996)
Net cash flows from/(used in) operating activities		<u>(662,803)</u>	<u>1,456,073</u>	<u>(254,156)</u>	<u>(282,428)</u>	<u>(76,042)</u>

(D) CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	<i>Section II</i>	Year ended 31 December			Six months ended 30 June	
		<i>Notes</i>	2012	2013	2014	2014
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES						
Payments for acquisition of items of property, plant and equipment		(126,587)	(85,672)	(30,425)	(16,537)	(10,665)
Additions of prepaid land lease payments		(9,446)	(12)	–	–	–
Prepayments for land lease		(9,000)	–	–	–	–
Payments for acquisition of other intangible assets		(2,136)	(775)	(2,112)	–	(4,236)
Refunding of land lease payments		53,792	–	–	–	–
Proceeds from disposal of items of property, plant and equipment		361	213	1,926	1,271	1,172
Proceeds from disposal of prepaid land lease payments		–	–	58,500	–	–
Proceeds from disposal of a subsidiary		–	–	7,511	7,511	–
Dividend income from available-for-sale investments		3,332	3,430	3,430	–	–
Net cash flows from/(used in) investing activities		(89,684)	(82,816)	38,830	(7,755)	(13,729)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans and other borrowings		830,000	888,000	390,000	10,000	–
Repayment of bank loans and other borrowings		(300,000)	(1,385,000)	(1,173,000)	(413,000)	–
Interest paid		(57,479)	(47,578)	(23,488)	(12,765)	–
Dividends paid		(70,628)	(65,793)	(70,007)	(70,007)	(69,898)
Dividends paid to non-controlling shareholders		–	–	(2)	(2)	–
Prepayments for acquisition of non-controlling interests		–	–	(240,838)	–	–
Capital contribution from shareholders	29	–	400,000	–	–	–
Net cash flows from/(used in) financing activities		401,893	(210,371)	(1,117,335)	(485,774)	(69,898)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(350,594)	1,162,886	(1,332,661)	(775,957)	(159,669)
Cash and cash equivalents at beginning of year/period		846,131	495,294	1,657,225	1,657,225	320,902
Effect of exchange rate changes on cash and cash equivalents		(243)	(955)	(3,662)	594	168
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>495,294</u>	<u>1,657,225</u>	<u>320,902</u>	<u>881,862</u>	<u>161,401</u>

(E) STATEMENTS OF FINANCIAL POSITION

	<i>Section II</i>	As at 31 December			As at	
		<i>Notes</i>	2012	2013	2014	30 June
			RMB'000	RMB'000	RMB'000	2015
					RMB'000	
NON-CURRENT ASSETS						
Investments in subsidiaries	14	210,638	210,638	230,838	230,838	
Available-for-sale investments	15	148,239	139,731	227,395	291,858	
Property, plant and equipment	16	921,513	935,652	882,973	851,828	
Prepaid land lease payments	17	325,969	253,638	247,722	244,764	
Other intangible assets	18	986	1,026	2,377	4,113	
Long-term prepayments	22	9,000	12,326	259,990	259,990	
Deferred tax assets	19	8,747	8,698	8,770	8,667	
Total non-current assets		<u>1,625,092</u>	<u>1,561,709</u>	<u>1,860,065</u>	<u>1,892,058</u>	
CURRENT ASSETS						
Prepaid land lease payments	17	7,563	5,916	5,916	5,916	
Inventories	20	1,546,645	1,506,937	942,476	769,659	
Trade and bills receivables	21	391,121	402,678	490,654	783,763	
Prepayments, deposits and other receivables	22	94,317	255,898	39,483	82,322	
Tax recoverable		14,209	–	–	–	
Pledged deposits	23	45,001	150,103	166,000	69,000	
Cash and cash equivalents	23	<u>467,416</u>	<u>1,620,920</u>	<u>280,741</u>	<u>136,752</u>	
Total current assets		<u>2,566,272</u>	<u>3,942,452</u>	<u>1,925,270</u>	<u>1,847,412</u>	
CURRENT LIABILITIES						
Trade and bills payables	24	660,726	881,701	838,569	700,794	
Other payables and accruals	25	388,085	1,407,634	205,307	198,058	
Interest-bearing bank and other borrowings	26	1,280,000	770,000	–	–	
Tax payable		–	6,526	13,673	15,746	
Defined benefit obligations		2,390	1,910	1,130	675	
Provisions	27	3,681	4,222	4,945	4,494	
Government grants	28	4,871	4,871	4,871	4,871	
Total current liabilities		<u>2,339,753</u>	<u>3,076,864</u>	<u>1,068,495</u>	<u>924,638</u>	
NET CURRENT ASSETS		<u>226,519</u>	<u>865,588</u>	<u>856,775</u>	<u>922,774</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,851,611</u>	<u>2,427,297</u>	<u>2,716,840</u>	<u>2,814,832</u>	
NON-CURRENT LIABILITIES						
Defined benefit obligations		5,353	3,178	2,149	1,753	
Government grants	28	31,926	27,055	22,184	19,748	
Deferred tax liabilities	19	14,291	13,014	26,164	35,833	
Total non-current liabilities		<u>51,570</u>	<u>43,247</u>	<u>50,497</u>	<u>57,334</u>	
Net assets		<u>1,800,041</u>	<u>2,384,050</u>	<u>2,666,343</u>	<u>2,757,498</u>	
EQUITY						
Paid-in/share capital	29	587,984	987,984	987,984	987,984	
Reserves	30(b)	<u>1,212,057</u>	<u>1,396,066</u>	<u>1,678,359</u>	<u>1,769,514</u>	
Total equity		<u>1,800,041</u>	<u>2,384,050</u>	<u>2,666,343</u>	<u>2,757,498</u>	

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was established in 1954 under the name Mechanical Maintenance, Operation and Leasing Station of the 6th Engineering Division of Newly-built Railways Construction Central Bureau under the MOR (鐵道部新建鐵路工程總局第六工程局機械修理經租站) in Shaanxi Province, the PRC. In 1991, the Company was renamed as Kunming Machinery Factory of CRCCG (中國鐵道建築總公司昆明機械廠). Pursuant to an approval issued by CRCCG on 8 August 2002, the Company was reformed into a limited liability company under the Company Law of the PRC under the name Kunming China Railway Large Maintenance Machinery Group Co., Ltd. (昆明中鐵大型養路機械集團有限公司).

Upon completion of the equity transfers between the then shareholders, on 21 May 2007, the Company became a limited liability company wholly owned by CRCCG, which is wholly owned by the SASAC. On 15 November 2007, CRCCG entered into an equity transfer agreement with CRCC, pursuant to which CRCCG injected 100% of the equity interest in the Company as a contribution into CRCC, and the Company became a wholly-owned subsidiary of CRCC, with a paid-in capital of RMB187,984,000.

The paid-in capital of the Company was increased from RMB187,984,000 to RMB587,984,000 in 2009 and from RMB587,984,000 to RMB987,984,000 in 2013 by CRCC in cash.

In March 2015, CRCC transferred 0.5% of the equity interest in the Company to China Railway Construction Investment Group Co., Ltd., CRCC International Group Co., Ltd., China Civil Engineering Construction Ltd. and CRCC China-Africa Construction Limited, respectively, which are all wholly-owned subsidiaries of CRCC. Pursuant to the promoter agreement dated 12 May 2015 entered into among CRCC, China Railway Construction Investment Group, CRCC International Group Co., Ltd., China Civil Engineering Construction Ltd. and CRCC China-Africa Construction Limited, the Company was converted from a limited liability company into a joint stock limited company on 24 June 2015 and was renamed as CRCC High-Tech Equipment Corporation Limited.

The registered office address of the Company is No. 384 Yangfangwang, Jinma Town, Kunming, Yunnan Province, the PRC.

During the Relevant Periods, the Group's principal activities were as follows:

- Manufacturing and sale of large railway track maintenance machinery
- Manufacturing and sale of parts and components
- Provision of overhaul services and railway line maintenance services

In the opinion of the Directors, throughout the Relevant Periods, the six months ended 30 June 2014 and up to the date of this report, the Company's holding company is CRCC. The Company's ultimate holding company is CRCCG, which is wholly owned by the SASAC.

1. CORPORATE INFORMATION (CONTINUED)

As at the date of this report, the Company has direct interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out below:

Company name	Notes	Place and date of registration and business	Registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Beijing Ruiweitong Engineering Machinery Co., Ltd. * (“北京瑞維通工程機械有限公司”)	(i)	Beijing, China June 2009	RMB584,370,622	100%	–	Provision of overhaul services and manufacturing and sale of parts and components
Kunming Aotongda Railway Machinery Co., Ltd. * (“昆明奧通達鐵路機械有限公司”)	(i)	Kunming, China June 2010	RMB50,000,000	100%	–	Provision of overhaul services and manufacturing and sale of parts and components
Beijing Kunweitong Mechanization Engineering Co., Ltd. * (“北京昆維通鐵路機械化工程有限公司”)	(i)	Beijing, China May 2010	RMB60,000,000	100%	–	Provision of railway line maintenance services
Kunming China Railway Hengyuan Business Service Co., Ltd. * (“昆明中鐵恒源商務服務有限公司”)	(i)	Kunming, China June 2012	RMB9,800,000	100%	–	Provision of catering, accommodation, security, conference, green cleaning and other services
Kunming Guangweitong Machinery Co., Ltd. * (“昆明廣維通機械設備有限公司”)	(ii)	Kunming, China December 2013	RMB30,000,000	100%	–	Manufacturing and sale of parts and components

* The English names of the companies registered in the PRC represent the best efforts of the management of the Company in directly translating the Chinese names of the companies as no English names have been registered.

Notes:

- (i) The statutory financial statements of these subsidiaries for the year ended 31 December 2012 prepared under the PRC GAAP were audited by 華寅會計師事務所有限責任公司, a certified public accounting firm registered in the PRC. The statutory financial statements of these subsidiaries for the years ended 31 December 2013 and 2014 prepared under the PRC GAAP were audited by 中審華寅五洲會計師事務所 (特殊普通合夥), a certified public accounting firm registered in the PRC.
- (ii) The statutory financial statements of this subsidiary for the year ended 31 December 2014 prepared under the PRC GAAP were audited by 中審華寅五洲會計師事務所 (特殊普通合夥), a certified public accounting firm registered in the PRC.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention except for available-for-sale investments which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information herein.

IFRS 9	<i>Financial Instruments</i> ²
IFRS 10 and IAS 28 (2011) Amendments	Amendments to IFRS 10 and IAS 28 (2011): <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ¹
IFRS 11 Amendments	Amendments to IFRS 11: <i>Accounting for Acquisition of Interests in Joint Operations</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ³
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
IAS 16 and IAS 38 Amendments	Amendments to IAS 16 and IAS 38: <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
IAS 16 and IAS 41 Amendments	Amendments to IAS 16 and IAS 41: <i>Agriculture: Bearer Plants</i> ¹
IAS 27 (2011) Amendments	Amendments to IAS 27 (2011): <i>Equity Method in Separate Financial Statements</i> ¹
IAS 1 Amendments	<i>Disclosure Initiative</i> ¹
IFRS 10, IFRS 12 and IAS 28 (2011) Amendments	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs ¹

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting periods as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Business combinations and goodwill**

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Impairment of non-financial assets (continued)**

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

<u>Categories</u>	<u>Annual rates</u>
Buildings	2.71%
Machinery	9.50%
Production equipment	9.50%
Measurement and experimental equipment	19.00%
Vehicles	19.00%
Other equipment	19.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised and is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Intangible assets (other than goodwill) (continued)***Office software*

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of usually 2 years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Investments and other financial assets (continued)***Initial recognition and measurement (continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investments revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from other comprehensive income to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Impairment of financial assets (continued)***Financial assets carried at amortised cost (continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Financial liabilities (continued)***Initial recognition and measurement (continued)*

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, interest-bearing bank and other borrowings and other payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Income tax (continued)**

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of comprehensive income over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of machines, parts and components, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Generally, revenue from the sale of machines is recognised upon the acceptance certificates for installation and debugging are signed by the Group and the customers together;
- (b) from the rendering of overhaul services, when the services are fully rendered and accepted by the customers;
- (c) from the rendering of railway line maintenance services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise direct labour, the cost of subcontracting and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits***Retirement benefits******(a) Social pension plans***

The Group has the social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Employee benefits (continued)*****Retirement benefits (continued)****(b) Annuity plan*

The Group provides an annuity plan to the voluntary or eligible employees. Contributions are made based on a percentage of the voluntary or eligible employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the plan. Under the plan, the Group has no further obligations beyond the contributions made.

(c) Post-employment benefit plan

The Group provides a benefit plan for long-term post-leaving personnel, which are considered as defined benefit plans. The Group does not put any funds in the plan. The obligations recognised in the consolidated statements of financial position in respect of these defined benefit plans is the present value of the defined benefit obligations at the end of each reporting period. The defined benefit obligation is calculated by an independent qualified actuarial firm, Towers Watson Consulting Company Limited which is engaged by CRCC, using the projected cumulative unit credit method annually, or when any material changes in the plans and key assumptions occur. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities of the currency and term consistent with the currency and term of the defined benefit plan. Re-measurements arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the consolidated statements of financial position with a corresponding debit or credit to other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Group recognises the following changes in the net defined benefit obligation under "administrative expenses" in the consolidated statement of comprehensive income by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic and supplementary medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Apart from those described above, the Group does not have any other legal or constructive obligations over employee benefits.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The Financial Information is presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**Estimation uncertainty (continued)***Useful lives and residual values of items of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods. Further details are included in note 16 of this section.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The Group assessed that indications of material impairment for non-financial assets did not exist during each reporting period.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are included in note 19 of this section.

Impairment of trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and the ageing analysis of trade receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at the end of each reporting period. Further details are included in note 21 of this section.

Provision against obsolete inventories

Management reviews the condition of inventories of the Group at the end of each reporting period and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for use or sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of each reporting period. Further details are included in note 20 of this section.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

*Estimation uncertainty (continued)**Provisions for warranties*

Provisions for product warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Further details are included in note 27 of this section.

Development costs

The Group capitalises development costs for a project in accordance with the relevant accounting policy for research and development costs in note 3.2 of this section. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. During the Relevant Periods and the six months ended 30 June 2014, all development costs are expensed based on management's judgement.

Fair value of available-for-sale investments

Available-for-sale investments of the Group at the end of each reporting period are listed equity investments. The fair values are based on quoted market prices, after considering non-liquidity effect. This valuation requires the Group to make estimates about non-liquidity discount ratio and it is subject to uncertainty. Further details are included in note 15 of this section.

5. OPERATING SEGMENT INFORMATION

The Group's revenue and contribution to consolidated results are mainly derived from the provision of products and services in the large railway track maintenance machinery industry, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource arrangement and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Geographical information*(a) Revenue from external customers*

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Mainland China	2,863,645	3,169,030	3,476,720	1,745,343	1,759,508
Overseas	—	—	—	—	35,085
	<u>2,863,645</u>	<u>3,169,030</u>	<u>3,476,720</u>	<u>1,745,343</u>	<u>1,794,593</u>

The revenue information above is based on the location of customers.

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information (continued)

(b) *Non-current assets*

	As at 31 December			As at 30 June	
	2012	2013	2014	2015	
	RMB'000	RMB'000	RMB'000	RMB'000	
Mainland China	<u>1,438,570</u>	<u>1,379,896</u>	<u>1,551,771</u>	<u>1,526,397</u>	

All the non-current assets are located in Mainland China. The non-current asset information is based on the location of the assets and excludes deferred tax assets and financial instruments.

Information about major customers

Information about revenue from major customers which contributed 10% or more to the Group's revenue for the Relevant Periods and the six months ended 30 June 2014 is shown in the following table:

	Year ended 31 December			Six months ended	
	2012	2013	2014	30 June	
	RMB'000	RMB'000	RMB'000	RMB'000	
				(Unaudited)	
China Railway Corporation (Formerly Ministry of Railways)	1,145,773	172,226	353,742	74,427	748,844
Track Maintenance Branch of China Shenhua Corporation	489,224	11,818	7,890	1,020	7,948
CSR Qishuyan Institute Co., Ltd.	193,814	285,120	198,485	70,193	223,477
Shanghai Railway Bureau	49,274	149,616	225,094	206,344	19,040
Total	<u>1,878,085</u>	<u>618,780</u>	<u>785,211</u>	<u>351,984</u>	<u>999,309</u>
Proportion of revenue	<u>66%</u>	<u>20%</u>	<u>23%</u>	<u>20%</u>	<u>56%</u>

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents: (1) the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sale taxes; and (2) the values of services rendered.

An analysis of the Group's revenue, other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<u>Revenue:</u>					
Sales of machines	2,087,395	2,389,168	2,791,491	1,500,400	1,256,807
Sales of parts and components	535,978	548,790	440,097	173,007	326,448
Overhaul services	210,728	199,270	215,018	64,007	198,594
Railway line maintenance services	29,544	31,802	30,114	7,929	12,744
	<u>2,863,645</u>	<u>3,169,030</u>	<u>3,476,720</u>	<u>1,745,343</u>	<u>1,794,593</u>
<u>Other income and gains:</u>					
Rental income	1,935	1,854	1,981	1,023	1,092
Interest income	3,255	6,665	12,482	8,752	1,646
Government grants	26,769	22,631	25,132	10,053	3,194
Sale of scrap materials	6,050	3,010	3,364	1,832	820
Training	8,167	14,271	4,636	851	1,618
Gain on disposal of a subsidiary	–	–	2,895	2,895	–
Dividend income from available-for-sale investments	3,332	3,430	3,430	–	–
Others	962	2,504	13,006	1,316	4,465
	<u>50,470</u>	<u>54,365</u>	<u>66,926</u>	<u>26,722</u>	<u>12,835</u>

7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on bank loans and other borrowings	<u>57,479</u>	<u>47,578</u>	<u>23,488</u>	<u>12,765</u>	<u>–</u>

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Cost of machines sold		1,614,253	1,822,924	2,261,534	1,215,264	1,011,030
Cost of parts and components sold		341,382	383,164	239,619	124,617	243,810
Cost of overhaul services		182,280	142,077	144,105	36,135	109,365
Cost of railway line maintenance services		14,966	18,447	12,758	7,186	9,622
Total cost of sales		<u>2,152,881</u>	<u>2,366,612</u>	<u>2,658,016</u>	<u>1,383,202</u>	<u>1,373,827</u>
Depreciation of items of property, plant and equipment	16,(a)	58,612	74,123	69,879	34,290	34,314
Amortisation of prepaid land lease payments	17	8,464	6,833	6,692	3,369	3,322
Amortisation of other intangible assets	18	321	835	861	480	1,562
Total depreciation and amortisation		<u>67,397</u>	<u>81,791</u>	<u>77,432</u>	<u>38,139</u>	<u>39,198</u>
(Reversal of impairment) / impairment of trade receivables	21	(1,770)	7,566	3,592	(7,756)	(3,331)
(Reversal of impairment) / impairment of deposits and other receivables	22	(322)	64	1,389	(5)	113
Total impairment losses, net		<u>(2,092)</u>	<u>7,630</u>	<u>4,981</u>	<u>(7,761)</u>	<u>(3,218)</u>
Write-down of inventories to net realisable value	20	2,596	2,690	4,478	848	2,010
Lease expense under operating leases of buildings and equipment		1,239	890	440	210	645
Auditors' remuneration		210	232	257	30	–
Employee benefit expenses (including directors' and supervisors' remuneration (note 9)):	(b)					
Wages, salaries and allowances		181,653	156,799	182,844	68,031	81,745
Defined contribution scheme expenses		37,518	38,181	42,220	21,014	21,961
Defined benefit scheme expenses		270	200	190	–	–
Welfare and other expenses		126,762	125,120	147,087	63,736	67,779
Total employee benefit expenses		<u>346,203</u>	<u>320,300</u>	<u>372,341</u>	<u>152,781</u>	<u>171,485</u>
Research and development costs	(c)	193,478	209,357	166,962	69,718	47,035
Provisions for warranties, net	27	4,479	4,972	5,864	2,558	2,686
Interest income	6	(3,255)	(6,665)	(12,482)	(8,752)	(1,646)
Dividend income from available-for-sale investments	6	(3,332)	(3,430)	(3,430)	–	–
Gain on disposal of a subsidiary	6	–	–	(2,895)	(2,895)	–
(Gains)/losses on disposal of items of property, plant and equipment		1,124	25	(1,224)	395	–
Foreign exchange differences, net		243	955	3,662	(594)	(168)
Government grants	6,(d)	<u>(26,769)</u>	<u>(22,631)</u>	<u>(25,132)</u>	<u>(10,053)</u>	<u>(3,194)</u>

Notes:

- (a) Depreciation of approximately RMB34,896,000, RMB37,865,000, RMB52,218,000, RMB21,286,000 (unaudited) and RMB21,912,000 is included in cost of sales in the consolidated statements of comprehensive income for each of the three years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2014 and 2015, respectively.

8. PROFIT BEFORE TAX (CONTINUED)

- (b) Employee benefit expenses of approximately RMB175,307,000, RMB185,678,000, RMB245,426,000, RMB123,573,000 (unaudited) and RMB112,022,000 are included in the cost of sales in the consolidated statements of comprehensive income for each of the three years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2014 and 2015, respectively.
- (c) Employee benefit expenses of approximately RMB35,018,000, RMB34,295,000, RMB37,516,000, RMB15,797,000 (unaudited) and RMB16,883,000 are included in research and development costs in the consolidated statements of comprehensive income for each of the three years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2014 and 2015, respectively.
- (d) Most of the government grants are received by the Group as financial subsidies for the research activities. Government grants are recognised as income over the periods necessary to match the grant on a systematic basis to the costs and expenses that they are intended to compensate or over the weighted average of the expected useful life of the relevant property, machinery and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES**(a) Directors' and supervisors' remuneration**

The aggregate amounts of remuneration of the Directors and supervisors of the Company during the Relevant Periods and the six months ended 30 June 2014, disclosed pursuant to the Hong Kong Listing Rules are as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	-	-	-	-	-
Other emoluments:					
- Salaries, allowances and benefits in kind	3,657	3,790	3,221	1,483	1,567
- Performance-related bonuses	1,289	2,022	1,538	-	-
- Pension scheme contributions	258	284	320	160	149
	<u>5,204</u>	<u>6,096</u>	<u>5,079</u>	<u>1,643</u>	<u>1,716</u>

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and supervisors' remuneration (continued)

The names of the Directors and supervisors and their remuneration for the Relevant Periods and the six months ended 30 June 2014 are as follows:

Year ended 31 December 2012

	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Mr. Ma Yunkun (馬雲昆) . . .	–	530	214	35	779
Mr. Ren Yanjun (任延軍) (Chief executive)	–	529	215	35	779
Mr. Jiang He (江河)	–	435	196	33	664
Mr. Yang Chaokai (楊朝凱)	–	448	161	32	641
Mr. Chen Yongxiang (陳永祥)	–	445	145	32	622
	–	2,387	931	167	3,485
Supervisors					
Mr. Hu Bin (胡斌)	–	433	195	32	660
Mr. Mo Bin (莫斌)	–	446	163	32	641
Mr. Guo Yun (郭雲)	–	391	–	27	418
	–	1,270	358	91	1,719
	–	3,657	1,289	258	5,204

Year ended 31 December 2013

	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Mr. Ma Yunkun (馬雲昆)	–	553	334	38	925
Mr. Ren Yanjun (任延軍) (Chief executive)	–	552	335	38	925
Mr. Jiang He (江河)	–	465	331	36	832
Mr. Yang Chaokai (楊朝凱)	–	465	250	36	751
Mr. Chen Yongxiang (陳永祥)	–	463	254	36	753
	–	2,498	1,504	184	4,186
Supervisors					
Mr. Hu Bin (胡斌)	–	469	299	36	804
Mr. Mo Bin (莫斌)	–	463	219	36	718
Mr. Guo Yun (郭雲)	–	360	–	28	388
	–	1,292	518	100	1,910
	–	3,790	2,022	284	6,096

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and supervisors' remuneration (continued)

Year ended 31 December 2014

	Salaries, allowances and benefits		Performance-related	Pension scheme	Total
	Fees	in kind	bonuses	contributions	remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Mr. Ma Yunkun (馬雲昆)	–	444	265	43	752
Mr. Ren Yanjun (任延軍)					
(Chief executive)	–	449	266	43	758
Mr. Jiang He (江河)	–	368	250	42	660
Mr. Yang Chaokai (楊朝凱) ...	–	367	196	40	603
Mr. Chen Yongxiang					
(陳永祥)	–	367	198	40	605
	–	1,995	1,175	208	3,378
Supervisors					
Mr. Hu Bin (胡斌)	–	387	192	41	620
Mr. Mo Bin (莫斌)	–	366	171	39	576
Mr. Guo Yun (郭雲)	–	473	–	32	505
	–	1,226	363	112	1,701
	–	3,221	1,538	320	5,079

Six months ended 30 June 2014 (unaudited)

	Salaries, allowances and benefits		Performance-related	Pension scheme	Total
	Fees	in kind	bonuses	contributions	remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Directors					
Mr. Ma Yunkun (馬雲昆)	–	207	–	21	228
Mr. Ren Yanjun (任延軍)					
(Chief executive)	–	212	–	21	233
Mr. Jiang He (江河)	–	176	–	21	197
Mr. Yang Chaokai (楊朝凱) ...	–	176	–	20	196
Mr. Chen Yongxiang					
(陳永祥)	–	176	–	20	196
	–	947	–	103	1,050
Supervisors					
Mr. Hu Bin (胡斌)	–	193	–	21	214
Mr. Mo Bin (莫斌)	–	175	–	20	195
Mr. Guo Yun (郭雲)	–	168	–	16	184
	–	536	–	57	593
	–	1,483	–	160	1,643

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and supervisors' remuneration (continued)

Six months ended 30 June 2015

	Salaries, allowances and benefits in		Performance- related bonuses	Pension scheme contributions	Total remuneration
	Fees	kind			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Ma Yunkun (馬雲昆) (note i)	–	221	–	20	241
Mr. Ren Yanjun (任延軍)					
(Chief executive) (note i)	–	219	–	20	239
Mr. Jiang He (江河) (note i)	–	186	–	19	205
Mr. Yuyuanlin (余園林) (note i)	–	–	–	–	–
Mr. Yang Chaokai (楊朝凱)					
(note ii)	–	186	–	18	204
Mr. Chen Yongxiang (陳永祥)					
(note ii)	–	186	–	18	204
	–	998	–	95	1,093
Non-executive Directors					
Mr. Lixuefu (李學甫) (note i)	–	–	–	–	–
Mr. Wuzhixu (伍志旭) (note i)	–	–	–	–	–
	–	–	–	–	–
Supervisors					
Mr. Lyu Jianming (呂檢明) (note i) . . .	–	–	–	–	–
Mr. Zhangzhumin (張主民) (note i) . .	–	–	–	–	–
Mr. Wang Huaming (王華明)					
(note i)	–	–	–	–	–
Mr. Hu Bin (胡斌) (note iii)	–	197	–	18	215
Mr. Mo Bin (莫斌) (note iii)	–	185	–	18	203
Mr. Guo Yun (郭雲) (note iii)	–	187	–	18	205
	–	569	–	54	623
	–	1,567	–	149	1,716

Notes:

- (i) On 24 June 2015, the Company was converted from a liability company into a joint stock limited company and elected new Directors and supervisors. Mr. Ma Yunkun, Mr. Jiang He and Mr. Yu Yuanlin were appointed as executive directors. Mr. Ren Yanjun was appointed as executive director and chief executive. Mr. Li Xuefu and Mr. Wu Zhixu were appointed as non-executive directors. Mr. Lyu Jianming, Mr. Zhangzhumin and Mr. Wang Huaming were appointed as supervisors. These Directors and supervisors received no emoluments for the period from 24 June 2015 to 30 June 2015.
- (ii) Mr. Yang Chaokai and Mr. Chen Yongxiang resigned as directors effective from 24 June 2015.
- (iii) Mr. Hu Bin, Mr. Mo Bin and Mr. Guo Yun resigned as supervisors effective from 24 June 2015.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(b) Five highest paid employees

An analysis of the headcounts of the five highest paid employees within the Group for the Relevant Periods and the six months ended 30 June 2014 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	(Unaudited)				
Directors	3	3	3	3	3
Supervisors	2	1	–	1	1
Non-director and non-supervisor employees	–	1	2	1	1
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

Details of the Directors' and supervisors' remuneration are set out above.

Details of the remuneration of the above non-director and non-supervisor, highest paid employees are as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Salaries, allowances and benefits in kind	–	466	735	176	192
Performance-related bonuses	–	285	446	–	–
Pension scheme contributions	–	35	81	20	17
	<u>–</u>	<u>786</u>	<u>1,262</u>	<u>196</u>	<u>209</u>

The number of non-director and non-supervisor, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	(Unaudited)				
Nil to HK\$1,000,000	<u>–</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>

During the Relevant Periods and the six months ended 30 June 2014, no directors or supervisors, or none of the non-director and non-supervisor, highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the Directors and supervisors or any of the non-director and non-supervisor, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Company and one subsidiary of the Company were entitled to a preferential income tax rate of 15% for the Relevant Periods and the six months ended 30 June 2014 and they will continue to benefit from this preferential income tax policy until 31 December 2020 under “the tax incentives of western development”. Another subsidiary was entitled to a preferential income tax rate of 15% for each of the years ended 31 December 2012, 2013 and 2014 under “the tax incentives of western development”, but it would not meet the requirement of this preferential income tax policy from 2015. However, this subsidiary is now applying for the certificate of “high and new technology enterprise” and has been preliminarily accepted by Yunnan Provincial Science and Technology Department. Based on the self-assessments, the Directors consider that the subsidiary should be able to obtain the certificate of “high and new technology enterprise” from the relevant authorities before the end of 2015 and be entitled to the preferential tax rate of 15% during the years from 2015 to 2017.

Two subsidiaries of the Company have been identified as “high and new technology enterprises” and were entitled to a preferential income tax rate of 15% for the three years ended 31 December 2014 in accordance with the PRC Corporate Income Tax Law. The preferential income tax incentive of the two subsidiaries will be expired by end of 2015 and they will apply for the renewal of the certificates of “high and new technology enterprise” for another three years of 2015, 2016 and 2017. The two subsidiaries are preparing all the required documents and have submitted to their in-charge tax bureaus to support their “high and new technology enterprise” status and have completed self-assessments on their “high and new technology enterprise” qualifications. Based on the self-assessments, the Directors consider that these subsidiaries should be able to renew the certificates of “high and new technology enterprise” for the three years of 2015, 2016 and 2017 with the relevant authorities and to continue to be entitled to the preferential tax rate of 15% during the years from 2015 to 2017.

Other entities within the Group in Mainland China were subject to corporate income tax at a statutory rate of 25%.

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits in Hong Kong during the Relevant Periods and the six months ended 30 June 2014.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax – Mainland China	26,507	34,379	61,730	31,093	29,803
Deferred income tax (note 19)	2,968	(3,885)	(8,223)	(3,492)	7,647
Tax charge for the year/period	<u>29,475</u>	<u>30,494</u>	<u>53,507</u>	<u>27,601</u>	<u>37,450</u>

10. INCOME TAX (CONTINUED)

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate for the Relevant Periods and the six months ended 30 June 2014 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before tax	253,823	318,438	415,543	207,105	263,337
Income tax charge at the statutory income tax rate of 25%	63,456	79,610	103,886	51,776	65,834
Effect of preferential income tax rate for some entities	(12,211)	(25,818)	(34,267)	(18,303)	(26,159)
Research and development costs super-deduction	(22,544)	(22,889)	(18,533)	(7,256)	(4,884)
Expenses not deductible for tax purposes	4,799	6,028	2,760	1,862	2,937
Income not subject to tax	(833)	(858)	(858)	–	–
Adjustments in respect of current tax of previous periods	–	(6,360)	–	–	–
Others	(3,192)	781	519	(478)	(278)
Tax charge at the effective rate	<u>29,475</u>	<u>30,494</u>	<u>53,507</u>	<u>27,601</u>	<u>37,450</u>

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profits attributable to owners of the parent for the three years ended 31 December 2012, 2013 and 2014, and for the six months ended 30 June 2014 and 2015 include profits of RMB151,491,000, RMB235,211,000, RMB258,394,000, RMB168,337,000 (unaudited) and RMB155,915,000, respectively, which have been dealt with in the financial statements of the Company.

12. DIVIDENDS

The dividends during the Relevant Periods and the six months ended 30 June 2014 are set out below:

	Note	Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)		
Dividends declared to owners of the parent		70,628	65,793	70,007	70,007	69,898
Special dividend declared to owners of the parent	(i)	–	–	–	–	115,589
		<u>70,628</u>	<u>65,793</u>	<u>70,007</u>	<u>70,007</u>	<u>185,487</u>

Note:

- (i) Pursuant to a resolution passed by the shareholders of the Company on 24 June 2015, the promoters of the Company are entitled to a special dividend, which represents an amount equal to the retained profits

12. DIVIDENDS (CONTINUED)

of the Group attributable to the owners of the Company earned and accrued from 1 April 2015 to 30 June 2015. The final amount of the special dividend of RMB115.6 million was approved by the shareholders of the Company on 16 November 2015.

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit attributable to owners of the parent and the weighted average number of ordinary shares in issue during the Relevant Periods and the six months ended 30 June 2014.

The Group had no potentially dilutive ordinary shares in issue during the Relevant Periods and the six months ended 30 June 2014.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Earnings:					
Profit for the year/period attributable to owners of the parent	<u>224,693</u>	<u>286,885</u>	<u>354,860</u>	<u>181,886</u>	<u>225,826</u>

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	'000	'000	'000	'000	'000
Number of shares:					
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>587,984</u>	<u>587,984</u>	<u>987,984</u>	<u>987,984</u>	<u>987,984</u>
Earnings per share attributable to owners of the parent (expressed in RMB per share)	<u>0.38</u>	<u>0.49</u>	<u>0.36</u>	<u>0.18</u>	<u>0.23</u>

For the purpose of calculating earnings per share, the weighted average number of ordinary shares was adjusted for the issuance of the 987,984,000 shares by the Company on 24 June 2015 as set out in note 29 of this section, and assuming that 587,984,000 ordinary shares were issued before December 2013, and 400,000,000 ordinary shares were issued upon the completion of capital injection by CRCC in December 2013.

14. INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	210,638	210,638	230,838	230,838

Particulars of the subsidiaries of the Company are set out in note 1 of this section.

15. AVAILABLE-FOR-SALE INVESTMENTS

Group and Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Listed equity investments, measured at fair value	148,239	139,731	227,395	291,858

The movements of the fair value of available-for-sale investments are as follows:

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	87,894	148,239	139,731	227,395
Recognised in other comprehensive income/(loss)	60,345	(8,508)	87,664	64,463
At end of the year/period	148,239	139,731	227,395	291,858

As at 31 December 2012, 2013 and 2014, and 30 June 2015, there was no impairment recognised in respect of available-for-sale investments.

16. PROPERTY, PLANT AND EQUIPMENT

Group

Year ended 31 December 2012

	Buildings	Machinery, production equipment, and measurement and experimental equipment	Vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2012	654,716	365,934	29,552	91,435	62,245	1,203,882
Additions	18,164	9,938	4,521	3,988	90,982	127,593
Transfers from construction in progress	61,882	44,148	–	25,202	(131,232)	–
Transfers to other intangible assets (note 18)	–	–	–	–	(1,006)	(1,006)
Disposals	(639)	(5,474)	(583)	(88)	–	(6,784)
At 31 December 2012	<u>734,123</u>	<u>414,546</u>	<u>33,490</u>	<u>120,537</u>	<u>20,989</u>	<u>1,323,685</u>
Accumulated depreciation and impairment:						
At 1 January 2012	(43,133)	(138,865)	(12,330)	(15,195)	–	(209,523)
Depreciation charge for the year	(13,544)	(33,585)	(4,823)	(6,660)	–	(58,612)
Disposals	526	3,517	553	703	–	5,299
At 31 December 2012	<u>(56,151)</u>	<u>(168,933)</u>	<u>(16,600)</u>	<u>(21,152)</u>	<u>–</u>	<u>(262,836)</u>
Net carrying amount:						
At 31 December 2012	<u>677,972</u>	<u>245,613</u>	<u>16,890</u>	<u>99,385</u>	<u>20,989</u>	<u>1,060,849</u>
At 1 January 2012	<u>611,583</u>	<u>227,069</u>	<u>17,222</u>	<u>76,240</u>	<u>62,245</u>	<u>994,359</u>

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

Year ended 31 December 2013

	Buildings	Machinery, production equipment, and measurement and experimental equipment	Vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2013	734,123	414,546	33,490	120,537	20,989	1,323,685
Additions	868	27,145	1,691	5,012	50,956	85,672
Transfers from construction in progress	24,738	8,580	–	10,099	(43,417)	–
Disposals	–	(1,545)	(812)	(80)	–	(2,437)
At 31 December 2013	<u>759,729</u>	<u>448,726</u>	<u>34,369</u>	<u>135,568</u>	<u>28,528</u>	<u>1,406,920</u>
Accumulated depreciation and impairment:						
At 1 January 2013	(56,151)	(168,933)	(16,600)	(21,152)	–	(262,836)
Depreciation charge for the year	(19,751)	(38,325)	(4,884)	(11,163)	–	(74,123)
Disposals	–	1,426	700	73	–	2,199
At 31 December 2013	<u>(75,902)</u>	<u>(205,832)</u>	<u>(20,784)</u>	<u>(32,242)</u>	<u>–</u>	<u>(334,760)</u>
Net carrying amount:						
At 31 December 2013	<u>683,827</u>	<u>242,894</u>	<u>13,585</u>	<u>103,326</u>	<u>28,528</u>	<u>1,072,160</u>
At 1 January 2013	<u>677,972</u>	<u>245,613</u>	<u>16,890</u>	<u>99,385</u>	<u>20,989</u>	<u>1,060,849</u>

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

Year ended 31 December 2014

	Buildings	Machinery, production equipment, and measurement and experimental equipment	Vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2014	759,729	448,726	34,369	135,568	28,528	1,406,920
Additions	–	11,442	199	199	13,714	25,554
Transfers from construction in progress	–	92	–	9,784	(9,876)	–
Transfers to other intangible assets (note 18)	–	–	–	–	(1,955)	(1,955)
Disposal of a subsidiary . . .	–	(2,309)	(420)	(1,639)	(10,688)	(15,056)
Disposals	(317)	(2,922)	(438)	(402)	–	(4,079)
At 31 December 2014	<u>759,412</u>	<u>455,029</u>	<u>33,710</u>	<u>143,510</u>	<u>19,723</u>	<u>1,411,384</u>
Accumulated depreciation and impairment:						
At 1 January 2014	(75,902)	(205,832)	(20,784)	(32,242)	–	(334,760)
Depreciation charge for the year	(19,932)	(33,368)	(4,657)	(11,922)	–	(69,879)
Disposal of a subsidiary . . .	–	180	147	226	–	553
Disposals	–	2,740	292	343	–	3,375
At 31 December 2014	<u>(95,834)</u>	<u>(236,280)</u>	<u>(25,002)</u>	<u>(43,595)</u>	<u>–</u>	<u>(400,711)</u>
Net carrying amount:						
At 31 December 2014	<u>663,578</u>	<u>218,749</u>	<u>8,708</u>	<u>99,915</u>	<u>19,723</u>	<u>1,010,673</u>
At 1 January 2014	<u>683,827</u>	<u>242,894</u>	<u>13,585</u>	<u>103,326</u>	<u>28,528</u>	<u>1,072,160</u>

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

Six months ended 30 June 2015

	Buildings	Machinery, production equipment, and measurement and experimental equipment	Vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2015	759,412	455,029	33,710	143,510	19,723	1,411,384
Additions	–	4,919	136	1,563	7,246	13,864
Transfers from construction in progress	–	–	–	696	(696)	–
Transfers to other intangible assets (note 18)	–	–	–	–	(3,199)	(3,199)
Disposals	–	(625)	(1,720)	(2,333)	–	(4,678)
At 30 June 2015	<u>759,412</u>	<u>459,323</u>	<u>32,126</u>	<u>143,436</u>	<u>23,074</u>	<u>1,417,371</u>
Accumulated depreciation and impairment:						
At 1 January 2015	(95,834)	(236,280)	(25,002)	(43,595)	–	(400,711)
Depreciation charge for the period	(10,307)	(15,836)	(1,828)	(6,343)	–	(34,314)
Disposals	–	149	1,412	1,945	–	3,506
At 30 June 2015	<u>(106,141)</u>	<u>(251,967)</u>	<u>(25,418)</u>	<u>(47,993)</u>	<u>–</u>	<u>(431,519)</u>
Net carrying amount:						
At 30 June 2015	<u>653,271</u>	<u>207,356</u>	<u>6,708</u>	<u>95,443</u>	<u>23,074</u>	<u>985,852</u>
At 1 January 2015	<u>663,578</u>	<u>218,749</u>	<u>8,708</u>	<u>99,915</u>	<u>19,723</u>	<u>1,010,673</u>

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

Year ended 31 December 2012

	Buildings	Machinery, production equipment, and measurement and experimental equipment	Vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2012	582,075	298,944	26,356	89,843	60,642	1,057,860
Additions	15,461	6,566	2,050	3,216	79,851	107,144
Transfers from construction in progress	58,280	44,148	–	25,202	(127,630)	–
Disposals	(639)	(5,474)	(583)	(84)	–	(6,780)
At 31 December 2012 . . .	<u>655,177</u>	<u>344,184</u>	<u>27,823</u>	<u>118,177</u>	<u>12,863</u>	<u>1,158,224</u>
Accumulated depreciation and impairment:						
At 1 January 2012	(40,413)	(128,237)	(11,623)	(14,913)	–	(195,186)
Depreciation charge for the year	(11,486)	(25,143)	(3,893)	(6,300)	–	(46,822)
Disposals	526	3,517	553	701	–	5,297
At 31 December 2012 . . .	<u>(51,373)</u>	<u>(149,863)</u>	<u>(14,963)</u>	<u>(20,512)</u>	<u>–</u>	<u>(236,711)</u>
Net carrying amount:						
At 31 December 2012 . . .	<u>603,804</u>	<u>194,321</u>	<u>12,860</u>	<u>97,665</u>	<u>12,863</u>	<u>921,513</u>
At 1 January 2012	<u>541,662</u>	<u>170,707</u>	<u>14,733</u>	<u>74,930</u>	<u>60,642</u>	<u>862,674</u>

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

Year ended 31 December 2013

	Buildings	Machinery, production equipment, and measurement and experimental equipment	Vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2013	655,177	344,184	27,823	118,177	12,863	1,158,224
Additions	366	23,552	692	2,736	48,393	75,739
Transfers from construction in progress	24,738	8,580	–	10,099	(43,417)	–
Disposals	–	(1,545)	(437)	(74)	–	(2,056)
At 31 December 2013 . . .	<u>680,281</u>	<u>374,771</u>	<u>28,078</u>	<u>130,938</u>	<u>17,839</u>	<u>1,231,907</u>
Accumulated depreciation and impairment:						
At 1 January 2013	(51,373)	(149,863)	(14,963)	(20,512)	–	(236,711)
Depreciation charge for the year	(17,597)	(29,573)	(3,795)	(10,491)	–	(61,456)
Disposals	–	1,426	416	70	–	1,912
At 31 December 2013 . . .	<u>(68,970)</u>	<u>(178,010)</u>	<u>(18,342)</u>	<u>(30,933)</u>	<u>–</u>	<u>(296,255)</u>
Net carrying amount:						
At 31 December 2013 . . .	<u>611,311</u>	<u>196,761</u>	<u>9,736</u>	<u>100,005</u>	<u>17,839</u>	<u>935,652</u>
At 1 January 2013	<u>603,804</u>	<u>194,321</u>	<u>12,860</u>	<u>97,665</u>	<u>12,863</u>	<u>921,513</u>

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

Year ended 31 December 2014

	Buildings	Machinery, production equipment, and measurement and experimental equipment	Vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2014	680,281	374,771	28,078	130,938	17,839	1,231,907
Additions	–	8,126	–	–	10,421	18,547
Transfers from construction in progress	–	92	–	9,784	(9,876)	–
Transfers to other intangible assets (note 18)	–	–	–	–	(1,955)	(1,955)
Disposals	(317)	(19,170)	(438)	(320)	–	(20,245)
At 31 December 2014	<u>679,964</u>	<u>363,819</u>	<u>27,640</u>	<u>140,402</u>	<u>16,429</u>	<u>1,228,254</u>
Accumulated depreciation and impairment:						
At 1 January 2014	(68,970)	(178,010)	(18,342)	(30,933)	–	(296,255)
Depreciation charge for the year	(17,776)	(27,230)	(3,544)	(11,271)	–	(59,821)
Disposals	–	10,218	291	286	–	10,795
At 31 December 2014	<u>(86,746)</u>	<u>(195,022)</u>	<u>(21,595)</u>	<u>(41,918)</u>	<u>–</u>	<u>(345,281)</u>
Net carrying amount:						
At 31 December 2014	<u>593,218</u>	<u>168,797</u>	<u>6,045</u>	<u>98,484</u>	<u>16,429</u>	<u>882,973</u>
At 1 January 2014	<u>611,311</u>	<u>196,761</u>	<u>9,736</u>	<u>100,005</u>	<u>17,839</u>	<u>935,652</u>

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

Six months ended 30 June 2015

	Buildings	Machinery, production, measurement and experimental equipment	Vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2015	679,964	363,819	27,640	140,402	16,429	1,228,254
Additions	–	2,088	–	61	40	2,189
Transfers from construction in progress	–	–	–	696	(696)	–
Transfers to other intangible assets (note 18)	–	–	–	–	(3,199)	(3,199)
Disposals	–	(160)	(1,720)	(2,333)	–	(4,213)
At 30 June 2015	<u>679,964</u>	<u>365,747</u>	<u>25,920</u>	<u>138,826</u>	<u>12,574</u>	<u>1,223,031</u>
Accumulated depreciation and impairment:						
At 1 January 2015	(86,746)	(195,022)	(21,595)	(41,918)	–	(345,281)
Depreciation charge for the period	(9,228)	(12,943)	(1,285)	(5,972)	–	(29,428)
Disposals	–	149	1,412	1,945	–	3,506
At 30 June 2015	<u>(95,974)</u>	<u>(207,816)</u>	<u>(21,468)</u>	<u>(45,945)</u>	<u>–</u>	<u>(371,203)</u>
Net carrying amount:						
At 30 June 2015	<u>583,990</u>	<u>157,931</u>	<u>4,452</u>	<u>92,881</u>	<u>12,574</u>	<u>851,828</u>
At 1 January 2015	<u>593,218</u>	<u>168,797</u>	<u>6,045</u>	<u>98,484</u>	<u>16,429</u>	<u>882,973</u>

As at 31 December 2012, 2013 and 2014 and 30 June 2015, the Group is in the process of applying for the title certificates of certain of its buildings with an aggregate net carrying amount of approximately RMB23,148,000, RMB23,359,000, RMB22,636,000 and RMB22,285,000, respectively, and the Company is in the process of applying for the title certificates of certain of its buildings with an aggregate net carrying amount of approximately RMB10,332,000, RMB10,445,000, RMB9,988,000 and RMB9,830,000, respectively. The Directors are of the view that the Group and the Company are entitled to lawfully and validly occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's and the Company's financial position as at 30 June 2015.

17. PREPAID LAND LEASE PAYMENTS

Group

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of the year/period	374,295	375,277	300,395	284,653
Addition	9,446	12	–	–
Disposals (note i)	–	(68,061)	–	–
Disposal of a subsidiary	–	–	(9,050)	–
Amortisation	(8,464)	(6,833)	(6,692)	(3,322)
Carrying amount at end of the year/period	375,277	300,395	284,653	281,331
Portion classified as current assets	(8,464)	(6,833)	(6,644)	(6,644)
Non-current portion	<u>366,813</u>	<u>293,562</u>	<u>278,009</u>	<u>274,687</u>

Company

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of the year/period	341,095	333,532	259,554	253,638
Disposals (note i)	–	(68,061)	–	–
Amortisation	(7,563)	(5,917)	(5,916)	(2,958)
Carrying amount at end of the year/period	333,532	259,554	253,638	250,680
Portion classified as current assets	(7,563)	(5,916)	(5,916)	(5,916)
Non-current portion	<u>325,969</u>	<u>253,638</u>	<u>247,722</u>	<u>244,764</u>

Note:

- (i) In 2013, two pieces of industrial land of the Group were changed to allocated land for residential use and then disposed to certain employees. The consideration was received in 2014.

The leasehold land is situated in Mainland China and is held on a lease of 47 to 50 years.

18. OTHER INTANGIBLE ASSETS

Group

Year ended 31 December 2012

	Office software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2012	14,908	93	15,001
Additions	1,223	–	1,223
Transfer from construction in progress (note 16)	–	1,006	1,006
Disposals	–	(93)	(93)
At 31 December 2012	<u>16,131</u>	<u>1,006</u>	<u>17,137</u>
Accumulated amortisation:			
At 1 January 2012	(14,908)	–	(14,908)
Amortisation for the year	(237)	(84)	(321)
At 31 December 2012	<u>(15,145)</u>	<u>(84)</u>	<u>(15,229)</u>
Net carrying amount:			
At 31 December 2012	<u>986</u>	<u>922</u>	<u>1,908</u>
At 1 January 2012	<u>–</u>	<u>93</u>	<u>93</u>

Group

Year ended 31 December 2013

	Office software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2013	16,131	1,006	17,137
Additions	775	–	775
At 31 December 2013	<u>16,906</u>	<u>1,006</u>	<u>17,912</u>
Accumulated amortisation:			
At 1 January 2013	(15,145)	(84)	(15,229)
Amortisation for the year	(735)	(100)	(835)
At 31 December 2013	<u>(15,880)</u>	<u>(184)</u>	<u>(16,064)</u>
Net carrying amount:			
At 31 December 2013	<u>1,026</u>	<u>822</u>	<u>1,848</u>
At 1 January 2013	<u>986</u>	<u>922</u>	<u>1,908</u>

18. OTHER INTANGIBLE ASSETS (CONTINUED)

Group

Year ended 31 December 2014

	Office software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2014	16,906	1,006	17,912
Additions	157	–	157
Transfer from construction in progress (note 16)	1,955	–	1,955
At 31 December 2014	<u>19,018</u>	<u>1,006</u>	<u>20,024</u>
Accumulated amortisation:			
At 1 January 2014	(15,880)	(184)	(16,064)
Amortisation for the year	(761)	(100)	(861)
At 31 December 2014	<u>(16,641)</u>	<u>(284)</u>	<u>(16,925)</u>
Net carrying amount:			
At 31 December 2014	<u>2,377</u>	<u>722</u>	<u>3,099</u>
At 1 January 2014	<u>1,026</u>	<u>822</u>	<u>1,848</u>

Group

Six months ended 30 June 2015

	Office software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2015	19,018	1,006	20,024
Additions	435	602	1,037
Transfer from construction in progress (note 16)	3,199	–	3,199
At 30 June 2015	<u>22,652</u>	<u>1,608</u>	<u>24,260</u>
Accumulated amortisation:			
At 1 January 2015	(16,641)	(284)	(16,925)
Amortisation for the period	(1,470)	(92)	(1,562)
At 30 June 2015	<u>(18,111)</u>	<u>(376)</u>	<u>(18,487)</u>
Net carrying amount:			
At 30 June 2015	<u>4,541</u>	<u>1,232</u>	<u>5,773</u>
At 1 January 2015	<u>2,377</u>	<u>722</u>	<u>3,099</u>

18. OTHER INTANGIBLE ASSETS (CONTINUED)

Company

Year ended 31 December 2012

	Office software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2012	14,908	93	15,001
Additions	1,223	–	1,223
Disposals	–	(93)	(93)
At 31 December 2012	<u>16,131</u>	<u>–</u>	<u>16,131</u>
Accumulated amortisation:			
At 1 January 2012	(14,908)	–	(14,908)
Amortisation for the year	(237)	–	(237)
At 31 December 2012	<u>(15,145)</u>	<u>–</u>	<u>(15,145)</u>
Net carrying amount:			
At 31 December 2012	<u>986</u>	<u>–</u>	<u>986</u>
At 1 January 2012	<u>–</u>	<u>93</u>	<u>93</u>

Company

Year ended 31 December 2013

	Office software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2013	16,131	–	16,131
Additions	775	–	775
At 31 December 2013	<u>16,906</u>	<u>–</u>	<u>16,906</u>
Accumulated amortisation:			
At 1 January 2013	(15,145)	–	(15,145)
Amortisation for the year	(735)	–	(735)
At 31 December 2013	<u>(15,880)</u>	<u>–</u>	<u>(15,880)</u>
Net carrying amount:			
At 31 December 2013	<u>1,026</u>	<u>–</u>	<u>1,026</u>
At 1 January 2013	<u>986</u>	<u>–</u>	<u>986</u>

18. OTHER INTANGIBLE ASSETS (CONTINUED)

Company

Year ended 31 December 2014

	Office software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2014	16,906	–	16,906
Additions	157	–	157
Transfer from construction in progress (note 16)	1,955	–	1,955
At 31 December 2014	<u>19,018</u>	<u>–</u>	<u>19,018</u>
Accumulated amortisation:			
At 1 January 2014	(15,880)	–	(15,880)
Amortisation for the year	(761)	–	(761)
At 31 December 2014	<u>(16,641)</u>	<u>–</u>	<u>(16,641)</u>
Net carrying amount:			
At 31 December 2014	<u>2,377</u>	<u>–</u>	<u>2,377</u>
At 1 January 2014	<u>1,026</u>	<u>–</u>	<u>1,026</u>

Company

Six months ended 30 June 2015

	Office software	Others	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2015	19,018	–	19,018
Transfer from construction in progress (note 16)	3,199	–	3,199
At 30 June 2015	<u>22,217</u>	<u>–</u>	<u>22,217</u>
Accumulated amortisation:			
At 1 January 2015	(16,641)	–	(16,641)
Amortisation for the period	(1,463)	–	(1,463)
At 30 June 2015	<u>(18,104)</u>	<u>–</u>	<u>(18,104)</u>
Net carrying amount:			
At 30 June 2015	<u>4,113</u>	<u>–</u>	<u>4,113</u>
At 1 January 2015	<u>2,377</u>	<u>–</u>	<u>2,377</u>

19. DEFERRED TAX ASSETS/LIABILITIES

The movements in deferred tax assets/liabilities during the Relevant Periods are as follows:

Group**Deferred tax assets:**

	Year ended 31 December			Six months
				ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	13,909	10,962	14,776	23,002
Deferred tax credited/(charged) to profit or loss (note 10)	(2,968)	3,885	8,223	(7,647)
Deferred tax credited/(charged) to other comprehensive income	21	(71)	3	–
At end of the year/period	<u>10,962</u>	<u>14,776</u>	<u>23,002</u>	<u>15,355</u>

Deferred tax liabilities:

	Year ended 31 December			Six months
				ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	5,239	14,291	13,014	26,164
Deferred tax charged/(credited) to other comprehensive income	9,052	(1,277)	13,150	9,669
At end of the year/period	<u>14,291</u>	<u>13,014</u>	<u>26,164</u>	<u>35,833</u>

Company**Deferred tax assets:**

	Year ended 31 December			Six months
				ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	11,507	8,747	8,698	8,770
Deferred tax credited/(charged) to profit or loss	(2,781)	22	69	(103)
Deferred tax credited/(charged) to other comprehensive income	21	(71)	3	–
At end of the year/period	<u>8,747</u>	<u>8,698</u>	<u>8,770</u>	<u>8,667</u>

Deferred tax liabilities:

	Year ended 31 December			Six months
				ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	5,239	14,291	13,014	26,164
Deferred tax charged/(credited) to other comprehensive income	9,052	(1,277)	13,150	9,669
At end of the year/period	<u>14,291</u>	<u>13,014</u>	<u>26,164</u>	<u>35,833</u>

19. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

The deferred tax assets/liabilities are attributed to the following items:

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
Accruals and provisions	2,459	1,779	2,967	3,454
Provision for impairment of receivables	3,986	5,142	4,867	4,346
Impairment of inventories	389	793	1,465	1,766
Accrued but not paid salaries, wages and benefits	1,159	762	492	364
Government grants received not yet recognised as income	966	833	701	634
Unrealised gains arising from intra-group transactions	499	4,373	11,469	4,018
Others	1,504	1,094	1,041	773
	<u>10,962</u>	<u>14,776</u>	<u>23,002</u>	<u>15,355</u>

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax liabilities:				
Fair value movement on available-for-sale investments	<u>14,291</u>	<u>13,014</u>	<u>26,164</u>	<u>35,833</u>

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
Accruals and provisions	2,358	1,710	2,288	2,688
Provision for impairment of receivables	3,875	4,878	4,567	3,989
Impairment of inventories	389	515	722	992
Accrued but not paid salaries, wages and benefits	1,159	762	492	364
Government grants received not yet recognised as income	966	833	701	634
	<u>8,747</u>	<u>8,698</u>	<u>8,770</u>	<u>8,667</u>

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax liabilities:				
Fair value movement on available-for-sale investments	<u>14,291</u>	<u>13,014</u>	<u>26,164</u>	<u>35,833</u>

19. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

As at 31 December 2012, 2013 and 2014, and 30 June 2015, there were no unrecognised deferred tax assets in respect of deductible temporary differences and unused tax losses.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

20. INVENTORIES**Group**

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and parts and components	712,492	736,925	579,329	651,208
Materials in transit	67,629	11,273	61,326	28,757
Work in progress	313,059	337,491	307,715	333,631
Finished goods	795,877	770,102	387,096	329,086
	1,889,057	1,855,791	1,335,466	1,342,682
Provision for impairment	(2,596)	(5,286)	(9,764)	(11,774)
	<u>1,886,461</u>	<u>1,850,505</u>	<u>1,325,702</u>	<u>1,330,908</u>

Movements in the provision for impairment losses are as follows:

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Impairment:				
At beginning of the year/period	–	2,596	5,286	9,764
Provision for impairment losses	2,596	2,690	4,478	2,010
At end of the year/period	<u>2,596</u>	<u>5,286</u>	<u>9,764</u>	<u>11,774</u>

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and parts and components	525,977	469,964	301,133	302,707
Materials in transit	67,629	11,273	61,326	28,757
Work in progress	270,526	310,823	283,738	270,189
Finished goods	685,109	718,309	301,090	174,619
	1,549,241	1,510,369	947,287	776,272
Provision for impairment	(2,596)	(3,432)	(4,811)	(6,613)
	<u>1,546,645</u>	<u>1,506,937</u>	<u>942,476</u>	<u>769,659</u>

20. INVENTORIES (CONTINUED)

Company (continued)

Movements in the provision for impairment losses are as follows:

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Impairment:				
At beginning of the year/period	–	2,596	3,432	4,811
Provision for impairment losses	2,596	836	1,379	1,802
At end of the year/period	2,596	3,432	4,811	6,613

21. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three to six months for the customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has control to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customer. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. They are stated net of provisions.

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	446,542	451,571	580,147	770,157
Provision for impairment	(21,001)	(28,567)	(32,159)	(28,828)
Trade receivables, net	425,541	423,004	547,988	741,329
Bills receivable	5,300	22,100	4,233	16,025
	430,841	445,104	552,221	757,354

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	406,765	408,653	520,818	800,278
Provision for impairment	(20,444)	(27,075)	(30,164)	(26,199)
Trade receivables, net	386,321	381,578	490,654	774,079
Bills receivable	4,800	21,100	–	9,684
	391,121	402,678	490,654	783,763

21. TRADE AND BILLS RECEIVABLES (CONTINUED)

An aged analysis of the Group's and the Company's trade and bills receivables, based on the billing date and net of provision for impairment of trade receivables, as at the end of each of the Relevant Periods is as follows:

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	284,304	196,758	382,610	538,990
6 months to 1 year	39,557	86,663	46,966	99,846
1 to 2 years	78,317	139,806	67,700	42,731
2 to 3 years	16,785	12,607	44,171	67,881
Over 3 years	11,878	9,270	10,774	7,906
	<u>430,841</u>	<u>445,104</u>	<u>552,221</u>	<u>757,354</u>

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	261,335	184,330	360,630	621,780
6 months to 1 year	29,315	80,327	32,631	74,140
1 to 2 years	72,679	119,587	47,977	17,162
2 to 3 years	16,626	9,166	39,594	63,385
Over 3 years	11,166	9,268	9,822	7,296
	<u>391,121</u>	<u>402,678</u>	<u>490,654</u>	<u>783,763</u>

Movements in the provision for impairment losses are as follows:

Group

	Year ended 31 December			Six months ended
	2012	2013	2014	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	22,771	21,001	28,567	32,159
Impairment/(reversal of impairment) losses for the year/period (note 8)	(1,770)	7,566	3,592	(3,331)
At end of the year/period	<u>21,001</u>	<u>28,567</u>	<u>32,159</u>	<u>28,828</u>

21. TRADE AND BILLS RECEIVABLES (CONTINUED)

Group (continued)

Included in the provision for impairment of trade receivables are provision for individually impaired trade receivables of RMB9,591,000, RMB12,252,000, RMB11,609,000 and RMB6,238,000 with aggregate carrying amounts before provision of RMB109,566,000, RMB193,164,000, RMB155,596,000 and RMB104,798,000 as at 31 December 2012, 2013 and 2014, and 30 June 2015, respectively, for the Group.

Company

	Year ended 31 December			Six months ended
				30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	21,737	20,444	27,075	30,164
Impairment/(reversal of impairment) losses for the year/period	(1,293)	6,631	3,089	(3,965)
At end of the year/period	<u>20,444</u>	<u>27,075</u>	<u>30,164</u>	<u>26,199</u>

Included in the provision for impairment of trade receivables are provision for individually impaired trade receivables of RMB9,591,000, RMB11,845,000, RMB11,609,000 and RMB6,136,000 with aggregate carrying amounts before provision of RMB109,566,000, RMB177,671,000, RMB155,596,000 and RMB91,214,000 as at 31 December 2012, 2013 and 2014, and 30 June 2015, respectively, for the Company.

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

An aged analysis of the trade receivables, that are neither individually nor collectively considered to be impaired, is as follows:

Group

	As at 31 December			As at 30 June
				2015
	2012	2013	2014	
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	256,736	159,558	321,266	507,366
Past due but not impaired:				
Less than 6 months past due	—	—	582	—
	<u>256,736</u>	<u>159,558</u>	<u>321,848</u>	<u>507,366</u>

21. TRADE AND BILLS RECEIVABLES (CONTINUED)

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	253,396	164,695	311,706	584,696
Past due but not impaired:				
Less than 6 months past due	–	2,585	–	–
Over 6 months past due	–	–	665	–
	<u>253,396</u>	<u>167,280</u>	<u>312,371</u>	<u>584,696</u>

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Details of the outstanding balances with related parties included in trade and bills receivables are set out in note 35 of this section.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits and other receivables	29,124	75,571	10,265	10,939
Provision for impairment of deposits and other receivables ...	(5,384)	(5,448)	(282)	(395)
	23,740	70,123	9,983	10,544
Prepayments	45,124	56,777	306,431	287,108
Deductible input VAT	6,937	19,037	370	9,424
Prepaid urban construction tax	–	16,147	–	–
	<u>75,801</u>	<u>162,084</u>	<u>316,784</u>	<u>307,076</u>
Less: Long-term prepayments	(9,000)	(12,326)	(259,990)	(260,085)
Current portion	<u>66,801</u>	<u>149,758</u>	<u>56,794</u>	<u>46,991</u>

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits and other receivables	66,064	181,388	11,674	30,761
Provision for impairment of deposits and other receivables	(5,384)	(5,448)	(282)	(395)
	60,680	175,940	11,392	30,366
Prepayments	38,924	51,159	286,242	277,227
Deductible input VAT	–	13,560	–	5,909
Prepaid urban construction tax	–	16,147	–	–
Interest receivables	344	2,347	–	–
Dividend receivables	3,369	9,071	1,839	28,810
	103,317	268,224	299,473	342,312
Less: Long-term prepayments	(9,000)	(12,326)	(259,990)	(259,990)
Current portion	94,317	255,898	39,483	82,322

The movements in provision for impairment of deposits and other receivables are as follows:

Group

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	5,706	5,384	5,448	282
Impairment/(reversal of impairment) for the year/period (note 8)	(322)	64	1,389	113
Written off	–	–	(6,555)	–
At end of the year/period	5,384	5,448	282	395

No provision for individually impaired deposits and other receivables is included in the above provision as at the end of each of the Relevant Periods for the Group.

Company

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	5,706	5,384	5,448	282
Impairment/(reversal of impairment) for the year/period	(322)	64	1,389	113
Written off	–	–	(6,555)	–
At end of the year/period	5,384	5,448	282	395

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Company (continued)

No provision for individually impaired deposits and other receivables is included in the above provision as at the end of each of the Relevant Periods for the Company.

An aged analysis of the deposits and other receivables, that are neither individually nor collectively considered to be impaired, is as follows:

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	11,030	5,439	5,945	9,454
Past due but not impaired:				
Less than 6 months past due	10,197	59,040	89	585
Over 6 months past due	265	2,920	3,767	356
	<u>21,492</u>	<u>67,399</u>	<u>9,801</u>	<u>10,395</u>

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	50,890	114,176	11,211	30,217
Past due but not impaired:				
Less than 6 months past due	7,277	59,040	–	–
Over 6 months past due	265	–	–	–
	<u>58,432</u>	<u>173,216</u>	<u>11,211</u>	<u>30,217</u>

None of the balances except for the deposits and other receivables above is either past due or impaired, as they related to balances for which there was no recent history of default.

Details of the outstanding balances with related parties included in prepayments, deposits and other receivables are set out in note 35 of this section.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash	27	99	1	99
Bank balances	495,267	1,657,126	320,901	161,302
Pledged deposits	45,001	151,303	166,000	76,001
	540,295	1,808,528	486,902	237,402
Less: Pledged deposits for guarantees of bills payable	(45,001)	(151,303)	(166,000)	(76,001)
Cash and cash equivalents in the consolidated statements of financial position and cash flows	<u>495,294</u>	<u>1,657,225</u>	<u>320,902</u>	<u>161,401</u>
Denominated in:				
RMB	478,555	1,733,969	486,219	237,400
Euro	1,232	3,836	4	2
US dollar	60,508	70,723	679	–
	<u>540,295</u>	<u>1,808,528</u>	<u>486,902</u>	<u>237,402</u>

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash	11	22	1	23
Bank balances	467,405	1,620,898	280,740	136,729
Pledged deposits	45,001	150,103	166,000	69,000
	512,417	1,771,023	446,741	205,752
Less: Pledged deposits for guarantees of bills payable	(45,001)	(150,103)	(166,000)	(69,000)
Cash and cash equivalents in the statements of financial position	<u>467,416</u>	<u>1,620,920</u>	<u>280,741</u>	<u>136,752</u>
Denominated in:				
RMB	450,677	1,696,464	446,058	205,750
Euro	1,232	3,836	4	2
US dollar	60,508	70,723	679	–
	<u>512,417</u>	<u>1,771,023</u>	<u>446,741</u>	<u>205,752</u>

The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods mainly depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Details of the outstanding balances with related parties included in cash and cash equivalents are set out in note 35 of this section.

24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables, at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	815,514	897,649	960,875	874,638
1-2 years	5,242	15,922	2,044	1,169
2-3 years	416	4,923	561	559
Over 3 years	1,063	1,336	2,976	2,822
	<u>822,235</u>	<u>919,830</u>	<u>966,456</u>	<u>879,188</u>

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	654,033	859,646	833,821	696,340
1-2 years	5,242	15,796	1,211	1,073
2-3 years	388	4,923	561	559
Over 3 years	1,063	1,336	2,976	2,822
	<u>660,726</u>	<u>881,701</u>	<u>838,569</u>	<u>700,794</u>

Trade payables are non-interest-bearing and are normally settled within the agreed periods.

Details of the outstanding balances with related parties included in trade and bills payables are set out in note 35 of this section.

25. OTHER PAYABLES AND ACCRUALS**Group**

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	268,546	1,305,006	147,181	62,087
Accrued salaries, wages and benefits	57,494	46,458	18,715	10,672
Dividends payable	–	–	–	115,589
Dividends payable to non-controlling shareholders	–	2	587	2,524
Other taxes payables	27,060	19,131	54,838	3,974
Other payables	97,584	115,547	57,963	64,006
	<u>450,684</u>	<u>1,486,144</u>	<u>279,284</u>	<u>258,852</u>

25. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	240,403	1,293,456	125,999	46,143
Accrued salaries, wages and benefits	55,655	44,167	14,295	6,507
Dividends payable	–	–	–	115,589
Other taxes payables	26,599	7,183	40,113	949
Other payables	65,428	62,828	24,900	28,870
	<u>388,085</u>	<u>1,407,634</u>	<u>205,307</u>	<u>198,058</u>

The above amounts are unsecured, non-interest-bearing and have no fixed terms of settlement.

Details of the outstanding balances with related parties included in other payables and accruals are set out in note 35 of this section.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	As at 31 December						As at 30 June					
	2012			2013			2014			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current:												
Unsecured	4.78-7.20	2013	1,280,000	5.28-5.60	2014	783,000	–	–	–	–	–	–
Total			<u>1,280,000</u>			<u>783,000</u>			<u>–</u>			<u>–</u>
Interest-bearing bank and other borrowings denominated in:												
– RMB			<u>1,280,000</u>			<u>783,000</u>			<u>–</u>			<u>–</u>

Company

	As at 31 December						As at 30 June					
	2012			2013			2014			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current:												
Unsecured	4.78-7.20	2013	1,280,000	5.28	2014	770,000	–	–	–	–	–	–
Total			<u>1,280,000</u>			<u>770,000</u>			<u>–</u>			<u>–</u>
Interest-bearing bank and other borrowings denominated in:												
– RMB			<u>1,280,000</u>			<u>770,000</u>			<u>–</u>			<u>–</u>

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Company (continued)

The maturity profile of the interest-bearing bank and other borrowings as at the end of each of the Relevant Periods is as follows:

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans repayable:				
Within one year	330,000	13,000	–	–
Other borrowings repayable:				
Within one year	950,000	770,000	–	–
	<u>1,280,000</u>	<u>783,000</u>	<u>–</u>	<u>–</u>

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans repayable:				
Within one year	330,000	–	–	–
Other borrowings repayable:				
Within one year	950,000	770,000	–	–
	<u>1,280,000</u>	<u>770,000</u>	<u>–</u>	<u>–</u>

Other interest rate information:

Group

	As at 31 December						As at 30 June	
	2012		2013		2014		2015	
	Fixed rate RMB'000	Floating rate RMB'000	Fixed rate RMB'000	Floating rate RMB'000	Fixed rate RMB'000	Floating rate RMB'000	Fixed rate RMB'000	Floating rate RMB'000
Bank loans:								
Unsecured	250,000	80,000	13,000	–	–	–	–	–
Other borrowings:								
Unsecured	750,000	200,000	–	770,000	–	–	–	–
	<u>1,000,000</u>	<u>280,000</u>	<u>13,000</u>	<u>770,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Company

	As at 31 December						As at 30 June	
	2012		2013		2014		2015	
	Fixed rate RMB'000	Floating rate RMB'000	Fixed rate RMB'000	Floating rate RMB'000	Fixed rate RMB'000	Floating rate RMB'000	Fixed rate RMB'000	Floating rate RMB'000
Bank loans:								
Unsecured	250,000	80,000	–	–	–	–	–	–
Other borrowings:								
Unsecured	750,000	200,000	–	770,000	–	–	–	–
	<u>1,000,000</u>	<u>280,000</u>	<u>–</u>	<u>770,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Details of the outstanding balances with related parties included in interest-bearing bank and other borrowings are set out in note 35 of this section.

27. PROVISIONS

Group

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Product warranties:				
At beginning of the year/period	5,430	6,150	6,811	8,453
Additional provision, net (note 8)	4,479	4,972	5,864	2,686
Amounts utilised during the year/period	(3,759)	(4,311)	(4,222)	(2,926)
At end of the year/period	<u>6,150</u>	<u>6,811</u>	<u>8,453</u>	<u>8,213</u>

Company

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Product warranties:				
At beginning of the year/period	4,003	3,681	4,222	4,945
Additional provision, net	3,437	4,852	4,945	279
Amounts utilised during the year/period	(3,759)	(4,311)	(4,222)	(730)
At end of the year/period	<u>3,681</u>	<u>4,222</u>	<u>4,945</u>	<u>4,494</u>

The Group provides one year warranties to its customers on certain products, under which faulty products will be repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

28. GOVERNMENT GRANTS

Group

	Year ended 31 December			Six months ended
				30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	47,200	43,131	38,205	28,964
Additions	756	–	–	–
Recognised as income	(4,825)	(4,926)	(9,241)	(2,464)
At end of the year/period	43,131	38,205	28,964	26,500
Portion classified as current liabilities	(4,871)	(4,871)	(4,926)	(4,926)
Non-current portion	38,260	33,334	24,038	21,574

Company

	Year ended 31 December			Six months ended
				30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	41,622	36,797	31,926	27,055
Recognised as income	(4,825)	(4,871)	(4,871)	(2,436)
At end of the year/period	36,797	31,926	27,055	24,619
Portion classified as current liabilities	(4,871)	(4,871)	(4,871)	(4,871)
Non-current portion	31,926	27,055	22,184	19,748

29. PAID-IN/SHARE CAPITAL

The movements of paid-in/share capital are as follows:

	Notes	Year ended 31 December			Six months ended
					30 June
		2012	2013	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period		587,984	587,984	987,984	987,984
Cash contribution from the shareholder	(i)	–	400,000	–	–
At end of the year/period	(ii)	587,984	987,984	987,984	987,984

Notes:

- (i) Pursuant to the board's resolution of CRCC on 23 December 2013, the Company's paid-in capital was increased from RMB587,984,000 to RMB987,984,000 which was contributed by CRCC in cash.

29. PAID-IN/SHARE CAPITAL (CONTINUED)

- (ii) Pursuant to the promoter agreement dated 12 May 2015 entered into among CRCC, China Railway Construction Investment Group Co., Ltd., CRCC International Group Co., Ltd., China Civil Engineering Construction Ltd. and CRCC China-Africa Construction Limited, the Company was converted from a limited liability company into a joint stock limited company on 24 June 2015 and the share capital of the Company is RMB987,984,000. The initial share capital of the Company is RMB987,984,000 divided into 987,984,000 shares with the par value of RMB1 each.

30. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the Relevant Periods and the six months ended 30 June 2014 are presented in the consolidated statements of changes in equity.

30. RESERVES (CONTINUED)

(b) Company

	Capital reserve	Special reserve	Surplus reserve	Retained profits	Available- for-sale investments revaluation reserve	Defined benefit plans revaluation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2012	766,518	–	75,723	218,452	29,684	(10,357)	1,080,020
Profit for the year	–	–	–	151,491	–	–	151,491
Other comprehensive income for the year:							
Re-measurement gains on available-for-sale investments, net of tax	–	–	–	–	51,293	–	51,293
Re-measurement losses on defined benefit plans, net of tax	–	–	–	–	–	(119)	(119)
Total comprehensive income . . .	–	–	–	151,491	51,293	(119)	202,665
Dividends declared	–	–	–	(70,628)	–	–	(70,628)
Appropriation to statutory surplus reserve	–	–	15,149	(15,149)	–	–	–
Transfer to special reserve	–	4,845	–	(4,845)	–	–	–
Utilisation of special reserve . . .	–	(4,845)	–	4,845	–	–	–
As at 31 December 2012 and 1 January 2013	766,518	–	90,872	284,166	80,977	(10,476)	1,212,057
Profit for the year	–	–	–	256,633	–	–	256,633
Other comprehensive income for the year:							
Re-measurement losses on available-for-sale investments, net of tax	–	–	–	–	(7,231)	–	(7,231)
Re-measurement gains on defined benefit plans, net of tax	–	–	–	–	–	400	400
Total comprehensive income . . .	–	–	–	256,633	(7,231)	400	249,802
Dividends declared	–	–	–	(65,793)	–	–	(65,793)
Appropriation to statutory surplus reserve	–	–	25,663	(25,663)	–	–	–
Transfer to special reserve	–	4,953	–	(4,953)	–	–	–
Utilisation of special reserve . . .	–	(4,953)	–	4,953	–	–	–
As at 31 December 2013	766,518	–	116,535	449,343	73,746	(10,076)	1,396,066

30. RESERVES (CONTINUED)

(b) Company (continued)

	Capital reserve	Special reserve	Surplus reserve	Retained profits	Available- for-sale investments revaluation reserve	Defined benefit plans revaluation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2014	766,518	–	116,535	449,343	73,746	(10,076)	1,396,066
Profit for the year	–	–	–	277,803	–	–	277,803
Other comprehensive income for the year:							
Re-measurement gains on available-for-sale investments, net of tax	–	–	–	–	74,514	–	74,514
Re-measurement losses on defined benefit plans, net of tax	–	–	–	–	–	(17)	(17)
Total comprehensive income	–	–	–	277,803	74,514	(17)	352,300
Dividends declared	–	–	–	(70,007)	–	–	(70,007)
Appropriation to statutory surplus reserve	–	–	27,780	(27,780)	–	–	–
Transfer to special reserve	–	5,395	–	(5,395)	–	–	–
Utilisation of special reserve	–	(5,395)	–	5,395	–	–	–
As at 31 December 2014 and 1 January 2015	766,518	–	144,315	629,359	148,260	(10,093)	1,678,359
Profit for the period	–	–	–	221,848	–	–	221,848
Other comprehensive income for the period:							
Re-measurement gains on available-for-sale investments, net of tax	–	–	–	–	54,794	–	54,794
Total comprehensive income	–	–	–	221,848	54,794	–	276,642
Dividends declared	–	–	–	(69,898)	–	–	(69,898)
Special dividend declared (note 12(i))	–	–	–	(115,589)	–	–	(115,589)
Converted into a joint stock limited company	797,191	–	(153,656)	(643,535)	–	–	–
Appropriation to statutory surplus reserve	–	–	22,185	(22,185)	–	–	–
Transfer to special reserve	–	2,698	–	(2,698)	–	–	–
Utilisation of special reserve	–	(2,698)	–	2,698	–	–	–
As at 30 June 2015	1,563,709	–	12,844	–	203,054	(10,093)	1,769,514

31. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Group did not have any contingent liabilities not provided for in the Financial Information.

32. PLEDGE OF ASSETS

Details of the Group's assets pledged for guarantees of bills payable are disclosed in note 23 of this section.

33. OPERATING LEASE ARRANGEMENTS

As lessor

At the end of each of the Relevant Periods, the Group and the Company had the following total future minimum lease receivables under non-cancellable operating leases falling due as follows:

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,965	1,965	1,965	1,965
In the second to third years, inclusive	3,930	3,930	3,930	3,930
After three years	4,912	2,947	982	–
	<u>10,807</u>	<u>8,842</u>	<u>6,877</u>	<u>5,895</u>

Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	8,395	11,042	6,918	4,738
In the second to third years, inclusive	12,153	10,154	7,530	7,709
After three years	4,912	9,847	6,082	4,200
	<u>25,460</u>	<u>31,043</u>	<u>20,530</u>	<u>16,647</u>

As lessee

At the end of each of the Relevant Periods, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	629	210	763	673
In the second to third years, inclusive	215	–	1,024	563
	<u>844</u>	<u>210</u>	<u>1,787</u>	<u>1,236</u>

At the end of each of the Relevant Periods, the Company had no lease payments under non-cancellable operating leases.

35. RELATED PARTY TRANSACTIONS (CONTINUED)

The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

In the opinion of the Directors, the following related party transactions shall also constitute continuing connected transactions under chapter 14A of the Listing Rules after the listing of the Company's shares on the Stock Exchange:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Sales of machines:					
Fellow subsidiaries	132,882	26,931	59,031	22,291	42,132
Sales of parts and components:					
CRCC	595	–	172	172	–
Fellow subsidiaries	601	2,104	1,888	192	885
	1,196	2,104	2,060	364	885
Overhaul services provided to:					
Fellow subsidiaries	3,470	–	218	–	–
Railway line maintenance services provided to:					
Fellow subsidiaries	18,112	18,739	16,698	962	5,397
Rental expenses paid to:					
A subsidiary of CRCCG	126	126	126	–	–
Interest income received from:					
A fellow subsidiary	22	4,311	8,911	6,420	1,055

(b) Outstanding balances with related parties

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents:				
Deposits in a fellow subsidiary	67,946	1,508,702	173,864	119,310
Trade and bills receivables:				
Due from fellow subsidiaries	78,104	79,257	80,877	84,469
Prepayments, deposits and other receivables:				
Due from fellow subsidiaries	3,378	2,928	2,928	2,928
Long-term prepayments to a fellow subsidiary (note i)	–	–	240,838	240,838
	3,378	2,928	243,766	243,766
Trade and bills payables:				
Due to fellow subsidiaries	240	95	1,010	915

35. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties (continued)

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals:				
Due to fellow subsidiaries	2,376	19,293	–	4,362
Due to CRCC	49	36	11,764	–
Due to a subsidiary of CRCCG	14,251	14,251	–	–
Dividends payable to fellow subsidiaries	–	2	587	4,836
Dividends payable to CRCC	–	–	–	113,277
	<u>16,676</u>	<u>33,582</u>	<u>12,351</u>	<u>122,475</u>
Interest-bearing bank and other borrowings:				
Loan from a fellow subsidiary	200,000	770,000	–	–
Loan from CRCC	750,000	–	–	–
	<u>950,000</u>	<u>770,000</u>	<u>–</u>	<u>–</u>

Note:

- (i) On 4 November 2014, the Company entered into an agreement with Beijing China Railway Fangshan Bridge which is a second-level subsidiary of CRCC. Pursuant to the agreement, the Company would further acquire 33% equity interest in its subsidiary, Beijing Ruiweitong Engineering Machinery Co., Ltd. ("Ruiweitong"), for a cash consideration of RMB240,838,000. After the acquisition, Ruiweitong would become a wholly-owned subsidiary of the Company. The Company made a prepayment of RMB240,838,000 for the acquisition in November 2014. The acquisition has been completed in August 2015.

(c) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short term employee benefits	6,874	8,475	7,049	2,184	2,502
Pension scheme contribution	363	422	477	239	240
	<u>7,237</u>	<u>8,897</u>	<u>7,526</u>	<u>2,423</u>	<u>2,742</u>

Further details of directors' and supervisors' remuneration are included in note 9 of this section.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group*Financial assets*

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial investments:				
Available-for-sale investments	148,239	139,731	227,395	291,858
Loans and receivables:				
Trade and bills receivables	430,841	445,104	552,221	757,354
Financial assets included in prepayments, deposits and other receivables	30,677	105,307	10,353	19,968
Pledged deposits	45,001	151,303	166,000	76,001
Cash and cash equivalents	495,294	1,657,225	320,902	161,401
	<u>1,150,052</u>	<u>2,498,670</u>	<u>1,276,871</u>	<u>1,306,582</u>

Financial liabilities

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at amortised cost:				
Trade and bills payables	822,235	919,830	966,456	879,188
Financial liabilities included in other payables and accruals	124,644	134,680	113,388	186,093
Interest-bearing bank and other borrowings	1,280,000	783,000	–	–
	<u>2,226,879</u>	<u>1,837,510</u>	<u>1,079,844</u>	<u>1,065,281</u>

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows: (continued)

Company*Financial assets*

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial investments:				
Available-for-sale investments	148,239	139,731	227,395	291,858
Loans and receivables:				
Trade and bills receivables	391,121	402,678	490,654	783,763
Financial assets included in prepayments, deposits and other receivables	64,393	217,065	13,231	65,085
Pledged deposits	45,001	150,103	166,000	69,000
Cash and cash equivalents	467,416	1,620,920	280,741	136,752
	<u>1,116,170</u>	<u>2,530,497</u>	<u>1,178,021</u>	<u>1,346,458</u>

Financial liabilities

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at amortised cost:				
Trade and bills payables	660,726	881,701	838,569	700,794
Financial liabilities included in other payables and accruals	92,027	70,011	65,013	145,408
Interest-bearing bank and other borrowings	1,280,000	770,000	–	–
	<u>2,032,753</u>	<u>1,721,712</u>	<u>903,582</u>	<u>846,202</u>

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follow:

Group and Company

	Carrying amounts				Fair values			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2012	2013	2014	2015	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets								
Available-for-sale investments	148,239	139,731	227,395	291,858	148,239	139,731	227,395	291,858

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with senior management twice a year for annual and semiannual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Available-for-sale investments of the Group and the Company measured at fair value as at the end of each reporting period are listed equity investments categorised within level 2 of the fair value hierarchy and the fair values of which are based on quoted market prices, after considering non-liquidity discount effect.

During the Relevant Periods, there were no transfer of fair value measurements between level 1 and level 2 and no transfers into or out of level 3 for both financial assets and financial liabilities.

38. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are derecognised in their entirety

As at 31 December 2012, 2013 and 2014, and 30 June 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB92,130,000, RMB40,944,000, RMB50,000,000 and RMB83,631,000, respectively. The Derecognised Bills had a maturity of one to six months at the end of each reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to

38. TRANSFERS OF FINANCIAL ASSETS (CONTINUED)**Transferred financial assets that are derecognised in their entirety (continued)**

the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the Relevant Periods, the Group has not recognised any gains or losses on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the Relevant Periods or cumulatively. The endorsement has been made evenly throughout the Relevant Periods.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings and cash and bank balances. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. With its borrowings issued at fixed and floating interest rates, the Group is exposed to both fair value and cash flow interest rate risks.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. The Group's interest-bearing bank and other borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

As at 31 December 2012 and 2013, floating interest rate borrowings accounted for about 22% and 98% of the Group's borrowings, and fixed interest rate borrowings accounted for about 78% and 2%. As at 31 December 2014 and 30 June 2015, no borrowings were kept by the Group. Management would adjust the proportion of floating rate borrowings based on changes in the market interest rates to reduce the significant impact of the interest rate risk.

If there would be a general increase/decrease in the market interest rates by one percentage point, with all other variables held constant, the Group's consolidated pre-tax profit would have decreased/increased by approximately RMB253,000 and RMB1,199,000 for the years ended 31 December 2012 and 2013 respectively, and there would be no impact on other components of the consolidated equity, except for retained profits, of the Group. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at the end of each reporting periods and had applied the exposure to interest rate risk to those financial instruments in existence at those dates.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's business transacted in RMB, the aforesaid currency is defined as the Group's functional currency. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

As a result of its significant business operations in Mainland China, the Group's revenue and expenses are mainly denominated in RMB and over 95% of the financial assets and liabilities are denominated in RMB. The effect of the fluctuations in the exchange rates of RMB against foreign currencies on the Group's results of operations is therefore minimal and the Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regard.

Details of the Group's cash and cash equivalents and pledged deposits at the end of each of the Relevant Periods are disclosed in note 23 of this section.

The following tables indicate the changes in the Group's profit before tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure during the Relevant Periods. The sensitivity analysis is on bank deposits in United States dollars and Euro.

Effects on profit before tax

	Increase/ (decrease) in foreign exchange rate	Increase/(decrease) in profit before tax			
		Year ended 31 December			Six months ended
		2012	2013	2014	30 June
		RMB'000	RMB'000	RMB'000	2015 RMB'000
If USD strengthens against RMB	10%	6,051	7,072	68	-
If USD weakens against RMB	(10%)	(6,051)	(7,072)	(68)	-
If EURO strengthens against RMB	10%	123	384	-	-
If EURO weakens against RMB	(10%)	(123)	(384)	-	-

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the end of each of the Relevant Periods and has applied the exposure to foreign currency risk to bank deposits denominated in United States dollars and Euro in existence at that dates.

(c) Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables and financial assets included in prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

The Group trades only with recognised and creditworthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**(c) Credit risk (continued)**

As disclosed in note 5 of this section, the Group generates substantial proportion of revenue from a small number of customers. As a result, it faces concentration of credit risk. The Group manages this risk by maintaining a strict control over its outstanding receivables and senior management regularly reviews the overdue balances. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. As the Group's major customers are either PRC government agencies at the national, provincial and local levels or other state-owned entities, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. The senior management of the Company keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in notes 21 and 22 to the Financial Information.

(d) Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities at the end of each of the Relevant Periods based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of each of the Relevant Periods.

Group

	Within 1 year	Total
	RMB'000	RMB'000
31 December 2012		
Trade and bills payables	822,235	822,235
Financial liabilities included in other payables and accruals	124,644	124,644
Interest-bearing bank and other borrowings	<u>1,320,696</u>	<u>1,320,696</u>
	<u>2,267,575</u>	<u>2,267,575</u>
31 December 2013		
Trade and bills payables	919,830	919,830
Financial liabilities included in other payables and accruals	134,680	134,680
Interest-bearing bank and other borrowings	<u>802,459</u>	<u>802,459</u>
	<u>1,856,969</u>	<u>1,856,969</u>
31 December 2014		
Trade and bills payables	966,456	966,456
Financial liabilities included in other payables and accruals	113,388	113,388
	<u>1,079,844</u>	<u>1,079,844</u>
30 June 2015		
Trade and bills payables	879,188	879,188
Financial liabilities included in other payables and accruals	186,093	186,093
	<u>1,065,281</u>	<u>1,065,281</u>

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (continued)

Company

	<u>Within 1 year</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2012		
Trade and bills payables	660,726	660,726
Financial liabilities included in other payables and accruals	92,027	92,027
Interest-bearing bank and other borrowings	1,320,696	1,320,696
	<u>2,073,449</u>	<u>2,073,449</u>
31 December 2013		
Trade and bills payables	881,701	881,701
Financial liabilities included in other payables and accruals	70,011	70,011
Interest-bearing bank and other borrowings	789,326	789,326
	<u>1,741,038</u>	<u>1,741,038</u>
31 December 2014		
Trade and bills payables	838,569	838,569
Financial liabilities included in other payables and accruals	65,013	65,013
	<u>903,582</u>	<u>903,582</u>
30 June 2015		
Trade and bills payables	700,794	700,794
Financial liabilities included in other payables and accruals	145,408	145,408
	<u>846,202</u>	<u>846,202</u>

(e) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investment classified as available-for-sale investments (note 15) at the end of each reporting period. The Group's listed investment is listed on the Hong Kong stock exchanges and is valued based on quoted market prices after considering non-liquidity discount effect at the end of each reporting period.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Equity price risk (continued)

The market equity indices for the following stock exchange, at the close of business of the nearest trading day in the year to the end of each reporting period, and their respective highest and lowest points during the reporting period were as follows:

	31 December	High/low	31 December	High/low	31 December	High/low	30 June	High/low
	2012	2012	2013	2013	2014	2014	2015	2015
Hong Kong – Hang Seng								
Index	22,660	22,719/ 18,506	23,306	24,111/ 19,426	23,605	25,363/ 21,138	26,664	28,589/ 23,313

The following table demonstrates the sensitivity to every 10% change in the fair value of the equity investment, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of each reporting period. For the purpose of this analysis, for the available-for-sale equity investment, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the statement of profit or loss.

	Increase/ (decrease) in carrying amount of equity investment	Increase/(decrease) in equity			
		Year ended 31 December			Six months ended 30 June
		2012	2013	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Investment listed in:					
Hong Kong – Available-for-sale	10%	12,600	11,877	19,329	24,808
	(10%)	(12,600)	(11,877)	(19,329)	(24,808)

(f) Capital management

The Group's primary objective for managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, by pricing services and good products commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debts. No change was made in the objectives, policies or processes for managing capital during the Relevant Periods and the six months ended 30 June 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes Interest-bearing bank and other borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent stated in the consolidated statements of financial position.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(f) Capital management (continued)

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its businesses. The gearing ratios as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables (note 24)	822,235	919,830	966,456	879,188
Financial liabilities included in other payables and accruals	124,644	134,680	113,388	186,093
Interest-bearing bank and other borrowings (note 26)	1,280,000	783,000	–	–
Cash and cash equivalents (note 23)	(495,294)	(1,657,225)	(320,902)	(161,401)
Pledged deposits (note 23)	(45,001)	(151,303)	(166,000)	(76,001)
Net debt	1,686,584	28,982	592,942	827,879
Equity attributable to owners of the parent	1,866,845	2,481,106	2,840,456	2,935,589
Net debt and equity attributable to owners of the parent	<u>3,553,429</u>	<u>2,510,088</u>	<u>3,433,398</u>	<u>3,763,468</u>
Gearing ratio	<u>47%</u>	<u>1%</u>	<u>17%</u>	<u>22%</u>

40. SUBSEQUENT EVENT

- On 4 November 2014, the Company entered into an agreement with Beijing China Railway Fangshan Bridge which is a second-level subsidiary of CRCC. Pursuant to the agreement, the Company would further acquire 33% equity interest in its subsidiary, Beijing Ruiweitong Engineering Machinery Co., Ltd. ("Ruiweitong"), for a cash consideration of RMB240,838,000. After the acquisition, Ruiweitong would become a wholly-owned subsidiary of the Company. The Company made a prepayment of RMB240,838,000 for the acquisition in November 2014. The acquisition has been completed in August 2015.
- Pursuant to a resolution passed by the shareholders on 16 November 2015, the Company declared a dividend of RMB182.6 million, which amounted to the accumulated distributable profits of the Group as of 31 March 2015. On 27 November 2015, the Company paid the above dividend and the special dividend as disclosed in note 12 of this section, totally amounted to RMB298.2 million.
- On 18 November 2015, the Company borrowed one interest-bearing bank loan amounting to RMB350.0 million for a term of one year.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 30 June 2015.

Yours faithfully

Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

This information set forth in this Appendix II does not form part of the accountants' report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I in this Prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this Prospectus and the accountants' report set forth in Appendix I in the prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets attributable to the Shareholders of the 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 Shareholders of the Company as of June 30, 2015, as if the Global Offering had taken place on June 30, 2015.

The statement of unaudited pro forma 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 the Group had the Global Offering been completed as of June 30, 2015 or at any future date.

	Consolidated net tangible assets attributable to Shareholders of the Company as of June 30, 2015⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company upon completion of the Global Offering⁽³⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company per Share upon completion of the Global Offering⁽⁴⁾	
	RMB'000	RMB'000	RMB'000	RMB⁽⁵⁾	HK\$⁽⁶⁾
Based on an Offer Price of HK\$5.21 per Share	2,929,816	2,159,195	5,089,011	3.35	4.06
Based on an Offer Price of HK\$5.76 per Share	2,929,816	2,390,318	5,320,134	3.50	4.25

Notes:

- (1) The consolidated net tangible assets attributable to the Shareholders of the Company as of June 30, 2015 is extracted from the Accountants' Report set out in Appendix I in this prospectus, which is based on the consolidated net assets attributable to the Shareholders of the Company as of June 30, 2015 of RMB2,935.6 million after deducting intangible assets of RMB5.8 million. For the avoidance of doubt, the consolidated net tangible assets attributable to the Shareholders of the Company as of June 30, 2015 have reflected the special dividend representing the retained profits of the Group earned and accrued from April 1, 2015 to June 30, 2015 as declared by the Company pursuant to the special dividend resolution on June 24, 2015. Pursuant to the dividend resolution on November 16, 2015, the Company declared a dividend of RMB182.6 million, which amounted to the accumulated distributable profits of the Group as of March 31, 2015. See footnotes 3 and 4

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

hereto for the pro forma information of the adjusted consolidated net tangible assets attributable to the Shareholders of the Company after taking into account the effect of the dividend which amounted to the accumulated distributable profits of the Group as of March 31, 2015.

- (2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK\$5.21 and HK\$5.76, after deducting the underwriting fees and other related expenses payable by the Company, without taking account of the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted into Renminbi at the PBOC rate of HK\$1.00 = RMB0.82406 prevailing on November 23, 2015.
- (3) If taking into account the effect of the dividend of RMB182.6 million, which amounted to the accumulated distributable profits of the Group as of March 31, 2015, the unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company would be RMB4,906,430,000 (based on an Offer Price of HK\$5.21 per Share), or RMB5,137,553,000 (based on an Offer Price of HK\$5.76 per Share).
- (4) If taking into account the effect of the dividend of RMB182.6 million, which amounted to the accumulated distributable profits of the Group as of March 31, 2015, the unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company per Share would be RMB3.23 or HK\$3.92 (based on an Offer Price of HK\$5.21 per Share), or RMB3.38 or HK\$4.10 (based on an Offer Price of HK\$5.76 per Share).
- (5) The unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company per Share is arrived by dividing the unaudited pro forma adjusted net tangible assets by 1,519,884,000 Shares, being the number of shares in issue assuming that the Global Offering had been completed on June 30, 2015, without taking account of the exercise of the Over-allotment Option.
- (6) The unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Company per Share amounts in RMB are converted into Hong Kong dollars at HK\$1.00 = RMB0.82406 prevailing on November 23, 2015.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION



22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

3 December 2015

To the Directors of CRCC High-Tech Equipment Corporation Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of CRCC High-Tech Equipment Corporation Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at June 30, 2015, and related notes as set out on pages II-1 to II-2 of the Prospectus issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Part A of Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at June 30, 2015 as if the transaction had taken place at June 30, 2015. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the six months ended June 30, 2015, on which accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Reporting Accountants’ responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the HKICPA.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants

Hong Kong

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at September 30, 2015 of the property held by the Group.



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

December 3, 2015

The Board of Directors
CRCC High-Tech Equipment Corporation Limited
No. 384 Yangfangwang
Jinma Town
Kunming City
Yunnan Province
PRC

Dear Sirs,

In accordance with your instructions to value a selected property interest held by CRCC High-Tech Equipment Corporation Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interest as at September 30, 2015 (the "valuation date").

Having considered the implications of Rule 5.01A(2) of the Listing Rules, the selected property interest we valued is the property interest that do not form part of its property activities and the carrying amount of such property interest comprising land, buildings and structures is above 15% of its total assets.

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the property and the particular location in which it is situated, there are unlikely to be relevant market comparable sales readily available. The property interest has therefore been valued by Cost Approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates and Building Ownership Certificates relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Jia Yuan Law Offices, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out in May 2015 by Ms. Cyndi Huang. Ms. Cyndi Huang is a China Real Estate Appraiser and has 3 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 21 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property interest held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2015 RMB
4 parcels of land, 42 buildings and various structures located at No. 384 Yangfangwang Jinma Town Guandu District Kunming City Yunnan Province The PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 376,003.41 sq.m., 42 buildings and various ancillary structures erected thereon which were completed in various stages between 1963 and 2014.</p> <p>The buildings have a total gross floor area of approximately 163,673.26 sq.m.</p> <p>The buildings mainly include industrial buildings, technical center, office buildings, engineering research center, canteens and a dormitory.</p> <p>The structures mainly include material field, sewage treatment facilities, boundary walls and roads.</p> <p>The land use rights of 3 parcels of land with a total site area of approximately 325,628.61 sq.m. have been granted for various terms with the expiry dates on August 25, 2054 for 2 parcels of land and October 7, 2058 for the other parcel of land for industrial use.</p> <p>The land use rights of the remaining parcel of land with a site area of approximately 50,374.80 sq.m. have been granted without the specific expiry date for industrial use.</p>	As at the valuation date, the property was occupied by the Group for production, office and ancillary purposes.	823,892,000

Notes:

- Pursuant to 3 State-owned Land Use Rights Grant Contracts – Kun Guo Tu Zi Chu (2003) He Tong Zi Di Nos. 167, 168 and CR53 Kun Ming Shi 2008027-3 dated between August 25, 2003 and October 7, 2008, the land use rights of the property were contracted to be granted to the Company for various terms of 50 years for industrial use. The total land premium was RMB170,618,700.
- Pursuant to 3 State-owned Land Use Rights Certificates – Kun Guo Yong (2004) Di Nos. 00656, 00658 and Kun Guo Yong (2008) Di No. 00699, the land use rights of 3 parcels of land of the property with a total site area of approximately 325,628.61 sq.m. have been granted to the Company for various terms with the expiry dates on August 25, 2054 for 2 parcels of land and October 7, 2058 for the other parcel of land for industrial use.

3. Pursuant to a State-owned Land Use Rights Certificate – Kun Guo Yong (2008) Di No. 00424, the land use rights of a parcel of land with a site area of approximately 50,374.80 sq.m. have been granted to the Company by way of capital injection without the specific expiry date for industrial use.
4. Pursuant to 21 Building Ownership Certificates – Kun Ming Shi Fang Quan Zheng Zi Di Nos. 200311612, 200311613, 200311623 and 200311624, Kun Ming Shi Fang Quan Zheng Guan Zi Di Nos. 200723908, 200723918, 200724461, 200724462 and 200736516, Kun Fang Quan Zheng (Guan Du) Zi Di Nos. 201413843, 201413844, 201413845, 201413846, 201413847, 201413848, 201413849, 201413851, 201413852, 201413853, 201413854 and 201413923, 41 buildings of the property with a total gross floor area of approximately 163,597.26 sq.m. are owned by the Company.
5. In the valuation of the property, we have attributed no commercial value to an auxiliary building with a gross floor area of approximately 76.00 sq.m. which has not obtained building ownership certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of this building (excluding the land) as at the valuation date would be RMB93,000 assuming all relevant title certificates have been obtained and the building could be freely transferred.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Company has obtained the land use rights of the property and is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property;
 - b. The Company has obtained the Building Ownership Certificates as mentioned in note 4 and is entitled to transfer, lease, mortgage or otherwise dispose of these buildings of the property;
 - c. The Company has not obtained the title certificate for a building mentioned in note 5. There is no material legal impediment for the Company in obtaining the Building Ownership Certificate after completing the legal process of construction completion and final acceptance.
7. As the property is the major asset held by the Group, we are of the view that the property is a material property.

Details of the material property

- | | |
|---|--|
| a) General description of location of the property | : The property is located at the eastern side of East Third Ring Road and the northern side of Jinma Road of Guandu District which is in the eastern area of Kunming City. The site of the property is in irregular shape and the property is near to Yunnan Observatories and Chinese Academy of Sciences. The neighborhood of the property is mainly aged residential buildings and undeveloped land.

It is accessible to Jinma Road and Third Ring Road within the locality connecting the property to the downtown area of Kunming. |
| b) Details of encumbrances, liens, pledges, mortgages against the property | : Nil. |
| c) Environmental Issue | : No environmental study has been carried out. |
| d) Details of investigations, notices, pending litigation, breaches of law or title defects | : An auxiliary building with a gross floor area of approximately 76.00 sq.m. is without Building Ownership Certificate. |
| e) Future plans for construction, renovation, improvement or development of the property and estimated associated costs | : As advised by the Group, there is no plan for new major development or renovation in the next 12 months from the date of this document. |

Taxation

The following is the overview of several Chinese and Hong Kong taxation effects of the H share ownership rights generated when investors purchase globally-sold H shares and hold them as capital assets. This overview has no intention to explore all major taxation effects brought by the ownership rights of H shares and fails to take the specific circumstance of any individual investor into consideration, part of which may be limited by specific rules. This overview is based on the taxation laws of China and Hong Kong which are effective as at the final actual practicable date. Any change with a retroactive effect (or any change of interpretation) may occur to all above-mentioned laws.

This section of this prospectus does not explore any other Hong Kong or Chinese taxes than income tax, capital tax, stamp tax and inheritance tax. Investors with due intention are required to consult tax advisers on Chinese, Hong Kong and other tax effects generated by the investment in and disposal of H shares.

Chinese taxation

In the following, several Chinese taxation provisions on owning and selling H shares sold and subscribed globally and held as capital assets by investors will be discussed. This overview neither expounds all major taxation consequences of owning H shares, nor takes special circumstances of individual investors into consideration. This overview is based on Chinese taxation law which is effective as at the final practicable date, *the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income and Prevention from Tax Evasion* signed on August 21, 2006, *the Second Protocol of Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income and Prevention from Tax Evasion* signed on June 11, 2008, and *the Third Protocol of Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income and Prevention from Tax Evasion* which took effect since December 20, 2010 (collectively referred to as “Arrangement”), all articles or their interpretation or possible modifications, which may have a retroactive effect.

This discussion fails to expound any other Chinese taxes than dividend tax, capital tax, stamp tax, inheritance tax, income tax, value added tax and business tax. Investors with due intention are required to consult their respective tax advisers on Chinese, Hong Kong and other tax consequences generated by the ownership and sales of H shares.

Taxes applicable to limited liability companies

(i) Corporate income tax

On March 16, 2007, the *Corporate Income Tax Law of the People’s Republic of China* (“*Corporate Income Tax Law*”) was adopted and promulgated at the 5th session of the 10th National People’s Congress, and was put into force on January 1, 2008. As stipulated by the *Corporate Income Tax Law*, the rate of corporate income tax applicable to domestic enterprises is 25%. According to the *Circular on Implementing the Transitional Preferential Policies of*

Corporate Income Tax (GF (2007) No. 39) promulgated by the State Council on December 26, 2007, enterprises which were established before the *Corporate Income Tax Law* was promulgated and which enjoyed preferential tax rates according to the tax laws and administrative statutes at that time are entitled to gradually transitioning to the tax rates stipulated by the *Corporate Income Tax Law* within 5 years after the *Corporate Income Tax Law* came into effect. Enterprises which were established before the *Corporate Income Tax Law* was promulgated and which enjoyed regular tax reduction and exemption preference according to the tax laws and administrative statutes at that time are entitled to continue to enjoy the preference after the *Corporate Income Tax Law* came into effect. However, the preference period for enterprises which failed to enjoy this preference because of failing to make profit shall be counted from January 1, 2008.

(ii) Business tax

According to the *Interim Regulations of the People's Republic of China on Business Tax* enforced since January 1, 1994 and lately revised on November 10, 2008 and *Rules for the Implementation of the Interim Regulations of the People's Republic of China on Business Tax* enforced since January 1, 1994 and lately revised on October 28, 2011, all enterprises and individuals that offer labor service stipulated by the Regulations and transfer intangible assets or sell real property in China are supposed to pay business tax. The latest revision of above-mentioned regulations and rules is as follows:

- The tax declaration period is extended from 10 days to 15 days;
- The withholding obligors of business tax shall be: (i) Domestic agents of foreign enterprises or individuals which offer taxable labor service or transfer intangible assets or sell real property in China but have no labor service organization in China; or (ii) (In the absence of domestic agent) asset transferees or labor service purchasers.
- The column of taxation scope in the sheet of taxable items and tax rates attached to the Regulations is cancelled, so that the Ministry of Finance and the State Administration of Taxation can define the scope of taxable business and service.

(iii) VAT

According to the *Interim Regulations of the People's Republic of China on Value Added Tax* enforced since January 1, 1994 and lately revised on January 1, 2009 and *Rules for the Implementation of the Interim Regulations of the People's Republic of China on Value Added Tax* enforced since January 1, 2009 and lately revised on November 1, 2011, all institutions and individuals that sell goods or offer processing, repair or replacement labor service or import goods in China are supposed to pay VAT. The tax rate is 13% for general taxpayers who sell or import grain, edible vegetable oil, tap water, central heating, air conditioning, coal gas, liquefied petroleum gas, natural gas, marsh gas, coal products for residents, books, newspapers, magazines, feeds, chemical fertilizers, pesticides, agricultural machinery, agricultural film and other goods stipulated by the State Council. The tax rate is zero for the goods exported by taxpayers unless otherwise stipulated by the State Council. Aside from above-mentioned items,

the tax rate is 17% for the goods sold or imported by taxpayers or the processing, repair or replacement labor service offered by taxpayers. The tax rate is 3% (6% previously) for the goods sold by and taxable labor service offered by small-scale taxpayers. Small-scale taxpayers refer to those who engage in manufacturing goods or offering taxable labor service or who mainly engage in manufacturing goods or offering taxable labor service and operate the wholesale or retail of goods concurrently, with an annual VAT-payable sales volume (hereinafter referred to as “taxable sales volume”) of less than RMB500,000; or other taxpayers than above-mentioned with an annual taxable sales volume of less than RMB800,000. Other individuals whose annual taxable sales volume exceeds the standard of small-scale taxpayers shall pay tax according to the standard of small-scale taxpayers. Non-enterprise institutions or enterprises to which taxable acts rarely occur can choose to pay tax according to the standard of small-scale taxpayers.

In addition, the new regulations and rules also contain the following provisions:

- Taxes paid for purchasing fixed assets can be deducted from the items for which taxes must be paid.
- The tax declaration period is extended from 10 to 15 days.
- The withholding obligors of VAT shall be: (i) Domestic agents of foreign enterprises or individuals that offer taxable labor service in China but have no business organization in China; or (ii) (In the absence of domestic agent) asset transferees or labor service purchasers.

Chinese government is carrying out VAT reform. According to the *Circular of the Ministry of Finance and State Administration of Taxation on Printing and Issuing the Pilot Proposals for the Change from Business Tax to Value-Added Tax*, two tax rates of 11% and 6% are newly added to the prevailing 17% standard tax rate and the 13% low tax rate of VAT. Based on overall consideration of the development status of service industry, the financial affordability, basic conditions for collection and management and other factors, some regions are chosen for pilot projects which are carried out first in the transportation industry, some modern service industry and other manufacturing service industries, before being popularized among other industries. When all conditions mature, some industries can be chosen for industry-wide pilot projects nationwide. Accordingly, several industries will gradually be converted from business tax system to VAT system. According to the *Circular of the Ministry of Finance and State Administration of Taxation on Including Railway Transportation and Mail Service Industry in the Pilot Projects of the Change from Business Tax to Value-Added Tax* (CS (2013) No. 106), the railway transportation industry and the mail service industry are also included in the pilot projects of change from business tax to VAT after the pilot projects of change from business tax to VAT have been first carried out in the transportation industry and some modern service industry according to the *Circular of the Ministry of Finance and State Administration of Taxation on the Nationwide Implementation of the Pilot Taxation Policy of the Change from Business Tax to Value-Added Tax in the Transportation Industry and Some Modern Service Industry*.

(iv) Stamp tax

According to the *Interim Regulations of the People’s Republic of China on Stamp Tax* enforced since October 1, 1988 and lately revised on January 8, 2011 and *Rules for the*

Implementation of the Interim Regulations of the People's Republic of China on Stamp Tax enforced since October 1, 1988, all institutions and individuals that are established in China and receive and accept taxable certificates in China must pay stamp tax. Taxable certificates include: Purchase and Sales Contract, Processing Contract, Construction Engineering Contracting Contract, Property Lease Contract, Freight Transport Contract, Warehousing Storage Contract, Loan Contract, Property Insurance Contract, Technical Contract, other certificates of contract nature, Property Transfer Documents, Business Accounting Records, Certificate of Rights, License and Permit and other certificates for taxation designated by the Ministry of Finance.

Taxes applicable to corporate shareholders

(i) Dividend-related taxes

Individual investors

According to the *Interim Regulations of the People's Republic of China on Taxation of Shareholding System Pilot Enterprises, the Individual Income Tax Law of the People's Republic of China* revised on June 30, 2011 and coming into effect on September 1, 2011 ("New Individual Income Tax Law"), the Chinese withholding tax must be paid as per 20% for dividends assigned by Chinese companies. As for dividends collected by foreign individuals of non-Chinese residents from Chinese companies, a withholding tax of 20% must be paid unless reduced according to any applicable tax treaty or specially exempted by the competent tax authorities of the State Council.

On July 21, 1993, State Administration of Taxation of the People's Republic of China ("State Administration of Taxation," the taxation authority of Chinese central government, with its predecessor being "State Taxation Bureau") promulgated the *Circular of State Administration of Taxation on the Tax of Stock (Equity) Transfer Income and Dividend Income Acquired by Foreign-Funded Enterprises, Foreign Enterprises and Foreign Individuals* (GSF (1993) No. 45) ("the Original Taxation Circular"), which stipulates that it is unnecessary to pay Chinese withholding tax for the time being for the dividends assigned by Chinese companies to foreign individuals on the shares listed at overseas stock exchanges ("Overseas Shares," e.g. H Shares).

In the letters delivered by State Administration of Taxation on July 26, 1994 to the former Economic System Reform Commission of China, the former Securities Commission of the State Council and China Securities Regulatory Commission, the provisions of Taxation Circular are reiterated: the taxes of dividends of overseas listed Chinese companies shall be exempted for the time being. According to this exemption, a withholding tax of 20% will possibly be collected on dividends according to the Interim Regulations and Individual Income Tax Law.

On January 4, 2011, State Administration of Taxation promulgated the *Circular of State Administration of Taxation on the Collection and Management of Relevant Individual Income Tax after Abolishment of GSF (1993) No. 045 Document* ("New Taxation Circular"), which abolishes the Original Taxation Circular. According to the New Taxation Circular, after the Original Taxation Circular is abolished, the dividend income obtained by overseas resident individual shareholders on stocks issued in Hong Kong by domestic non-foreign-invested

enterprises shall be withheld according to the *New Individual Income Tax Law* and its implementation regulations. This kind of withholding is entitled to tax reduction and exemption according to the agreement of avoidance of double taxation. In order to simplify tax collection and management procedures, the individual income tax can be withheld as per 10% in general without going through any application procedure for the dividends obtained by overseas resident individuals from domestic non-foreign-invested enterprises which issue stocks in Hong Kong. When the dividend tax rate is not 10%, the withholding obligor must: (1) refund the over-withheld tax according to stipulated procedure if the applicable tax rate is lower than 10%; (2) withhold individual income tax as per the applicable tax rate if the actual tax rate is higher than 10% but lower than 20%; (3) withhold individual income tax as per 20% if the agreement of avoidance of double taxation is inapplicable.

Enterprise investors

According to the *Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income and Prevention from Tax Evasion* signed on August 21, 2006, Chinese government can levy tax on the dividends assigned by Chinese companies to Hong Kong residents (including natural persons and legal persons), but this tax shall not exceed 10% of the total amount of payable dividends. If a Hong Kong resident holds 25% or above equity capital at a Chinese company, this tax shall not exceed 5% of the total amount of dividends that shall be paid by Chinese companies.

According to the *Corporate Income Tax Law* and the *Regulations for the Implementation of Corporate Income Tax of the People's Republic of China* which came into effect on January 1, 2008, if a non-resident enterprise fails to set up its representative office or any other site in China, or the dividends and bonuses obtained by a non-resident enterprise which has set up its representative office or any other site in China have no actual relationship with this representative office or any other site, the enterprise must pay a corporate income tax of 10% on its business income originating from China. This withholding tax can be reduced or exempted according to the applicable agreement of double taxation.

According to the *Circular on Relevant Issues of Withheld Corporate Income Tax of Chinese Resident Enterprises which Assign Dividends to Overseas H Share Non-Resident Enterprise Shareholders* (GSH (2008) No. 897) promulgated by the State Administration of Taxation which came into effect on November 6, 2011, while assigning the dividends of 2008 and subsequent years to H share non-resident enterprise shareholders, Chinese resident enterprises shall uniformly withhold corporate income tax as per 10%. This withholding tax can be reduced or exempted according to the applicable agreement of double taxation.

Taxation treaties

If an investor is not a Chinese resident and is a resident of a country which has signed a treaty of avoidance of double taxation with China or a resident of Hong Kong Special Administrative Region and Macao Special Administrative Region, the investor shall have the right to enjoy the withholding tax reduction treatment for the dividends collected from Chinese companies. So far, the People's Republic of China has signed an arrangement on avoidance of double taxation with Hong Kong Special Administrative Region and Macao Special Administrative Region respectively, and has signed a treaty on avoidance of double taxation

with several other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, UK and USA. According to various treaties or arrangements on avoidance of double taxation, the tax rate of withholding tax collected by Chinese tax authorities can possibly be reduced somewhat, provided that due approval or registration formalities are gone through according to *the Circular of the State Administration of Taxation on Printing and Issuing the Management Measures for Non-Residents to Enjoy Taxation Treaty Treatments (Trial)* (GSF (2009) No. 124).

(ii) Taxes on the sales of shares

Individual investors

According to the *New Individual Income Tax Law* and the *Regulations for the Implementation of Individual Income Tax Law of the People's Republic of China* revised on July 19, 2011, an individual income tax of 20% must be paid for the income realized by selling shares.

According to the *Circular on Continuing to Exempt Individual Income Tax for Individual Transfer of Stocks* jointly released by the Ministry of Finance and the State Administration of Taxation on March 30, 1998, individual income tax shall be exempted for the income obtained by individuals by selling shares for the time being. Individual holders of H shares must pay income tax of 20% for capital gain, unless this tax is reduced or exempted according to the applicable treaty of double taxation.

Enterprise investors

According to the *Corporate Income Tax Law* and the *Regulations for the Implementation of Corporate Income Tax Law of the People's Republic of China*, if a non-resident enterprise fails to set up its representative office or any other site in China, or the income obtained by a non-resident enterprise which has set up its representative office or any other site in China has no actual relationship with this representative office or any other site, the enterprise must pay a corporate income tax of 10% on its business income originating from China. This withholding tax can be reduced or exempted according to the applicable agreement of double taxation.

(iii) Inheritance tax or legacy tax

China now has no inheritance tax or legacy tax.

(iv) Stamp tax

According to the articles of the *Interim Regulations on Stamp Tax of the People's Republic of China*, Chinese stamp tax collected for transferring the shares of Chinese listed companies does not apply to the purchase and disposal of H shares by non-Chinese investors in China. According to the Interim Regulations, Chinese stamp tax shall merely be aimed at various documents that are signed or collected in China, are legally binding in China, and are protected by Chinese laws.

(v) Taxation Policy of Shanghai-Hong Kong Stock Connect

On November 10, 2014, China Securities Regulatory Commission and Hong Kong Securities and Futures Commission approved Shanghai Stock Exchange, Hong Kong Stock Exchange, China Securities Depository and Clearing Company Limited and Hong Kong Securities Clearing Co., Ltd. to officially initiate the Shanghai-Hong Kong Stock Connection Mechanism Pilot Project, and the stock exchange under Shanghai-Hong Kong Stock Connect began officially as of November 17, 2014.

According to the *Circular on the Relevant Tax Policy of Shanghai-Hong Kong Stock Connection Mechanism Pilot Project* jointly issued by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on October 31, 2014 (hereinafter referred to as “Tax Policy of Shanghai-Hong Kong Stock Connect”):

- From November 17, 2014 to November 16, 2017, the income of transfer price difference obtained by mainland individual investors by investing in stocks listed at Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect shall be temporarily exempted from individual income tax. The income of price difference obtained by mainland individual investors by buying and selling stocks listed at Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect shall be temporarily exempted from business tax according to the current policy. For the dividends and bonuses obtained by mainland individual investors by investing in H stocks listed at Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, H share companies shall withhold individual income tax as per the tax rate of 20%. For the withholding tax having already been paid by individual investors overseas, they can apply for tax credit at the competent taxation authorities of China Securities Depository and Clearing Company Limited on the strength of effective withholding certificates. For the dividends and bonuses obtained by mainland securities investment funds by investing in stocks listed at Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, individual income tax shall be calculated and collected according to the above-mentioned regulations.
- According to the *Tax Policy of Shanghai-Hong Kong Stock Connect*, the income of transfer price difference obtained by mainland enterprise investors by investing in stocks listed at Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect shall be included in their total income, so that corporate income tax can be collected by law. The income of price difference obtained by mainland enterprise investors by buying and selling stocks listed at Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect shall be exempted from business tax according to the current policy. The dividends and bonuses obtained by mainland enterprise investors by investing in stocks listed at Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect shall be included in their total income, so that corporate income tax can be collected by law. Therein, the dividends and bonuses obtained by a mainland resident enterprise by continuously holding H shares for 12 months shall be exempted from corporate income tax by law. For the dividends and bonuses obtained by mainland enterprise investors, H share companies shall not withhold dividend and bonus income tax for the mainland enterprise investors and the enterprises shall independently declare and pay their payable taxes. When

independently declaring and paying corporate income tax, mainland enterprise investors can apply for tax credit by law for the dividend and bonus income tax having already been withheld by non-H share listed companies at Hong Kong Stock Exchange.

According to the *Tax Policy of Shanghai-Hong Kong Stock Connect*, if a mainland investor transfers stocks listed at Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, it shall pay stamp tax according to the current tax law of Hong Kong. China Securities Depository and Clearing Company Limited and Hong Kong Securities Clearing Company Ltd. can mutually collect the above-mentioned stamp tax for each other.

The taxation of Hong Kong

1. Dividend tax

According to the current practice of Hong Kong Inland Revenue Department, the Company needn't pay tax for dividends paid in Hong Kong.

2. Capital gain and profit tax

Tax needn't be paid for capital gain obtained by selling property (e.g. H shares) in Hong Kong. However, for people engaging in trade, professional services or business in Hong Kong, if the transaction income obtained by them by selling H shares comes from or results from the relevant trade, professional service or business engaged in by them in Hong Kong, they must pay profit tax of Hong Kong. At present, the rate of profit tax imposed on companies is 16.5%, and the upper limit of the rate of profit tax imposed on individuals is 15.0%. The income of taxpayers of several types (e.g. financial institutions, insurance companies and securities traders) will possibly be regarded as transaction income instead of capital income, unless these taxpayers can verify that they invest in securities for long-term investment. The transaction income obtained by selling H shares at Hong Kong Stock Exchange will be regarded as coming from or resulting from Hong Kong. People engaging in purchase and sale business or securities transaction in Hong Kong must pay profit tax of Hong Kong for the transaction income obtained by them by selling H shares at Hong Kong Stock Exchange.

3. Stamp tax

Buyers and sellers of H shares must pay the stamp tax of Hong Kong while buying and selling H shares each time. The stamp tax shall be paid as per 0.1% of the consideration or market price (the higher prevails) of H shares transferred by the buyer and seller. In other words, the general transactions of H shares must be taxed as per 0.2% at present. In addition, a fixed amount of stamp tax equivalent to HK\$ 5 must be paid for various transfer documents (if required). If the transaction of H shares occurs among non-Hong Kong residents, and the payable stamp tax for transferring documents fails to be paid, the above-mentioned taxes and other payable taxes must be paid for relevant transfer documents (if any), and these taxes shall be paid by transferees.

4. Legacy tax

Hong Kong began to enforce 2005 Income (Cancellation of Legacy Tax) Regulations as of February 11, 2006. According to Regulations, while applying for undertaking relevant legacies, H share holders who passed away on or after February 11, 2006 needn't pay the legacy tax of Hong Kong, and needn't submit any certificate of legacy tax settlement.

Chinese laws and statutes concerning foreign exchange management

Chinese foreign exchange management system has gone through several rounds of reform. Since 1993, the current system has been carrying two supervisory laws and statutes. On January 29, 1996, the State Council promulgated the *Regulations on the Foreign Exchange System of the People's Republic of China* ("Foreign Exchange Regulations"), which was enforced as of April 1, 1996, revised for the first time on January 14, 1997, revised for the second time on August 1, 2008 and coming into effect on August 5, 2008, applicable to the receipt, payment or commercial activities of domestic institutions, individuals, foreign institutions stationed in China and foreigners in China based on foreign currency transaction. On June 20, 1996, the People's Bank of China promulgated the *Provisions for the Control of Foreign Exchange Settlements, Sales and Payments* (The Order of the People's Bank of China (1996) No.1), which began to be enforced as of July 1, 1996, supervising domestic institutions, individual residents, foreign institutions stationed in China and foreigners in China which/who settle foreign exchange, purchase foreign exchange, open foreign exchange accounts and make payment to foreign countries. The People's Bank of China publishes the exchange rates of RMB to other major foreign currencies on each business day. The exchange rates shall be determined by referring to the transaction price for converting RMB to major foreign currencies in the interbank foreign exchange market on the previous day.

Before the Foreign Exchange Regulations was revised for the second time in August, 2008, in addition to obtaining special exemption, all Chinese institutions and individuals had to sell their foreign exchange income to the designated bank, while foreign-invested enterprises were approved to retain foreign exchange income as per several percentage points and deposit the same into foreign exchange account opened at the designated bank. However, the newly revised Foreign Exchange Regulations has made a significant change to the supervision system by abolishing the principle of compulsory selling current foreign exchange income, which means that enterprises and individuals can choose to sell or retain foreign exchange income to banks.

Chinese government has always been relaxing its management over the purchase of foreign exchange. If any Chinese enterprise needs foreign currency during its daily operation, trade and non-trade operation, import operation and while paying foreign debts, it can purchase foreign currency from a designated bank by submitting only a suitable certificate required. In addition, if a foreign-invested enterprise needs foreign currency and uses it to assign dividends, bonuses or profits to foreign investors, the required amount after payment of suitable dividend tax can be withdrawn from the foreign exchange account of this enterprise at the designated bank. If the foreign currency of a relevant account is insufficient, the foreign-invested enterprise can apply to the competent government authorities for purchasing required amount of foreign currency from the designated bank to make up for the deficit. Although the foreign exchange management over current account transactions is relaxed somewhat, the enterprise

must obtain the approval of State Administration of Foreign Exchange before accepting foreign currency loans, providing foreign currency guarantee, making foreign investment or engaging in any other capital account transaction concerning the purchase of foreign currency.

While conducting a foreign exchange transaction, the designated bank can freely determine an applicable exchange rate under several government limitations according to the exchange rates announced by the People's Bank of China.

CSRC and SAFE jointly promulgated the *Circular on Relevant Issues of Foreign Exchange Management over Overseas Listed Enterprises* (ZJFZ (1994) No. 8), which came into effect on January 13, 1994. According to the provisions of this Circular:

- The fund raised by a domestic enterprise by issuing shares overseas must be classified into capital item income, and can be deposited on a foreign exchange account opened in China after approval by State Administration of Foreign Exchange, and cash shall be kept.
- Within 10 days after collecting the foreign capital obtained by issuing shares, a domestic enterprise which issues shares overseas must repatriate the fund wholly to China and deposit it on a foreign exchange account opened upon due approval.

Thereafter, CSRC and SAFE released a series of relevant regulations to gradually relax relevant regulations for overseas listed companies to repatriate raised funds to China. In August, 2008, Foreign Exchange Regulations was revised for the second time, and the foregoing regulations on transferring foreign exchange income back to China were further relaxed, which points out that the foreign exchange income can be repatriated to China or deposited on the overseas account according to designated conditions and/or within the designated period.

On January 28, 2013, SAFE released the *Circular on Relevant Issues of Foreign Exchange Management over Overseas Listing* (HF (2013) No. 5), stipulating that the raised funds of domestic companies for listing overseas can be repatriated to corresponding domestic special accounts or deposited on overseas special accounts; the fund purposes shall be consistent with such public disclosures as prospectus, shareholder circulars and resolutions of shareholders' meeting; domestic shareholders of overseas listed companies are allowed to set up domestic special accounts to outperform or underperform overseas equities; clear direction is offered to fund exchange settlement and transfer operation for outperforming or underperforming overseas equities. The capital account income obtained by domestic shareholders by underperforming or transferring overseas shares of issuing company shall be repatriated to their domestic special accounts within two years after the day when the income is acquired.

On December 26, 2014, SAFE released the *Circular of State Administration of Foreign Exchange on Relevant Issues of Foreign Exchange Management over Overseas Listing* (HF (2014) No. 54), abolished the statute of the same name promulgated by SAFE on January 28, 2013 at the same time, and simplified the foreign exchange business operation of overseas listing of domestic enterprises, with the major changes including:

- The exchange settlement approval for the repatriation of overseas raised fund under overseas listed foreign shares is abolished, and overseas listed enterprises can directly handle exchange settlement at the bank on the strength of business registration certificates.
- Foreign exchange accounts are integrated for collectively handling relevant fund remittance and transfer. Domestic companies can open “a special foreign exchange accounts for overseas listing of domestic companies” at a domestic bank as required, and needn’t respectively open an account for its first issue (or additional issue) and buy-back. Domestic shareholders can open “a special account for overseas shareholding of domestic shareholders” at a domestic bank as required, and needn’t respectively open an account for its outperformance, underperformance and transfer of overseas listed shares.
- The amount which remains after the domestic company buys back and the domestic shareholders outperform overseas shares of domestic company and other outwardly remitted fund is allowed to be remitted back, transferred freely and settled in exchange.

This appendix contains some summary of China's legal system, judicial system, arbitration system, as well as its company rules and securities regulations. This appendix also contains some summary of Hong Kong's legal and regulatory provisions, including summary of some major differences between China's company law and Hong Kong's company law, as well as certain regulations and essential provisions of Hong Kong Listing Rules.

1. China's laws and regulations

(a) *China's legal system*

China's legal system is established on the basis of Constitution of the People's Republic of China (the "Constitution"), and is consisted of codified laws, administrative regulations, local laws & regulations, autonomous regulations, separate regulations, rules & regulations of State Council departments, rules & regulations of local governments, as well as international treaties signed by the Chinese government. Though court precedents are often used as a reference and guidance during the trial, but they shall not constitute legally binding precedents.

In accordance with the Constitution and the Legislation Law of the People's Republic of China (the "Legislation Law"), the National People's Congress ("the NPC") and the NPC Standing Committee ("the Standing Committee") are empowered to exercise the national legislative power. The NPC drafts and revises the basic laws governing criminal, civil, state institution and other issues. The Standing Committee drafts and revises other laws that are not enacted by the NPC; when the NPC is not in session, the Standing Committee shall partially supplement and amend the laws enacted by the NPC, provided that the basic principles of these laws are not contravened. The State Council is the highest organ of State administration. It shall formulate the administrative regulations in accordance with the Constitution and the laws. The provincial people's congress and its standing committee can formulate the local laws and regulations in accordance with particular conditions and practical requirements of the respective administrative regions, provided that no provisions of the Constitution, laws and administrative regulations are contravened. The state council departments, committees, the People's Bank of China, National Audit Office of the People's Republic of China, and other directly affiliated institutions with administrative functions shall establish rules and regulations within the scope of their authority in accordance to the laws as well as the administrative regulations, decisions and orders of the State Council. The people's government of all provinces, autonomous regions, municipalities directly under the Central Government and large cities shall make rules and regulations in accordance with the laws, administrative regulations, as well as the local laws and regulations of the respective province, autonomous region and municipality directly under the Central Government. The people's congress of minority autonomous areas is entitled to formulate autonomous regulations and separate regulations in accordance with the political, economic and cultural characteristics of the local minorities.

The Constitution has the supreme legal force. All laws, administrative regulations, local rules, autonomous regulations and separate regulations shall not contravene the Constitution. The force of laws shall be higher than that of administrative regulations, local regulations and rules. The force of administrative regulations shall be higher than that of local regulations. The force of local regulations shall be higher than that of the rules of the government at the same or lower levels. The force of rules formulated by the people's government of a province or an

autonomous region shall be higher than that formulated by the people's government of a big city within the administrative area of such province and autonomous region.

The NPC shall be entitled to alter or annul any inappropriate laws formulated by the Standing Committee, and to cancel any autonomous regulations or separate regulations that are approved by the Standing Committee and that contravene the Constitution or the Legislation Law. The Standing Committee has the power to annul any administrative regulation that contravenes the Constitution and laws, to annul any local regulation that contravenes the Constitution, laws or administrative regulations, and to annul any autonomous regulation or local regulation which has been approved by the standing committee of the people's congress of any province, autonomous region or municipality directly under the Central Government, and that contravene the Constitution or the autonomous/separate regulations stipulated by the Legislation Law. The State Council shall be entitled to alter or annul any inappropriate department rules and local regulations. The people's congress of all provinces, autonomous regions and municipalities directly under the Central Government shall be entitled to amend or annual any inappropriate local rules and regulations formulated or approved by their respective standing committee. The people's government of all provinces and autonomous regions shall be entitled to alter or annul any inappropriate regulations formulated by any people's government at a lower level.

The Standing Committee has the constitutional power to interpret the laws. In accordance with the *Resolution of the NPC Standing Committee on Reinforcing the Legal Interpretation* approved on June 10, 1981, all laws or legal provisions that need to be further defined or supplemented shall be interpreted by the Standing Committee and regulated in decrees. All issues concerning the specific application of laws and decrees in court trials shall be interpreted by the Supreme People's Court. All issues concerning the specific application of laws and decrees in the prosecutorial work shall be interpreted by the Supreme People's Procuratorate. Any fundamental differences between the interpretations of the Supreme People's Court and that of the Supreme People's Procuratorate shall be submitted to the Standing Committee for interpretation or decision. For issues concerning the specific application of other laws and decrees not covered by judicial or prosecutorial work, the concerned State Council authority shall be responsible for the interpretation. All local regulations that need to be further defined or supplemented shall be interpreted or regulated by the people's congress standing committee of the concerned province, autonomous region or municipality directly under the Central Government that promulgate such regulations. All issues concerning the specific application of local regulations shall be subject to the interpretation of the concerned government authority of the respective province, autonomous region or municipality directly under the Central Government.

(b) *China's judicial system*

In accordance with the Constitution and the Organic Law of the People's Courts of the People's Republic of China ("Organic Law of the People's Court"), the People's Court shall be consisted of the Supreme People's Court, local people's courts at different levels, military courts and other special people's courts.

The local people's courts at different levels shall be consisted of basic people's courts, intermediate people's courts and high people's courts. Basic people's courts are generally

divided into civil tribunals, criminal tribunals and administrative tribunals. Intermediate people's courts and basic people's courts shall be similar in structure, and can set up other special tribunals when necessary, such as intellectual property tribunals.

The people's court at a higher level shall be entitled to supervise the judicial activities carried out by the people's court at a lower level. The people's procuratorate shall also be entitled to exercise legal supervision rights over the litigant activities done by the people's court at a same or lower level. As the highest judicial organ of China, the Supreme People's Court shall be entitled to supervise the judicial activities done by people's courts at different levels.

The people's court shall practice the Two-Tier Appellate System. If the party concerned is dissatisfied with the judgment or order of first instance made by the people's court, it can file a lawsuit with the people's court at the next higher level before the judgment or order of first instance comes into effect. The judgment or order of second instance made by the people's court at the next higher level shall be deemed as the final judgment or order with legal binding force. The judgment or order of first instance made by the Supreme People's Court shall also be deemed as final judgment or order. However, if the Supreme People's Court or the people's court at the next higher level found any errors in any binding judgments or orders made by the people's court at the next lower court, it shall put forward a retrial as per the trial supervision procedure.

The Civil Procedure Law of the People's Republic of China ("Civil Procedure Law") stipulates the civil jurisdiction of the people's court, the procedures necessary to be complied with in civil lawsuits, and the procedures to execute the civil judgment or order. All parties that carry out civil proceedings within the territory of China shall strictly comply with the regulations under the Civil Procedural Law. Generally, civil cases shall be heard by the people's court in the place where the defendant is domiciled. All parties to the contract can also choose the court of competent jurisdiction over civil actions through express agreement, but such court must be in the place of the domiciles of the plaintiff or defendant, the place where the contract is signed, the place where the contract is executed, and the place where the object of action is located. Moreover, the foregoing choices shall not violate the provisions on the general jurisdiction and exclusive jurisdiction under the Civil Procedure Law.

Generally speaking, foreign individuals and companies shall have the same procedural rights and obligations as Chinese citizens or legal persons. Where a foreign country implements a system that restricts the procedural rights of Chinese citizens or companies, Chinese courts can set same limitations on the citizens or companies of such foreign country in China. If either party in a civil lawsuit refuses to abide by the binding judgment or order made by a people's court in China, or the binding decision made by an arbitration tribunal, the other party shall be entitled to apply to the people's court for compulsory execution of such judgment, order or decision. But such application for compulsory execution shall be made by the concerned party within a limited period of time. Such application for execution shall be submitted within a deadline of two years. The deadline for suspending or terminating the submission of such application shall be subject to the provision that governs such supervision or termination.

As for the binding judgments or orders made by the people's court, if the person or property subjected to execution is not in China, but the concerned party seeks enforcement,

such concerned party can directly apply to the competent foreign court for recognition and enforcement. If China and related foreign countries have entered into or agreed to join any international treaties under which judgment and orders shall be mutually recognized and executed, or if relevant judgments or orders are in conformity with the results of court review on the principle of mutual benefits, then foreign judgments or orders can also be recognized and executed by the people's court in accordance with China's enforcement procedures, unless the people's court considers that any recognition or execution of such judgments or orders may result in any violation of China's basic legal principles, may jeopardize China's sovereign or national security, or that such judgments or orders are not in conformity with the public interest.

(c) *China's company law, special provisions and essential clauses*

On December 29, 1993, the Standing Committee of the eighth NPC approved the *Company Law of People's Republic of China*, which took effect on July 01, 1994, and was amended on December 25, 1999 for the first time, on August 28, 2004 for the second time, on October 27, 2005 for the third time, and on December 28, 2013 for the fourth time. The latest version of the *Company Law of People's Republic of China* (new "Company Law") went into effect on March 01, 2014.

The *Special Provisions of the State Council Concerning the Flotation and Listing Abroad of Stocks by Joint stock limited Companies* (the "Special Provisions") were approved on August 04, 1994 at the 22nd session of the Standing Committee of the State Council. The Special Provisions are formulated on the basis of Article 85 and Article 155 under the original Company Law. They apply to issues concerning the flotation and listing abroad of stocks by joint stock limited companies.

On August 27, 1994, the former Securities Commission of the State Council and State Commission for Restructuring Economy jointly promulgated *Mandatory Provisions for Articles of Association of Companies to be Listed Overseas* ("Mandatory Provisions"). Mandatory Provisions set out the provisions that must be included into the articles of association of joint stock limited companies to be listed overseas. Therefore, Mandatory Provisions have been incorporated into the articles of association (the summary of which is contained in Appendix VI).

(i) General

"Joint stock limited company" (the "company") shall refer to the enterprise legal person that is incorporated in accordance with the Company Law. The registered capital of a company is divided into stocks of equal value. The shareholders are liable thereto to the extent of their shareholdings, and the company is liable for its debts to the extent of all of its assets.

State-owned enterprises reorganization shall mean that a company must, in accordance with the conditions and requirements stipulated in laws, administrative rules and regulations, transform operation mechanism, dispose and appraise the assets and liabilities of the company, and set up internal management departments.

A company must abide by the legal and professional ethics during its business operation. A company can make investments in other limited liability companies and joint stock limited companies. The liabilities of a company to these investment companies shall be limited to the investment assets. Unless otherwise stipulated by law, a company shall not become a contributor that shall be held severally and jointly liabilities to the debts of the investment company.

(ii) Incorporation

A company may be incorporated by means of promotion or by public offer.

A company may be incorporated by 2 to 200 promoters, at least half of whom shall reside in the territory of China. According to Special Provisions, a state-owned company or an enterprise in which the Chinese government holds most assets can be reorganized as per relevant regulations, and thus become a joint stock limited company that can issue shares to overseas investors. If such company can be incorporated by means of promotion, there can be less than 5 promoters. Once established, such company can issue new shares.

A company incorporated by means of promotion shall refer to a company whose registered capital is subscribed by the promoters. If a company is incorporated by public offer, the shares to be subscribed by the promoters shall be no less than 35% of a company's total shares, and the remaining shares can be raised from the public or from specific individuals.

In accordance with the Company Law, for a company incorporated by means of promotion, its registered capital shall be the total share capital that is registered at the concerned administrative bureau for industry and commerce and is subscribed by all promoters. As for the company incorporated by public offer, its registered capital shall be the total paid-in capital as registered at the concerned administrative bureau for industry and commerce.

Promoters shall, within 30 days from the date when the subscription moneys are paid in full for shares issued, convene and preside over an inauguration assembly, and shall give notice to all subscribers or make an announcement concerning the convening date of such inauguration assembly fifteen (15) days in advance. The inauguration assembly shall be convened only if shareholders representing more than 50% of the total shares issued are present. The inauguration assembly deals with issues like adopting the articles of association drafted by promoters, and electing the company's board of directors and board of supervisors. Any resolution made on the assembly requires affirmative votes by subscribers present at the meeting representing more than half of the voting rights.

Within thirty (30) days upon the completion of the inauguration assembly, the board of directors shall apply for establishment registration to the company registration authority. After the concerned administrative bureau for industry and commerce grants registration and issues a business license, the company is formally established with the legal person status.

The company promoters must be jointly and severally liable to the company for: (i) in case the company is failed to be established, paying the debts and expenses incurred as a result of the pre-establishment activities; (ii) in case the company is failed to be established, returning share proceeds paid by the subscribers, together with the interest thereon as if they have been deposited in a bank for a like period; (iii) any damages suffered by the company in the course of its establishment due to defaults of the promoters.

(iii) Share capital

A promoter can make its capital contributions to the company in currency or by contributing such non-currency property as material objects, intellectual property rights and land-use rights that can be evaluated in the form of currency and transferred in accordance with the law.

The Company Law does not limit the shareholding percentage of any individual shareholder.

If a company promoter makes its capital contributions in other ways than currency, the injected assets shall undergo an asset valuation and verification.

A company can issue either registered share certificates or bearer share certificates. However, share certificates issued by a company to its promoters or legal persons shall be registered share certificates in the names of such promoters or legal persons, and may not be registered under any other names or in the names of their legal representatives.

As stipulated in Special Provisions and Mandatory Provisions, shares issued to overseas investors and listed abroad must be registered shares that are dominated in RMB and subscribed in foreign currency.

In accordance with Special Provisions and Mandatory Provisions, shares issued to investors in a foreign country or in Hong Kong, Macao and Taiwan and listed abroad shall be overseas listed foreign shares, while shares issued to investors in Mainland China (i.e. excluding Hong Kong, Macao and Taiwan regions) shall be domestic shares. Qualified foreign institutional investors (“QFII”) approved by China Securities Regulatory Commission (CSRC) may hold domestic listed shares.

Upon approval of the securities regulatory authority under the State Council, a company can issue Public Offer Shares in a foreign country. Specific measures shall be formulated by the State Council in accordance with Special Provisions. According to Special Provisions, after obtaining approval from CSRC, a company can agree to keep a shareholding stake of at most 15% of the overseas listed foreign shares to be issued (after deducting the number of underwriting shares) in its underwriting agreement concerning the issuance of overseas listed foreign shares.

The share offer price can be equivalent to or higher than the par value, but never be lower than the par value.

(iv) Increase of registered capital

According to the Company Law, if a company intends to increase its registered capital by issuing new shares, it must be approved by the general meeting of shareholders. Except for the forgoing conditions about approval from the shareholder's meeting as set out in the Company Law, the Securities Law has provided the following conditions concerning a company that makes an initial public offer of stocks: (i) Having a complete and well-operated organization; (ii) Having the capability of making profits continuously and a sound financial status; (iii) Having no false record in its financial statements over the latest 3 years and having no other major irregularity; and (iv) Meeting any other requirements as prescribed by the securities regulatory authority under the State Council which have been approved by the State Council.

A public offer must be approved by the securities regulatory authority under the State Council. After the proceeds from issue of the new shares are paid in full, a company must undergo alteration registration procedures with the concerned administrative bureau for industry and commerce, and make corresponding announcements.

(v) Reduction of registered capital

A company may reduce its registered capital in accordance with the following procedures under the Company Law:

- The company must prepare its respective balance sheets and schedules of assets;
- Reduction of registered capital must be approved by the general meeting of shareholders;
- Once the proposal for reducing its registered capital is approved, the company shall notify its creditors within ten (10) days, and make an announcement on the newspaper within thirty (30) days.
- The company's creditors can require the company to repay debts or provide guarantee to debts within a legal time limit; and
- The company shall apply to the concerned administrative bureau for industry and commerce for the registration of capital reduction.

(vi) Share repurchase

A company may not repurchase its own shares, unless:

- Such company reduces its registered capital by canceling shares, or is merged with another company that holds its shares;
- It grants incentive shares to the staff and workers of the company;

- The company is requested to purchase its own shares where shareholders of the company oppose the decision on the merge or division of the company made at a general meeting of shareholders; or
- Other purposes permitted by the laws or administrative regulations apply.

If a company repurchase its own shares because it grants incentive shares to its staff and workers, such repurchase shall not exceed 5% of the total shares issued; any amount of money used for the repurchase purpose shall be paid with the company's after-tax profits. The repurchased shares must be transferred to the company's employees within one (1) year. As stipulated in the Mandatory Provisions, following the company's articles of association and after being approved by the concerned supervision department, for the purposes mentioned above, the company can repurchase its issued shares by making a general offer to its shareholders, or on the securities exchange, or through contract outside the market.

(vii) Transfer of shares

Shares may be transferred in accordance with relevant laws and regulations. Transfer of shares by a shareholder must be carried out at a lawfully established securities exchange or in other manners stipulated by the State Council. Transfer of registered share certificates is effected by the shareholder's endorsement thereof or by other methods prescribed by the relevant national statutes or administrative regulations.

Shares of a company held by its sponsors may not be transferred for a period of one (1) year commencing from the date of the company's establishment. Shares that have been issued before the public offer shall not be transferred for a period of one (1) year commencing from the date of trading of the company's shares on a stock exchange. The shares transferred by directors, supervisors and senior officers of the company within their term of office each year shall not exceed twenty-five percent (25%) of the total shares of the company held by them. Shares of the company held by aforesaid people shall not be transferred for a period of one (1) year commencing from the date of trading of the company's shares on a stock exchange.

(viii) Shareholders

Rights and liabilities of the shareholders have been prescribed in the company's articles of association, which shall be binding on all shareholders. According to the Company Law and the Mandatory Provisions, shareholders shall have the following rights:

- Attend or appoint a proxy to attend the general meeting of shareholders and to exercise the voting rights according to the number of shares held by them;
- Transfer their shares according to all applicable laws, regulations and articles of association;
- Consult the articles of association, register of shareholders, short-term bond counterfoils, minutes of shareholders' meeting, resolutions of board of directors, resolutions of board of supervisors, and financial/accounting reports; make suggestions on or requests for the business operation of the company;

- If the resolution passed by the shareholders' meeting or the board of directors infringes any laws or regulations, or violates the legal rights and interests of shareholders, file a lawsuit at the people's court, and request the illegal infringements to be stopped;
- Receive dividends based on the number of shares held;
- Acquire the company's remaining assets as per its shareholding percentage when the company terminates or liquidates; claim to other shareholders that abuses the rights of shareholders for damages; and
- Enjoy other shareholders' rights specified in the articles of association.

Shareholders shall have the following responsibilities: abide by articles of association; pay the subscription money for the subscribed shares; bear the debts and liabilities of the company to the extent of the shares they have subscribed to; not abuse the shareholders' rights that may damage the interests of the company or other shareholders of the company; not abuse the independent legal person status of the company's shareholders or the shareholders' limited liabilities that evade repayment of debts, impair the rights of the company's creditors or other liabilities of shareholders prescribed in the articles of association.

(ix) Shareholders' meeting

Shareholders' meeting is the power organ of a company. It exercises its rights and duties as per the Company Law.

Shareholders' meeting shall exercise the following rights and duties:

- Decide on the business policy and investment plan of the company;
- Elect or recall directors or supervisors that are not employee representatives; and
- Adopt resolutions on the remunerations to the concerned directors and supervisors;
- Examine and approve the reports of the board of directors;
- Examine and approve reports of the board of supervisors (or supervisors);
- Examine and approve the annual financial budget and final accounts proposed by the company;
- Examine and approve the company's profit distribution scheme and plans for making up losses;
- Adopt resolutions on the increase or reduction of the registered capital of the company;

- Adopt resolutions on the issuance of company bonds;
- Adopt resolutions on the merger, division, dissolution, liquidation and other issues of the company;
- Modify the articles of association; and
- Exercise other rights and duties set out in the articles of association.

The annual shareholders' meeting shall be held once a year. Interim shareholders' meeting shall be held within two (2) months in the following cases:

- The number of directors is less than the number prescribed in Company Law, or is less than the two thirds of the number prescribed in the company's articles of association;
- The company's losses which are not covered have reached one third of the total amount of the paid-in capital;
- One or more shareholders that hold or jointly hold at least 10% shares in the company makes requests;
- The board of directors deems necessary;
- The board of supervisors proposes a convention; or
- Other matters prescribed in the articles of association;

The shareholders' meeting shall be convened by the board of directors and presided over by the chairman.

According to the Company Law, a notice on convening the shareholders' meeting shall be sent to all shareholders twenty (20) days in advance. But according to the Special Provisions and the Mandatory Provisions, such notice shall be sent to all shareholders forty-five (45) days in advance and specify the issues to be examined at the meeting. In accordance with Special Provisions and Mandatory Provisions, shareholders that intend to attend the meeting shall return the confirmation letter to the company at least twenty (20) days before the meeting is convened. According to Special Provisions, on the annual shareholders' meeting, shareholders holding at least 5% voting rights in the company shall be entitled to put forward new proposals to the company for review. If such proposals fall within the scope of the rights and duties of the shareholders' meeting, it shall be included into the agenda of such meeting.

When a shareholder attends the general meeting of shareholders, each share the shareholder holds is entitled to one vote. However, the share held by the company itself shall

not have the voting right. A proposal raised by the shareholders' meeting requires affirmative votes by a majority of the votes held by shareholders that attend the meeting by themselves or through their proxy holder. The proposal with regard to merger/division of the company, decrease of registered capital, issuance of bonds or short-term bonds, change of corporate form or amendment to the articles of association, requires affirmative notes by at least two thirds of the votes held by shareholders that attend the meeting by themselves or through their proxy holder.

A shareholder may attend a general meeting of shareholders by proxy. The proxy holder shall present the proxy statement issued by the shareholder to the company, and shall exercise his voting rights to the extent authorized by the proxy. Under the Company Law, there are no specific provisions concerning the quorum for all shareholders' meeting. However, in accordance with the Special Provisions and Mandatory Provisions, if the shareholders' reply to attend the meeting is received twenty (20) days before the anticipated convening date, and the votes held by shareholders intending to attend the meeting represent 50% of the company's voting rights, the company may convene the annual shareholders' meeting. If such votes fail to reach 50%, the company must, within five (5) days after receiving the said reply, notify the shareholders of the issues to be examined on the meeting, the date and place of the meeting in the form of announcement notice, before it holds the annual shareholders' meeting. If the rights of classified shareholders are amended or abolished, in accordance with the Mandatory Provisions, classified shareholders' meeting shall be convened. In this regard, holders of domestic listed shares and overseas listed foreign shares shall be deemed as shareholders of different classes.

(x) Directors

A company shall have a board of directors, which shall be composed of not fewer than five (5) but not more than nineteen (19) members. The members of the board of directors shall include representatives of the staff and workers of the company. The term of each director shall be prescribed by the articles of association, provided that each term may not exceed three (3) years. A director may continue to serve his post if he/she is re-elected upon the expiration of his term.

The board of directors shall hold meetings at least twice a year. Notice of such meeting shall be given to all directors at least fourteen (14) days in advance. The board of directors can provide the method and time limit for notification when an interim board meeting is to be held.

According to the Company Law, the board of directors shall exercise the following rights and duties:

- Convene shareholders' meetings and report on its work to the shareholders' meetings;
- Implement the resolutions passed at the shareholders' meeting;
- Decide on the business plans and investment plans of the company;

- Formulate the annual financial budget plan and final accounts plan of the company;
- Draft the company's profit distribution scheme and plans for making up losses;
- Prepare the company's registered capital increase/reduction plan and company bond issuing plan;
- Formulate plans for the merger, division, dissolution and change of corporate form of the company;
- Decide on the structure of the company's internal management;
- Appoint or dismiss the general manager of the company; and upon recommendation of the general manager, appoint or dismiss the vice general manager(s) and persons in charge of the financial affairs of the company, and decide on the remuneration of such persons;
- Formulate the basic management system of the company;
- Exercise other rights and duties prescribed by the articles of association.

Moreover, according to the Mandatory Provisions, the board of directors shall also be responsible for modifying the articles of association plan.

A meeting of the board of directors may not be held unless attended by more than half of the directors. A resolution adopted by the board of directors requires affirmative votes by more than half of all the directors.

Where a director is unable to attend the meeting, he/she may authorize (by specifying the scope of authorization) another director to attend on his/her behalf.

Where a resolution of the board violates any national statutes, administrative regulations or the articles of association, and causes the company to incur serious loss, those directors participating in the adoption of the resolution shall be liable to the company for damages. Provided, however, that a director is proven to have dissented at the vote from adopting such resolution and such dissension was noted in the minutes, then the director may be exempt from liability.

According to the Company Law, a person in any of the following categories may not serve as a director of a company:

- Without or with limited capability of civil conduct;
- Having been sentenced to prison for the following crimes, and completion of the sentence being less than five years to now: embezzlement, bribery, conversion of property, misappropriation of property, sabotage of social economic order; or having been deprived of political rights as a result of a criminal conviction, and completion of such sanction being less than five years to now;

- Having served as a director, the factory chief, or the general manager of a company or enterprise which underwent bankruptcy liquidation as a result of mismanagement, and being personally responsible for such bankruptcy, and completion of the bankruptcy liquidation being less than three years to now;
- Having served as the legal representative of an enterprise whose business license was revoked due to its violation of law, and being personally liable for such revocation, but three years have not passed since the date of the revocation thereof;
- In default of personal debt of a significant amount; or other cases where such person is specified as disqualified for being a director of the company according to the Mandatory Provisions (which have been incorporated into the articles of association, and the summary is contained in Appendix VI).

The board of directors shall appoint a chairman, which shall be elected and approved by more than half of all the directors. The chairman of the board shall exercise the following duties and rights (including but not limited to):

- Presiding over the shareholders meeting; convening and presiding over the meeting of the board of directors;
- Supervising the implementation of resolutions adopted by the board of directors;

In accordance with the articles of association, the legal representative of the company can be the chairman, an executive director or a manager. According to the Special Provisions, a director, supervisor, manager or other senior employees shall have the fiduciary and diligent duties to the company. Such persons shall faithfully fulfill their duties, safeguard company benefits and not use their positions to seek personal gains. Mandatory Provisions (which have been incorporated into the articles of association, and the summary is contained in Appendix VI) contain detailed instructions on the above-mentioned responsibilities.

(xi) Supervisors

A company shall have a board of supervisors, which shall be composed of at least three (3) members. Each term of a supervisor may not exceed three (3) years. A supervisor may continue to serve his/her post if he/she is re-elected upon the expiration of his term. The board of supervisors shall be composed of shareholder representatives and an appropriate proportion (no less than one third) of the representatives of the staff and workers of the company. No director or senior manager may concurrently work as a supervisor.

The board of supervisors shall exercise the following rights and duties:

- Review the financial affairs of the company;
- Monitor the acts of the directors or the senior officers in the course of performance of their duties, and propose dismissal of the director or senior officer in violation of laws, administrative regulations, the articles of association of the company, or the resolution of shareholders' meeting;

- Require the directors or the senior officers to make rectification if any of their acts is found to have impaired the interests of the company;
- Propose the convening of interim shareholders' meetings, and convene and preside over shareholders' meetings when the board of directors does not perform its duty to convene and preside over a shareholders' meeting as set forth in this law;
- Submit proposals at the shareholders' meeting;
- File suit against the directors or senior officers of the company; and
- Exercise other authorities prescribed by the articles of association;

The above-mentioned cases applicable to the non qualification for company directors shall also apply to the company's supervisors after necessary amendments are made.

(xii) Managers and senior officers

A company shall have a manager, who shall be appointed or dismissed by the board of directors. The manager shall be responsible to the board of directors, and shall exercise the following authorities:

- Manage the company's production and operation, and organize the implementation of board resolutions;
- Organize the implementation of the annual business plans and investment plans of the company;
- Prepare the plan for the structure of the company's internal management;
- Prepare the basic management system of the company;
- Formulate detailed company rules;
- Recommend the appointment or removal of a deputy manager and the officer in charge of finance; appoint and remove officers of the company other than those to be appointed or removed by the board of directors;
- Attend the meetings of the board of directors as non-voting delegates; and
- Exercise other powers delegated by the board of directors or the articles of association.

In accordance with the Special Provisions and the Mandatory Provisions, other senior officers of the company shall include the officer in charge of finance, secretary of the board of directors, and other senior officers provided for in the articles of association of the company.

The above-mentioned cases applicable to the non qualification for company directors shall generally also apply to the company's managers and senior officers. A company's articles of association shall have binding force on the company's shareholders, directors, supervisors, managers and senior officers. Such persons shall be entitled to exercise their respective rights, to apply for arbitration or to file a lawsuit in accordance with the company's articles of association. Regulations on the company's senior managers under the Mandatory Provisions have already been incorporated into the company's articles of association (their summary is contained in Appendix VI).

(xiii) Duties of directors, supervisors, managers and senior officers

According to the Company Law, a director, supervisor, manager and any other senior officer shall abide by laws, administrative regulations and articles of association of the company and shall have the fiduciary and diligent duties to the company. A director, supervisor, manager and any other senior officer shall undertake confidentiality obligations to the company. Unless otherwise stipulated in the relevant laws, rules and regulations, such persons shall not disclose the confidential information of the company.

Where a director, supervisor, manager or any other senior officer violates any laws, administrative regulations or the articles of association of the company when they perform their own duties, and causes any losses to the company, they shall be personally responsible for the company.

In accordance with Special Provisions and Mandatory Provisions, the directors, supervisors, managers or other senior officers of the company shall fulfill their fiduciary duties to the company. They shall faithfully fulfill their duties, safeguard company benefits, and not use their positions to seek personal gains.

(xiv) Financial and accounting affairs

A company shall establish its financial and accounting system in accordance with the relevant national statutes, administrative regulations and the stipulations of the finance authority under the State Council. A company shall prepare its financial and accounting reports at the end of each fiscal year, which shall be audited and verified in accordance with the law.

The financial and accounting reports of a company shall be available at the company's premises for shareholders' inspection as from the twentieth day prior to the annual general meeting of shareholders. A company established through public offer shall make public its financial and accounting reports.

In distributing its current year after-tax profit, a company shall allocate ten percent (10%) of the after-tax profit to its statutory reserve fund. Allocation to the company's statutory reserve fund may be waived once the cumulative amount of funds therein exceeds fifty percent

(50%) of the company's registered capital. After allocation to the statutory reserve fund has been made from the after-tax profit of the company, and upon adoption of a resolution by the shareholders meeting or the general meeting of shareholders, allocation may be made to the discretionary reserve fund.

Where the statutory reserve fund is not sufficient to cover the company's loss from the previous year, the current year profit shall be used to cover such loss before allocation is made to the statutory reserve fund pursuant to the preceding paragraph.

Unless otherwise stipulated in its articles of association, if a company is a joint stock limited one, after its has covered its losses and made allocation to the reserve funds, the remainder of the profit shall be distributed to the shareholders in proportion to their share holdings.

The premium received by a joint stock limited company through issuance of shares, as well as other incomes to be allocated to the capital reserve fund as stipulated by the finance authority under the State Council, shall be allocated to the capital reserve fund of the company.

The reserve funds of the company shall be used to cover company losses, expand its production and operation, or be converted to the company's increased capital. The capital reserve fund must not be used to cover company losses. Upon conversion of statutory reserve fund into capital, the amount remaining in the statutory reserve fund may not fall below twenty-five percent (25%) of the registered capital before the conversion.

(xv) Engagement or dismissal of an auditor

For the purpose of the Special Provisions, a company shall engage an independent accounting firm according to relevant regulations of China to audit the annual reports of the company and review other financial reports of the company.

The employment term for the auditors shall commence from the end of an annual shareholders' meeting to the end of the next annual shareholders' meeting.

If a company dismisses or no longer engages an auditor, then according to the Special Provisions, it shall notify the auditor in advance, and the auditor shall be entitled to present their views on the shareholders' meeting. The engagement, dismiss and non-renewal of engagement of the auditors shall be decided by the shareholders' meeting and submitted to CSRC for the record.

(xvi) Profit Distribution

According to the Special Provisions, the dividends and other allotments paid by a company to the holder of overseas listed foreign shares shall be dominated and announced in RMB, and paid in foreign currency. As per the Mandatory Provisions, payments shall be made to the shareholders in foreign currency via a collection agent.

(xvii) Amendment of articles of association

Any amendments to the articles of association shall be made as per the procedures stipulated in the articles of association. According to the Mandatory Provisions, if any provisions of the articles of association are related to the Mandatory Provisions, then any amendments to such articles shall be effective only when they are approved by the concerned regulatory department under the State Council and by CSRC. If company registration matters are involved, the registration particulars shall be altered with the company registration organization.

(xviii) Dissolution and Liquidation

If a company does not have sufficient assets to fully repay company debts, it may file a bankruptcy application. After a company is declared bankruptcy by the people's court, its shareholders, concerned authorities and concerned professionals shall form a liquidation committee to carry out liquidation.

According to the Company Law, a company shall be dissolved under the following circumstances:

- (1) When the business term as prescribed in the articles of association expires or other reasons for dissolution as stipulated in the articles of association occur;
- (2) The shareholders' meeting or the shareholders' assembly decides to dissolve it;
- (3) It is necessary to be dissolved due to merger or division of the company;
- (4) Its business license is canceled or it is ordered to close down or to be dissolved according to law;
- (5) If the company encounters any other kinds of serious difficulties in its business management, and the continuous existence of the company will cause major damage to the interests of shareholders, which cannot be solved by any other means, then the shareholders that hold at least 10% of all the shareholder's voting rights of the company may lodge a company dissolution with the people's court.

Where a company is to be dissolved pursuant to item (1), (2), (4) and (5) above, a liquidation committee shall be formed within fifteen (15) days; and members of such liquidation committee shall be determined by the board of directors or the general meeting of shareholders.

Where a liquidation committee is unable to be formed within the prescribed time limit, the creditors of the company may petition the people's court to form a liquidation committee. The liquidation committee shall notify creditors within ten (10) days of its establishment, and shall make a public announcement in a newspaper within sixty (60) days. Creditors shall file their creditor's rights with the liquidation committee within thirty (30) days of receipt of the notice, or within forty-five (45) days of publication of the first notice if such creditors fail to receive the notice.

The liquidation committee shall exercise the following authorities in the course of liquidation:

- Identify the company's assets, and prepare a balance sheet and a schedule of assets respectively;
- Notify creditors through notice or public announcement;
- Handle the company's ongoing businesses which are related to liquidation;
- Make full payment of taxes owed by the company and incurred during the liquidation process;
- Identify the company's creditor's rights and debtor's liabilities;
- Dispose of the remaining assets, after full payment of company debts; and
- Participate in civil lawsuits on behalf of the company.

If the company has sufficient assets to repay company debts, it shall use them to pay liquidating expenses, employee wages, expenses for labor insurance of the workers, overdue taxes and company debts. The remaining assets shall be distributed to the shareholders in proportion to their share holdings.

The company shall not conduct any business activities irrelevant to the liquidation. Where the liquidation committee discovers that the company does not have sufficient assets to fully repay company debts, the liquidation committee shall file a bankruptcy application with the people's court in accordance with the law. Once the company is adjudged bankrupt by a ruling of the people's court, the liquidation committee shall transfer the liquidating affairs to the people's court.

Upon completion of liquidation, the liquidation committee shall submit a liquidating report to the shareholders' meeting or relevant supervision department for ratification, and upon ratification, the liquidation committee shall submit such report to the company registration authority to apply for company de-registration, and make a public announcement of the company's termination.

Members of the liquidation committee shall faithfully perform their duties and abide by relevant laws. A committee member who causes loss to the company or its creditors due to his intentional misconduct or gross negligence shall be liable for damages.

(xix) Overseas listing

A company that intends to list shares for trading abroad shall be subject to approval by the securities regulatory authority under the State Council, and the listing process shall be in compliance with procedures prescribed by the State Council.

According to the Special Provisions, with regard to the company's schemes to issue overseas listed foreign shares and domestic listed shares, the board of directors of the company can implement them separately within fifteen (15) months as of the date when such schemes are approved by CSRC.

(xx) Lost of H-share certificates

If the share certificates of any registered H-shares are stolen or lost, the concerned shareholder may, in accordance with relevant provisions under the Chinese Civil Procedure Law, apply to the people's court for declaring that such share certificates are invalid and void. After the people's court has declared the said share certificates invalid and void, the shareholder may apply to the company for replacement of such share certificates.

The Mandatory Provisions have separately set forth other handling procedures concerning the lost of H-share certificates (such procedures have already been incorporated into the articles of association, and the summary is contained in Appendix VI).

(xxi) Suspension and termination of share listing

In the revised and amended Company Law, provisions on the suspension and termination of share listing have been deleted. In the revised Securities Law, the following amendments have been made: in case of any of the following circumstances, the securities exchange may order that the trading of company shares shall be suspended on the securities exchange:

- (1) The total amount of capital stock or share distribution of the company fails to meet the requirements of listing;
- (2) The company doesn't disclose its financial situation by rule, or any financial report of the company may contain any false information that may mislead the investors;
- (3) The company commits a major violation of law;
- (4) The company has been operating at a loss over the past three years; or
- (5) Any other circumstance as prescribed in the listing rules of the concerned securities exchange.

According to the Securities Law, if under any circumstances stated in item (1) above, a company still disqualifies for listing within the time limit set out by the concerned securities exchange, or if under any circumstances stated in item (2) above, a company refuses to make corrections, or if under item (4) above, a company fails to generate profit in one fiscal year thereafter, then the concerned securities exchange shall be entitled to terminate the listing of the company shares.

According to the Company Law, if a company resolves to discontinue operations or does so at the directions of the concerned government regulator, or it is declared bankrupt, the

securities regulatory authority under the State Council may also terminate the listing of the company shares. In the Securities Law, such circumstances shall be deemed as “other circumstances as prescribed in the listing rules of the concerned securities exchange”.

(xxii) Merger and division

Companies may be merged in two forms: merger by absorption and merger by consolidation. If a company is absorbed by another, the company being absorbed shall be dissolved. If two companies are merged by consolidation, and the companies being consolidated shall be dissolved.

(d) Securities law and other relevant regulations

China has promulgated a number of regulations on company share issuance/trading and information disclosure. In October 1992, the State Council set up the Securities Commission and China Securities Regulatory Commission. The Securities Commission mainly coordinates the drafting of the securities regulations; formulates securities-related policies, plans the development of security market; directs, coordinates and supervises all the concerned securities institutions in China; and administers CSRC. As an institution of the Securities Commission, the CSRC mainly drafts securities market regulations, supervises securities companies, supervises Chinese companies to conduct a public offering of the securities in and out of China, regulates securities trading, compiles securities-related statistics, and carries out relevant studies and analysis.

On April 22, 1993, the State Council promulgates the *Provisional Regulations on the Administration of Share Issuance and Trading*. Such regulations shall involve: the application and approval procedures of the public offering of equity securities; trading of equity securities; acquisition of listed companies; record/store, delivery, settlement and transfer of listed equity securities; disclosure, investigation and punishment of concerned listed companies; as well as dispute resolution. According to these regulations, a company can only sell its shares outside China after gaining approval from the Securities Commission. In addition, if a company plans to issue RMB-denominated common shares and RMB-denominated special shares, it shall abide by the *Provisional Regulations on the Administration of Share Issuance and Trading*. Any provisions in such Regulations on the acquisition of listed companies and information disclosure shall apply to general listed companies, including but not limited to companies that are listed on any specified securities exchange.

On December 25, 1995, the State Council promulgated the *Regulations of the State Council on Domestically-listed Foreign Shares*. These Regulations mainly involve issuance, subscription, trading, declared dividends and other allotments of domestically-listed foreign shares, as well as issues like disclosure of information of the overseas companies that list shares in China.

The Securities Law took effect on July 01, 1999, was revised for the first time on August 28, 2004, was revised for the second time on October 27, 2005, was revised for the third time on June 29, 2013, and was revised for the fourth time on August 31, 2014. As

China's first national law on securities, the Securities Law is divided into 12 chapters and 240 articles. It covers contents like issuance and trading of securities, acquisition of listed companies, securities exchange, securities company, as well as duties and responsibilities of securities regulatory organizations under the State Council. The Securities Law comprehensively regulates the activities of China's securities market. According to Article 238 of the Securities Law, a company shall at first obtain prior approval from the concerned securities regulatory organization under the State Council before it list company shares outside China. According to Article 239 of the Securities Law, as for any subscription or trading of stocks of a Chinese company in a foreign currency, the specific measures shall be formulated by the State Council separately. At present, for shares (including H-shares) issued outside China, their issuance and trading shall still be governed by the rules and regulations as promulgated by the State Council and CSRC.

(e) Arbitration and implementation of arbitration awards

On August 31, 1994, the Standing Committee passed the *Arbitration Law of the People's Republic of China* ("Arbitration Law"), which came into force on September 01, 1995, was revised on August 27, 2009, and was applicable to the case when the concerned party has agreed in writing to submit the relevant dispute to the arbitration commission that is set up in accordance with the Arbitration Law. Therein, the arbitration commission shall arbitrate disputes arising from contracts and other properties, and the disputing parties shall be natural persons, legal persons or other organizations. According to the Arbitration Law, before China Arbitration Association formulates the arbitration rules, the arbitration commission can make provisional arbitration rules in accordance with the Arbitration Law and Chinese Civil Procedure Law. If the concerned party agrees (through agreement) to solve the dispute by arbitration, the people's court shall reject the concerned case.

Hong Kong Listing Rules and the Mandatory Provisions stipulate that the articles of association shall contain arbitration clauses. Specifically, Hong Kong Listing Rules shall also regulate that the arbitration clauses shall be written into the contracts between a company and each director and supervisor, so that any disputes or appeals between the following parties concerning the company affairs and any rights or liabilities regulated in the articles of association, Chinese Company Law or other relevant laws and administrative regulations will be submitted for arbitration: H-share holders and the company; H-share holders and the company's directors, supervisors, managers or other senior officers; H-share holders and holders of domestic listed shares. If the disputes or appeals mentioned above are submitted for arbitration, the entirety of such disputes or appeals shall be submitted for arbitration, and any person with a cause of action for the same reason that gives rise to the disputes or appeals, or any person that is necessarily involved in the solution of such disputes or appeals, so long as such person is a company or is a shareholder, director, supervisor, manager or other senior officer of a company, shall be subject to arbitration. All disputes concerning the definition of shareholders, and all disputes concerning the register of Members of the company, shall not be solved through arbitration.

The applicant may select to arbitrate the disputes either at China International Economic Trade Arbitration Commission ("CIETAC") or at Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once the applicant submits the concerned disputes or appeals for arbitration, the other party shall agree to arbitrate them at the arbitration

body chosen by the applicant. If the applicant chooses to arbitrate the disputes/appeals at Hong Kong International Arbitration Centre, either party of the disputes/appeals may apply for hearing in accordance with the securities arbitration rules of Hong Kong International Arbitration Centre in Shenzhen.

In accordance with the Arbitration Law and Chinese Civil Procedure Law, the arbitration award shall be final and binding upon both parties. If one party does not comply with the arbitration award, the other party may bring a lawsuit before a people's court. If any procedures stipulated by law or the composition of arbitrators violate any regulations, or the arbitration award falls outside the scope of the arbitration agreement or falls outside the scope of jurisdiction of the arbitration commission, the people's court may refuse to implement the arbitration award of the arbitration commission.

If one arbitration party seeks to implement the arbitration award made by a Chinese arbitration tribunal against the other party that is not domiciled in China or that does not have any properties in China, it can also apply to a foreign court with jurisdiction for enforcement.

Likewise, any arbitration award made by a foreign arbitration body shall also be recognized and enforced by a Chinese court on the basis of mutual benefits or in accordance with any international treaties that China has signed or agreed to join.

In accordance with the bill passed by the Standing Committee on December 02, 1986, China adopts the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (the "New York Convention") promulgated on June 10, 1958. According to the New York Convention, a member country shall recognize and implement all arbitration awards made by another member country, but under some circumstances, including when any conflict arise between the enforcement of the arbitration award and public policies of the country that implements the arbitration awards, a member country is entitled not to implement the awards.

When China joined the New York Convention, the Standing Committee declared that: (1) China only recognizes and implements the foreign arbitration awards made within the territory of another contracting state on the basis of mutual benefits; and (2) China only applies New York Convention to the disputes considered under PRC Laws arising from any contractual and non-contractual business law relationship. On June 18, 1999, Hong Kong and the Supreme People's Court of China reached an arrangement on the reciprocal enforcement of arbitration awards. This arrangement was approved by the Supreme People's Court of China and the Legislative Council of Hong Kong, and took effect on February 01, 2000. This arrangement was in full accordance with the spirit of the 1958 New York Convention. According to this arrangement, any awards made by a Chinese arbitration body that is recognized by Hong Kong Arbitration Ordinance can be implemented in Hong Kong, and any arbitration awards made in Hong Kong can also be implemented in Mainland China.

2. Summary of major differences between the Company Law of China and that of Hong Kong

Hong Kong laws applicable to the incorporation of companies in Hong Kong mainly covers the Companies Ordinances and Companies (Winding Up and Miscellaneous Provisions)

Ordinance, which are supplemented by rules of common laws and law of equity applicable in Hong Kong. As a joint stock limited company registered in China and to be listed on Hong Kong Stock Exchange, we are governed by the Company Law of China as well as any other rules and regulations promulgated as per the Company Law of China.

The following is a summary of some major differences between the company law of Hong Kong that is applicable to companies incorporated in Hong Kong, and the Company Law of China that is applicable to joint stock limited companies duly established and existing in China. However, this summary is general in nature, rather than a detailed comparison.

Company existence

According to the company law of Hong Kong, a company with equity shares shall be incorporated and become a separate legal person when HK Companies Registry issues the Certificate of Incorporation. A company can be incorporated either as a public company or a private one. According to the Companies Ordinances, in the articles of association for private companies established in Hong Kong, there shall be some provisions on preemptive rights. For public companies, on the other hand, the articles of association need not contain provisions on preemptive rights.

According to the Company Law of China, a joint stock limited company may be incorporated by means of promotion or by public offer. There are no minimum requirements for the registered capital of a joint stock limited company, unless otherwise stipulated by laws, administrative regulations or State Council decisions. Hong Kong laws have set out no regulations on the minimum share capital of Hong Kong companies.

Share capital

According to Hong Kong laws, directors of a Hong Kong company can issue new shares after gaining prior approval from the shareholders (if necessary). The Company Law of China has set out no regulations on authorized capital stock. Our registered capital shall be the total amount of shares issued. We can increase our registered capital only after gaining approval from the general meeting of shareholders and the concerned governmental or regulatory organs of China.

According to the Securities Law, for a company approved by the concerned securities regulatory organization to be listed on a stock exchange, its total amount of capital stock shall not be lower than RMB30 million. Hong Kong laws have set out no regulations on the minimum share capital of companies incorporated in Hong Kong.

According to the Company Law of China, the shares can be subscribed using either monetary or non-monetary assets (except for assets forbidden to be used as contribution by laws and administrative regulations). Non-monetary assets to be contributed as capital shall undergo an asset valuation, so that the asset value is not overvalued or undervalued. According to Hong Kong laws, Hong Kong companies are not subject to such restrictions.

Restrictions on shareholding and transfer of shares

According to Chinese laws, the domestic listed shares that are dominated and subscribed in RMB shall only be subscribed or traded by a state, a Chinese legal person, a Chinese natural person, a qualified foreign institutional investor or a qualified foreign strategic investor. The overseas listed foreign shares that are dominated in RMB but subscribed in a foreign currency shall only be subscribed or traded by an investor from Hong Kong, Macao, Taiwan or any other country/region outside of China, or a qualified domestic institutional investor.

According to the Company Law of China, shares of a joint stock limited company held by its promoters may not be assigned for a period of one (1) year commencing from the date of the company's establishment. Shares that have been issued before the public offer shall not be assigned for a period of one (1) year commencing from the date of trading of the company's shares on a stock exchange. The shares transferred by directors, supervisors or managers of a joint stock limited company within their term of office each year shall not exceed twenty-five percent (25%) of the total shares of the company held by them. Shares of the company held by aforesaid people shall not be transferred for a period of one (1) year commencing from the date of trading of the company's shares on a stock exchange. These people, within half year from their departure from the company, shall not transfer the shares of the company held by them. The articles of association may otherwise provide for restrictions on the transfer of the shares of the company held by its directors, supervisors and senior officers. Except that a company shall have a lock-up period of six (6) months when it issues shares, and the controlling shareholders shall have a lock-up period of twelve (12) months when they sell shares, Hong Kong laws have set out no restrictions on shareholding and transfer of shares.

Financial assistance for the purchase of company shares

Although the Company Law of China neither forbids nor restricts a joint stock limited company or its affiliated companies to provide financial assistance to purchase the shares of the company or its holding companies, the Mandatory Provisions, however, contains specific restrictions on the above-mentioned financial assistance provided by the company or its affiliates, which are similar to the restriction provisions set out in the company law of Hong Kong.

Change of classified shareholder rights

Although the Company Law of China has not set out any special provisions on the change of classified shareholder rights, it stipulates that the State Council can promulgate provisions on shares of other classes. The Mandatory Provisions contain detailed provisions on the conditions to be deemed as changes of classified shareholder rights, as well as corresponding approval procedures with regard to the changes. These provisions have been incorporated into the articles of association, and the summary thereof is contained in the section of Summary of Articles of Association in Appendix VI hereof.

According to the Companies Ordinances, the rights attached to classified shares shall not be amended, unless: (i) it is approved on an independent meeting by a special resolution

concerning the classified shareholders; (ii) it gains written approval from shareholders that hold at least three fourths of the nominal value of issued shares; (iii) it is unanimously approved by all shareholders of the company; and (iv) there are any provisions concerning the changes of such rights in the Articles of Association of the company.

Director, senior officer and supervisor

The Company Law of China unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. But the Mandatory Provisions have set several restrictions on major disposals, and they provide conditions under which severance packages are available to the concerned directors.

Board of Supervisors

According to the Company Law of China, the directors and managers of a joint stock limited company shall be supervised by its Board of Supervisors. Companies incorporated in Hong Kong are not subject to any mandatory provisions on setting up a Board of Supervisors. According to the Mandatory Provisions, when exercising their rights, each supervisor of a company is obliged to perform their duties faithfully and sincerely in such a manner that they deem the best interests of the company will be satisfied, and in similar situations, such persons shall apply such degree of care, diligence and skills as may reasonably be expected of a person in similar cases.

Derivative action by minority shareholders

According to Hong Kong laws, if a director breaches his fiduciary duties to the company, but still controls the majority voting rights of the general meeting of shareholders, as a result of which the company is unable to impeach these directors for violating these duties in its own name, then the minority shareholders can represent all shareholders to initiate a derivative action. The Company Law of China stipulates that: when the directors and senior officers of a joint stock limited company violate their fiduciary duties to the company, then the shareholders individually or jointly holding one percent (1%) of the company shares for consecutive one hundred and eighty (180) days or more may submit a written request to the Board of Supervisors for filing a lawsuit with the people's court; and when the Board of Supervisors violates its fiduciary duties to the company, the aforesaid shareholders may submit a written request to the Board of Directors for filing a lawsuit with the people's court.

Where the Board of Supervisors or the Board of Directors refuses to file a lawsuit after receipt of the written request mentioned above, or does not file a lawsuit within thirty (30) days of the receipt of the same, or comes across an emergency where, if no immediate actions are taken, the company's interests shall be incurably impaired, then the shareholders may, for the interest of the company and on their own behalf, directly file suit before a people's court.

The Mandatory Provisions have set forth other remedial measures that shall be taken when the directors, supervisors or senior officers of a company violate their responsibilities to the company. Moreover, as a condition for a joint stock limited company to be listed on Hong Kong Stock Exchange, each director and supervisor (acting as the agent for the shareholders) shall make a commitment to the company that: the minority shareholders shall take actions when the directors and supervisors of the company default.

Protection of minority shareholder interests

According to Hong Kong laws, for a company incorporated in Hong Kong, if its shareholders complain that the way the company does business may damage its interests, they can apply to the court for liquidating the company or giving appropriate orders to supervise the company affairs. Moreover, if a specific number of shareholders apply, the Hong Kong Financial Secretary may appoint inspectors authorized with extensive statutory rights to investigate in to the incorporation of companies in Hong Kong. Chinese laws provide no similar provisions. But the Mandatory Provisions stipulate that, the controlling shareholders shall not exercise the voting rights in a manner prejudicial to the interests of all or some shareholders, so as to exempt the directors' or supervisors' responsibilities to faithfully make acts that conform to the company's best interests, or to approve the directors and supervisors to misappropriate company assets or to deprive the personal rights of other shareholders.

Notice of the general meeting of shareholders

According to the Company Law of China, all shareholders shall be notified at least twenty (20) days prior to the convening of a general meeting of shareholders. According to the Special Provisions and the Mandatory Provisions, all shareholders shall be notified in writing at least forty-five (45) days prior to the convening of a general meeting of shareholders, and all those intend to attend the meeting shall reply in writing at least twenty (20) days prior to the meeting. As for a company incorporated in Hong Kong, a notice for convening a special meeting of shareholders to review the general resolutions shall be given at least fourteen (14) days in advance, while a notice for convening a special meeting of shareholders to review the special resolutions shall be given at least twenty-one (21) days in advance. A notice for convening the annual general meeting of shareholders shall be given twenty-one (21) days in advance.

Quorum for the general meeting of shareholders

According to Hong Kong laws, unless otherwise stipulated in the Articles of Association, the quorum for the general meeting of shareholders shall be at least two (2) shareholders. As for a company with only one (1) shareholder, the quorum shall be one (1) shareholder. The Company Law of China doesn't make a stipulation on the quorum of the general meeting of shareholders, but according to the Special Provisions and the Mandatory Provisions, a reply from the shareholders representing at least 50% voting shares to the meeting notice shall be received at least twenty (20) days prior to the proposed convening date, before a the general meeting of shareholders may be convened; if the above-mentioned percentage of 50% is not reached, the company must notify its shareholders in the form of public announcement within five (5) days before the general meeting of shareholders may be convened.

Voting rights

According to Hong Kong laws, the general resolutions may be adopted by the affirmative vote of a simple majority of the directors present at such meeting in person or by proxy; and the special resolutions may be adopted by the affirmative vote of at least three fourths of the directors present at such meeting in person or by proxy. According to the Company Law of China, a resolution adopted by the general meeting of shareholders requires affirmative votes by a majority of the votes held by shareholders attending the meeting. The resolution with regards to amendment to the articles of association, increase or decrease of registered capital, merger, division or dissolution of the company or change of the form of the company requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting.

Financial disclosure

According to the Company Law of China, the financial and accounting reports of a joint stock limited company shall be available at the company's premises for shareholders' inspection as from the twentieth day prior to the annual general meeting of shareholders. In addition, a joint stock limited company established through public share offer shall make public its financial and accounting reports. According to the Companies Ordinances, a company incorporated in Hong Kong shall mail the balance sheet, auditor's report and director's report to all shareholders at least twenty-one (21) days before the annual general meeting of shareholders. Such documents shall be submitted to the company on its annual general meeting of shareholders. According to Chinese laws, a joint stock limited company shall prepare its financial statement in accordance with the accounting policies generally accepted in China. According to the Mandatory Provisions, besides preparing its financial statements in accordance with the accounting policies generally accepted in China, the concerned company shall also prepare and audit its financial statements as per international or Hong Kong accounting standards. Moreover, the concerned financial statements shall also explain the financial impacts of the major differences (if any) between such statements and the ones prepared as per the accounting policies generally accepted in China.

The Special Regulations require that information disclosed in and out of China shall be consistent. If there are any differences between the information disclosed as per Chinese laws and that disclosed as per overseas laws, rules, and concerned stock exchange regulations, the differences therein shall also be disclosed.

Information on directors and shareholders

The Company Law of China empowers the shareholders of a company to inspect the articles of association, the record of shareholders as well as its financial and accounting reports. According to the articles of association, shareholders are entitled to consult and copy (at its reasonable costs) some information about shareholders and directors, which is similar to all the rights empowered to the shareholders of a Hong Kong company under Hong Kong laws.

Receiving agent

In accordance with the Company Law of China and Hong Kong laws, all dividends, once declared, shall forthwith become debts payable to shareholders. According to Hong Kong laws,

the limitation of action for requesting a debt repayment shall be six (6) years. According to Chinese laws, however, such limitation of action shall be two (2) years. According to the Mandatory Provisions, the concerned company shall entrust a trust company that is incorporated under the Trustee Ordinance (Chapter 29 of the laws of Hong Kong) to be its receiving agent, who shall represent the shareholder to receive the declared dividends and all other payments not yet paid by the company due to the concerned shares.

Corporate reorganization

All companies incorporated in Hong Kong shall be reorganized in various ways. For example, in accordance with Article 237 of Companies (Winding Up and Miscellaneous Provisions) Ordinance, all or part of the company's business or properties may be transferred to any other company during the involuntary liquidation process; or in accordance with Article 166 of Companies Ordinance, the debt is for a compromise or arrangement between the company and its creditors, or between the company and its shareholders. However, the concerned reorganization shall be subject to the approval of the court. According to the Chinese laws, the merger, division, dissolution or change of the status of a joint stock limited company shall be approved by the shareholders on the general meeting of shareholders.

Dispute arbitration

In Hong Kong, any disputes between a company incorporated in Hong Kong and its shareholders, and that between its directors, shall be resolved by the court through the legal procedures. According to the Mandatory Provisions, the claimant may choose to arbitrate such disputes either at Hong Kong International Arbitration Center or at CIETAC.

Mandatory drawing

According to the Company Law of China, a joint stock limited company shall allocate a prescribed percentage of the after-tax profits to its statutory reserve fund. Hong Kong laws have no regulations with this regard.

Remedies of the company

According to the Company Law of China, where any directors, supervisors or managers violate any laws, administrative regulations or the articles of association of the company when they perform their own duties, and thus cause any damages to the company, such directors, supervisors or managers shall be liable to the company. In addition, the Listing Rules require that in the articles of association of a listed company, there shall be remedial measures that are similar to those prescribed in Hong Kong laws, (including cancellation of relevant contracts or pursue profits from directors, supervisors or managers).

Dividends

Under some circumstances, a company is entitled to withhold any dividends or other allotments that shall be paid to the shareholders as per Chinese laws, and meanwhile pay all

taxes payable to the concerned tax authority. According to Hong Kong laws, the limitation of action for requesting a debt repayment (including recovery of dividends) shall be six (6) years. According to Chinese laws, however, such limitation of action shall be two (2) years. Before the concerned limitation expires, the company shall not exercise its rights to confiscate any dividends not yet claimed.

Fiduciary duties

In Hong Kong, the fiduciary duties of directors are defined under the common law. According to the Special Provisions, no directors or supervisors shall carry out any activities that are competitive to or impair the company's interests.

Closure of register of shareholders

According to the Companies Ordinance, the register of shareholders shall not be accumulatively closed for over thirty (30) days within one (1) year (which can be extended to sixty (60) days under special circumstances). According to the Company Law of China and the Mandatory Provisions, however, transfer of shares shall not be registered for a period of thirty (30) days prior to the date of a general meeting of shareholders, or for five (5) days prior to the determined record date for the purpose of dividend distribution.

Hong Kong Listing Rules

The Listing Rules has set forth additional requirements with regard to the joint stock limited companies (such as our company) incorporated in China and to be listed mainly on Hong Kong Stock Exchange. Below is a summary of main provisions applicable to the additional requirements of our company.

Compliance Adviser

A company intending to be listed on Hong Kong Stock Exchange needs to appoint a compliance adviser that is recognized by Hong Kong Stock Exchange. The term of the appointment shall commence on the listing date and will end on the date on which the company distributes the annual report for the first full financial year commencing after the listing date. The compliance adviser shall provide the listed company with professional suggestions on the on-going compliance with the Listing Rules and all other relevant laws and regulations. Apart from two authorized representatives of the company, such compliance adviser shall at any time act as a main communication channel between the listed company and Hong Kong Stock Exchange. Before Hong Kong Stock Exchange accepts an alternative person, the current compliance adviser shall not be dismissed. Where Hong Kong Stock Exchange believes that the compliance adviser fails to fully implement its responsibilities, it may request the company to dismiss the said compliance adviser and appoint an alternative one.

The compliance adviser shall timely notify the company of all applicable changes in the Listing Rules, as well as any new or amended laws, rules and regulations of Hong Kong. If it is

expected that the authorized representative of the company will stay outside Hong Kong from time to time, then the compliance adviser shall act as a main communication channel between the company and Hong Kong Stock Exchange.

Accounting report

Accounting reports shall generally be prepared in accordance with: (a) Hong Kong Financial Reporting Standards; or (b) International Financial Reporting Standards; or (c) Accounting Standards for Business Enterprises of China (“Accounting Standards for Business Enterprises of China”) (with regard to Chinese issuers that have adopted Accounting Standards for Business Enterprises of China to prepare their annual financial statements).

Process agent

A listed company shall appoint and retain one (1) authorized representative to receive and deliver all legal documents and public announcements during the whole time when its securities are listed on Hong Kong Stock Exchange. Such representative shall also provide Hong Kong Stock Exchange with detailed information on his appointment, termination of appointment as well as contact details.

Public shareholding

According to the Listing Rules, except for foreign shares listed on Hong Kong Stock Exchange, if the Chinese issuer has issued other classes of securities at any time, then: the total number of H-shares and other securities held by the public shall not be less than 25% of the total amount of shares issued by such issuer; the class of securities for which listing is sought shall not be less than 15% of the total amount of shares issued by the issuer; the expected market capitalization at the time of listing shall not be less than HK\$ 50 million. The Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10 billion.

Independent non-executive directors and supervisors

The independent non-executive directors of the Chinese issuer shall have generally-acceptable skills and sufficient business or professional knowledge, so that the interests of all shareholders of the listed company will be sufficiently represented. Each supervisor shall be equipped with the skills, professional knowledge and virtues required for a supervisor, and competent for the position of a supervisor.

Restrictions on purchase of its own securities

After gaining approval from the government authority and in case that all requirements under the articles of association of the company are met, a listed company can purchase its own securities on Hong Kong Stock Exchange in accordance with the Listing Rules. Share repurchase shall be approved by a special resolution on a general meeting of shareholders that

is held in accordance with the articles of association by the classified shareholders. To obtain such approval, a listed company shall provide information on any proposed or actual purchase of all or part of any equity securities, no matter whether such equity securities are listed or traded on Hong Kong Stock Exchange. The directors shall also, in accordance with Hong Kong Codes on Takeovers and/or any similar Chinese laws known to them, explain the consequences of acquisition (if any). Any general authorization given to directors to repurchase its own shares shall not exceed 10% of the total shares issued by the listed company.

Redeemable shares

Unless Hong Kong Stock Exchange is assured that the relative rights of all shareholders of a listed company are sufficiently guaranteed, otherwise such listed company shall not issue any redeemable shares.

Preemptive rights

Except for the following cases, before a director authorizes, distributes, issues or grants shares or convertible securities, share rights, and share warrants, or before a director subscribes any shares or similar rights concerning convertible securities, an approval shall be obtained by special resolution on a general meeting of shareholders, and by a special resolution on a general meeting of classified shareholders that is held by classified shareholders in accordance with the articles of association (shareholders of all classes shall be entitled to vote at the general meeting).

According to the Listing Rules, if (i) existing shareholders have passed the special resolutions on the general meeting, and unconditionally or as per the terms and conditions listed in the resolutions, authorize the board of directors to separately or concurrently allot or issue shares not exceeding 20% of the domestic listed shares and H shares in issue respectively on the date the said special resolutions are passed; or (ii) relevant shares are issued in accordance with the issuance plan for domestic listed shares and H shares that is made at the date of the company's establishment, and such plan shall be implemented within fifteen (15) months after being approved by the concerned securities regulatory organization under the State Council, then no such approvals will be needed.

Supervisors

A company that is already listed or plans to be listed on Hong Kong Stock Exchange shall adopt relevant rules under which the regulatory supervisors purchase and sell the securities of the company, which shall not be less rigorous than the model codes promulgated by Hong Kong Stock Exchange (see Appendix 10 of the Listing Rules). Chinese issuers or any of its affiliates, before entering into the following service contracts with the supervisors or supervisors designate of such issuers or any of its affiliates, must obtain approval from the shareholders at the general meeting, while the concerned supervisors and their contacts shall abstain from voting at the meeting. The said contracts shall meet the following conditions: (1) each contract shall be with a term of over three (3) years; or (2) the contract shall clearly stipulate that, a company (or its affiliate) shall give a notice of over one (1) year, or to make a compensation of more than one year salary, or make other payments when it terminates a contract.

The Nomination & Remuneration Committee or the Independent Director Committee must: give suggestions on the service contracts approved by shareholders; give suggestions on the fairness and reasonableness of concerned clauses to shareholders (except for the shareholders that have substantial interests in the concerned service contract and their contacts); give suggestions to the shareholders on whether the said contracts are in conformity with the overall benefits of the listed company and its shareholders; and make suggestions to the shareholders on the methods to take votes.

Amendments to the Articles of Association

The Chinese issuers shall not permit or arrange any amendments to the articles of association that may infringe the Company Law of China, the Mandatory Provisions or the Listing Rules.

Documents available for inspection

Chinese issues shall make the following materials available at a certain place in Hong Kong for free inspection by the public and shareholders, and meanwhile for the shareholders to make copies at a reasonable cost:

- A complete duplicate of the record of shareholders;
- A report on the share capital issued by the company;
- Audited financial statements of the company in recent years; reports made by directors, auditors and supervisors (if any);
- Special resolutions;
- Reports providing information on the number and par value of securities bought back by the company since the end of the previous fiscal year, the total amount paid for repurchasing such securities, the highest and lowest price paid for buying back different classes of securities (together with detailed statement on classified shares);
- A duplicate copy of the recent annual report filed with the State Administration for Industry and Commerce or other competent agencies in China; and
- With regard to shareholders only, a duplicate of the minute book of the general meeting of shareholders.

Receiving agent

According to Hong Kong Laws, Chinese issuers need to appoint one or more receiving agents in Hong Kong, and pay to the agent(s) the declared dividends and other amounts of H shares. The receiving agent(s) shall, before the payment is made, hold the received amounts in trust on behalf of the H-share holders.

Statements in share certificates

Chinese issuers shall ensure that all its listing documents and listed shares shall contain the following statements, and direct or instruct each share registrar not to register any acquisition, purchase or assignment of any shares in the name of any specific share holder, unless and until the said holder delivers to the share registrar the signed forms concerning relevant shares and with the following instructions, which show that the share purchaser:

- together with the company and all shareholders, unanimously agree to, while the company and all shareholders also agree to abide by and carry out the Company Law of China, the Special Provisions and the articles of association;
- together with the company and all shareholders, directors, supervisors, managers and other senior officers, unanimously agree to, and the company (on its own behalf and on behalf of all directors, supervisors, managers and other senior officers) and all shareholders also agree to submit all objections and claims arising from any rights or liabilities granted or imposed by the articles of association, by the Company Law of China, or by other laws and administrative regulations that involve company affairs, for arbitration. A submission for arbitration shall be deemed as an authorization to the arbitration tribunal to carry out public hearing and to release the arbitration award. The arbitration award shall be final and conclusive;
- together with the company and all shareholders, unanimously agree that the shares can be freely transferred by the holders; and
- has authorized the company to sign contracts with all directors and senior officers on its behalf. Thereby, the concerned directors and senior officers shall make commitment to abide by and implement their responsibilities to the shareholders in accordance with the provisions set out in the articles of association.

Legal compliance

Chinese issuers shall abide by and conform to the Company Law of China, the Special Provisions and the articles of association.

Contracts entered by and between Chinese issuers and all directors, senior officers and supervisors

Chinese issuers shall sign written contracts with all directors and senior officers. The contract shall at least set out the following provisions:

- Directors or senior officers shall commit to the company that: they will comply with and carry out the Company Law of China, the Special Provisions, the articles of association, Hong Kong Codes on Takeovers and regulations that the concerned company shall have the remedial measures as stipulated in the articles of association; neither the contract nor the positions of such persons shall be assigned;

- Directors or senior officers, acting as agents of shareholders, shall commit to the company that: they will abide by and carry out their responsibilities to the company shareholders as set out in the articles of association; and
- Arbitration clauses that, in case any objections and claims arise between the company and its directors/senior officers, or between H-share holders and its directors/senior officers, as a result of any rights or liabilities granted or imposed by the contracts, or by the articles of association, or by the Company Law of China, or by other laws and administrative regulations that involve company affairs, such objections and claims shall be submitted for arbitration, and the claimant may select to arbitrate the objections and claims either at CIETAC in accordance with its arbitration rules, or at Hong Kong International Arbitration Center in accordance with its securities arbitration rules. Once the claimant submits the dispute or the appeal for arbitration, the other party shall obey to arbitrate the dispute or the appeal at the arbitration body selected by the claimant. Such arbitration award shall be final and conclusive. If the party seeking for arbitration selects to arbitrate the dispute or the appeal at Hong Kong International Arbitration Center, then either party may arbitrate the dispute or the appeal at Hong Kong International Arbitration Center in Shenzhen by following the securities arbitration rules thereof. The above-mentioned disputes or appeals shall be governed by Chinese laws, unless otherwise stipulated by the laws or administrative regulations. The arbitration award made by the arbitration body shall be final and binding upon both parties. Disputes concerning the qualification of shareholders or register of shares need not to be submitted for arbitration.

Chinese issuers shall also sign with the supervisors a written contract broadly comparable with the provisions above.

Subsequent listing

Unless Hong Kong Stock Exchange is assured that the relative rights of all H-share holders of the Chinese issuer are sufficiently guaranteed, H shares of such company shall not be traded on a stock exchange in China.

English translation

All notifications or other documents submitted by the Chinese issuers to Hong Kong Stock Exchange or H-share holders in accordance with the Listing Rules shall be written in English and attached with the certified English version.

General regulations

If any changes in the Chinese laws or in market practices cause any major changes to the effectiveness or accuracy of any basis for preparing the additional requirements, then Hong Kong Stock Exchange may impose additional requirements or may require that the H shares of the Chinese issuers shall be listed by meeting the special conditions that Hong Kong Stock

Exchange deems appropriate. No matter whether there are any relevant changes in the Chinese laws or in market practices, Hong Kong Stock Exchange shall reserve the general rights to impose any additional requirements on listing as per the Listing Rules, and to put forward special conditions.

3. Other laws and supervisory provisions

After being listed on Hong Kong Stock Exchange, the Chinese issuers shall strictly abide by Securities and Futures Ordinance, Hong Kong Codes on Takeovers, as well as any other ordinances and regulations in relevance.

4. Securities arbitration rules

According to the arbitration rules of Hong Kong International Arbitration Center, after receiving an application from either party, the arbitration tribunal may conduct a hearing in Shenzhen on the affairs of a company that is incorporated in China and listed on Hong Kong Stock Exchange, so that all Chinese parties and witnesses would be able to appear in court. If either party applies to hear the case in Shenzhen, the arbitration tribunal shall arbitrate the case in Shenzhen after it ensures that the concerned application is made on a sincere basis, and all parties, including witnesses and arbitrators, are permitted to present at the hearing conducted in Shenzhen. If any other parties except for the Chinese party or any of its witnesses or any arbitrator are forbidden to present at the hearing in Shenzhen, the arbitration tribunal shall order to carry out the hearing in any feasible way, including using the electronic media. Under the Securities Arbitration Rules, Chinese party shall refer to the party that is domiciled in China (excluding Hong Kong, Macao and Taiwan).

For any further information on the laws of China or of any other jurisdiction, please seek independent legal advice.

This appendix summarizes main provisions contained in the Articles of Association. The Articles of Association, adopted by the Company on the June 24, 2015, shall come into effect as of the date of listing of H Shares on the Stock Exchange. This appendix intends to provide potential investors with the summary of the Articles of Association. The following information is only the summary and thus is not exhaustive in respect of information important to potential investors. As stated in such two paragraphs in Appendix VIII as “Documents Delivered to the Registrar of Companies in Hong Kong” and “Documents Available for Inspection,” the full text of the Articles of Association in Chinese is available for reference.

1. Director and Board of Directors

(a) Power to allot and issue shares

No provisions contained in the Articles of Association grant the board of directors any power to allot or issue shares. The board of directors shall formulate a proposal relating to the allotment or issuance of shares for approval by shareholders in a general meeting of shareholders in the form of special resolution. Any such allotment or issuance shall be subject to such procedures as specified by applicable laws and administrative regulations.

(b) Power to dispose of assets of the company or its subsidiaries

The board of directors may, to the extent authorized by the general meeting of shareholders, decide such affairs of the Company as external investment, acquisition and sales of assets, pledge of assets, external guarantee, entrusted financing and related party transaction.

(c) Compensation or indemnity for loss of position

It shall be stipulated in the contract between the Company and its directors or supervisors relating to remuneration that, when the Company is acquired, such director or supervisor shall subject to approval in a general meeting of shareholders, be entitled to a compensation or any other payment for his/her loss of position or retirement. The scenario in which the Company is acquired refers to one of the following circumstances:

- where any person makes an acquisition offer to all the shareholders; or
- where any person makes an acquisition offer with a view to making the offeror become the controlling shareholder (as defined in the Articles of Association) of the Company.

Where relevant director or supervisor fails to comply with the foregoing provisions, any payment received shall be given to the person who sells shares due to the acceptance of the foregoing offer. Relevant director or supervisor shall *pro rata* bear all expenses arising from the allocation of such payment to such person and no relevant expenses may be deducted from the payment so allocated.

(d) Provision of a loan for a director, supervisor or senior manager

The Company may not directly or indirectly provide any loan or loan guarantee for any director, supervisor or senior manager of the Company or its parent company, or for any person relating to the foregoing personnel.

The following transactions shall not be restricted by the foregoing provisions:

- the Company provides its subsidiaries with loans or loan guarantees;
- the Company, in accordance with the appointment contract approved by the general meeting of shareholders, provides any of its directors, supervisors or senior managers with any loan, loan guarantee or other payment for the purpose of paying any and all expenses arising from the Company or from the performance of the Company's obligations; and
- where the normal scope of business of the Company covers the provision of loans or loan guarantees, the Company may provide any loan or loan guarantee for its relevant directors, supervisors, senior managers or other relevant personnel; provided, however, that the conditions of the foregoing loan or loan guarantee shall be normal commercial conditions.

If the Company provides any loan in violation of such restriction, the person who receives such loan shall immediately repay it, irrespective of the loan conditions. The Company may not be forced to execute any loan which is provided by the Company in violation of the foregoing provisions, except that:

the lender is not aware of such restriction when providing any loan for any person relating to any director, supervisor or senior manager of the Company or its parent company; or

- the collateral provided by the Company has been legally sold by the lender to the *bona fide* purchaser.
- For the purposes of the foregoing provisions, "guarantee" includes the guarantor's assumption of obligations or provision of properties in order to ensure the obligor's performance of obligations.

(e) Provision of financing in relation to acquisition of shares of the Company or any of its subsidiaries

In accordance with the Articles of Association:

- neither the Company nor any of its subsidiaries shall at any time or in any way provide any financing for any person who has acquired or intends to acquire the Company's shares. Such person includes any person who directly or indirectly assumes obligations due to the acquisition of shares; and
- neither the Company nor any of its subsidiaries shall at any time or in any way provide any financing for the person referred to in the previous paragraph for the purpose of reducing such person's obligations or relieving such person of his/her obligations.

The following transactions are not prohibited:

- The financing provided by the Company is in good faith for the benefit of the Company and such financing does not mainly aim at acquiring the Company's shares, or such financing is a part of a certain master plan of the Company;
- Distribution is lawfully made with its properties as dividends;
- Dividends are distributed in the form of shares;
- Registered capital is reduced, shares are repurchased or shareholding structure is adjusted in accordance with the Articles of Association;
- The Company provides loans for its normal business activities within its scope of business; provided, however, that such loans may not result in the reduction of net assets of the Company, or even if the net assets are reduced, such financing is from distributive profits; and
- The Company provides funds for the employees' share option scheme; provided, however, that such loans may not result in the reduction of net assets of the Company, or even if the net assets are reduced, such financing is from distributive profits.

For the purposes of the foregoing provisions, "financing" includes but not limited to:

- gift;
- guarantee (including the guarantor's assumption of liabilities or provision of properties to ensure the obligor's obligations), compensation (excluding compensation arising through the Company's own fault), release or waiver;
- provision of any loan or entry into any agreement under which the Company shall perform its obligations in advance of other parties thereto, or any change or replacement of parties to such loan or agreement or any assignment of rights under such loan or agreement; or
- financing provided by the Company in any other manner under the circumstances where the Company is insolvent, has no net assets or is likely to incur sharp reduction of net assets.

"Assuming obligations" includes assuming obligations due to any change in its financial position by entering into any agreement or making any arrangement (whether such agreement or arrangement is enforceable, and whether assuming for the individual or any other person) or any other means.

(f) Disclosure of interests in contracts entered into with the Company or its subsidiaries

Where any director, supervisor or senior manager, in any way and directly or indirectly, has a material interest in any contract, transaction or arrangement entered into or to be entered into by the Company (except for any appointment contract between the Company and the director, supervisor or senior manager), regardless of whether the foregoing contract, transaction, arrangement or proposal shall be subject to the approval by the board of directors under normal circumstances, relevant person shall as soon as possible disclose the nature and degree of such interest to the board of directors.

Unless the interested director, supervisor or senior manager has made a disclosure to the board of directors in accordance with the above requirements and the board of directors approves relevant matters in a meeting where such person is not counted towards the quorum and does not participate in voting, the Company shall have the right to cancel the contract, transaction or arrangement, with the exception that the other party to such contract, transaction or arrangement is in good faith unaware of the violation by such director, supervisor or senior manager of his/her obligations.

If any associate of any director, supervisor or senior manager has an interest in a contract, transaction and arrangement, such director, supervisor or senior manager is deemed to have an interest in the same.

(g) Remuneration

The Company shall enter into a written agreement with a director or supervisor in respect of his/her remuneration which shall be subject to the prior approval by the general meeting of shareholders, this applies to:

- remuneration for the provision of services as the director, supervisor or senior manager of the Company;
- remuneration for the provision of services as the director, supervisor or senior manager of the subsidiaries of the Company;
- remuneration for the provision of other services for the management of the Company and its subsidiaries; and
- compensation obtained by the director or supervisor due to his/her loss of position or retirement.

Save as specified in the foregoing contracts, neither directors nor supervisors may file a lawsuit against the Company in respect of any payable interest relating to the foregoing matters.

(h) Retirement, appointment and dismissal

No persons below shall be appointed as directors, supervisors or senior managers:

- a person who has no capacity for civil conduct or has limited capacity for civil conduct;

- a person who was sentenced to criminal punishment for corruption, bribery, conversion of property, embezzlement or for sabotage of the social economic order, where less than five years have elapsed after the expiration of the period of execution of punishment; or a person who was deprived of his/her political rights for the commission of a crime, where less than five years have elapsed after the expiration of the period of execution;
- a person who was a director or factory director or manager of a company or enterprise that went into liquidation and who was personally liable for the bankrupt of such company or enterprise, where less than three years have elapsed after the completion of bankruptcy liquidation of such company or enterprise;
- a person who, being the legal representative of a company or an enterprise, of which the business license was revoked or the company or enterprise was ordered to wind up for violation of law, was personally liable for the above, where less than three years have elapsed from the date the business license of the company or enterprise is revoked;
- a person who incurs any debt of a relatively large amount and fails to repay in full when it is due;
- a person under investigation by a judicial body due to his/her violation of criminal law, with the case not closed yet;
- a person banned from being a leader of the Company in accordance with laws and administrative regulations or rules and regulations of the competent department;
- a person who is not a natural person;
- a person who is ruled by relevant authority to be in violation of relevant securities law and to have committed any fraud or dishonest conduct, where less than five years have elapsed from such judgment.
- a person who is involved in any other circumstance specified by relevant laws of the place of listing of the Company's shares.

The effect of any director's or any senior manager's act on behalf of the Company on a *bona fide* third party shall not be affected by any non-compliance in relation to his/her appointment, election or qualification.

The board of directors shall consist of nine directors. The director shall be elected in a general meeting of shareholders. A director is not required to hold any share of the Company.

No provision is made in the Articles of Association in respect of the retirement age of a director.

The chairperson and vice-chairperson of the board of directors shall be elected and dismissed by more than a half of all the directors through voting. Subject to relevant laws and

administrative regulations, any director whose term of office has not expired may be dismissed by an ordinary resolution in a general meeting of shareholders, without affecting any claim which may be made in accordance with any contract.

The term of office of a director shall be three years. A director may be reelected and reappointed after his/her term of office expires.

Any written notice concerning the proposed nomination of any candidate for directorship, a supervisor and the candidate's willingness to accept such nomination with relevant written documents concerning more details of such nominee shall be sent to the Company not less than fourteen days prior to the date of a general meeting of shareholders. The Company should give a period of not less than seven days for such nominees and candidates to render abovementioned notice and documents (such period commences from the second day after the date on which the notice of the corresponding general meeting of shareholders is issued).

(i) Duties

Directors, supervisors and senior managers shall bear the obligations of good faith and due diligence to the Company. Where any director, supervisor or senior manager breaches any of his/her obligations to the Company, in addition to various rights and remedies granted by laws and administrative regulations, the Company shall further have the right to:

- require such director, supervisor or senior manager to indemnify the Company for any loss incurred by the Company due to his/her dereliction of duty;
- cancel any contract or transaction between the Company and such director, supervisor or senior manager and any contract or transaction between the Company and any third party (where such third party knew or was reasonably expected to know the breach by such director, supervisor or senior manager acting on behalf of the Company of his/her obligations to the Company);
- require such director, supervisor or senior manager to surrender any proceeds arising from his/her breach of any obligation;
- recover any amount received by such director, supervisor or senior manager which should be attributed to the Company, including (without limitation) commission;
- require such director, supervisor or senior manager to return any interest which has accrued or could be accrued on any amount payable to the Company.

Directors, supervisors and senior managers shall perform their duties in good faith and shall not place themselves in any unfavorable situation in which there is a conflict between their own benefit and their obligations. The principle of good faith includes (without limitation) the performance of the following obligations:

- honestly acting for the maximum benefit of the Company;
- exercising their rights within their respective capacity and not exceeding their scope of authority;

- personally exercising the discretion granted to them, without being subject to any manipulation by others; not assigning the discretion to any third party without the permission by laws or the informed consent given by shareholders in a general meeting of shareholders;
- equally treating the shareholders of same class and fairly treating shareholders of different classes;
- entering into no contracts, transactions or arrangements with the Company save as being in compliance with the Articles of Association or with the informed consent by the general meeting of shareholders;
- making no use in whatever way of the Company's properties to seek personal gains without the informed consent given by the general meeting of shareholders;
- abusing no powers to take bribes or other illegal gains and embezzling in whatever form no properties of the Company, including (without limitation) opportunities favorable to the Company;
- accepting no commissions relating to any transaction of the Company without the informed consent given by the general meeting of shareholders;
- observing the Articles of Association, faithfully performing their duties, and safeguarding the benefits of the Company, and not taking advantage of their positions and authorities in the Company to seek personal gains;
- not exploiting their positions to seek any business opportunities of the Company either for themselves or other persons, operate any similar business by themselves or with other persons, or compete in whatever form with the Company without the informed consent given by the shareholders in a general meeting of shareholders;
- not misappropriating any fund of the Company not depositing any assets or funds of the Company in any account opened in their personal names or other names;
- not violating the Articles of Association to lend funds of the Company to others or to provide any guarantee for any loans of shareholder or other personal with the Company's assets without the general meeting of shareholders or the board of directors;
- not using their associated relationship to damage the Company's interests;
- disclosing no confidential information relating to the Company obtained by them during their term of office without the informed consent given by the general meeting of shareholders; making no use of such information, other than for the benefit of the Company; however, such information may be disclosed to any court or other governmental body if such disclosure is required: (a) by laws; (b) for public interest; or (c) for the own benefit of any director, supervisor or senior manager.

No director, supervisor and senior manager shall not cause any of the following persons or organizations (“related persons”) to commit any act which directors, supervisors and senior managers are prohibited from committing:

- spouses or underage children of directors, supervisors and senior managers;
- trustees of directors, supervisors and senior managers or persons referred to in (i);
- partners of directors, supervisors and senior managers or persons referred to in (i) and (ii);
- a company in which any director, supervisor, general manager or senior manager *de facto* solely or jointly with persons referred to in (i), (ii) and (iii) and other directors, supervisors, general manager or other senior managers has a controlling interest;
- directors, supervisors, general manager and other senior managers of a controlled company referred to in (iv).

The covenant of good faith of directors, supervisors and senior managers shall not necessarily terminate upon the expiry of their term of office, and their obligations of keeping the Company’s trade secret confidential shall survive thereupon. The duration of other obligations shall be determined according to the principle of fairness, depending on the length of period from the occurrence of the event to their leaving of their posts and on the circumstance and conditions under which their relationship with the Company ends.

Save as otherwise specified in the Articles of Association, liabilities assumed by any director, supervisor or senior manager due to his/her breach of certain obligation may be discharged by a general meeting of shareholders who is informed of such breach.

Each of directors, supervisors, general managers and other senior managers of the Company shall, when exercising his/her powers and performing his/her duties, owe a duty to act in such careful, diligent and skillful manner as a reasonably careful person would act under similar circumstances.

Where any director or senior manager violates laws or the Articles of Association while performing his/her duties in the Company and thus results in any loss to the Company, a shareholder/shareholders solely or in aggregate holding 1% or more of shares of the Company for successively one hundred and eighty (180) or more days shall be entitled to request in writing the Supervisory Committee to file a lawsuit before a court. Where the Supervisory Committee violates laws or the Articles of Association while performing its duties and thus results in any loss to the Company, any shareholder may request in writing the board of directors to file a lawsuit before a court.

Where the Supervisory Committee or the board of directors refuses to file a lawsuit after the receipt of the written request from the shareholder specified in the preceding paragraph, or fails to file a lawsuit within thirty (30) days after the receipt of such request, or the failure to

file a lawsuit immediately will cause irremediable damage to the benefit of the Company in the emergencies, the shareholder referred to in the preceding paragraph shall be entitled to file a lawsuit before a court directly for the benefit of the Company in his/her name.

If any third party infringes upon any legitimate interest of the Company and thus causes any loss to the Company, the shareholder mentioned above may file a lawsuit before a court in accordance with requirements in the preceding paragraphs.

Where any director or senior manager violates laws or the Articles of Association of the Company and thus brings any damage to the benefit of shareholders, any shareholder may file a lawsuit before a court.

(j) *Power to borrow and lend*

In accordance with applicable laws and administrative regulations, the Company shall have the right to raise and borrow funds, including (without limitation) issuance of bonds, mortgage or pledge of the Company's properties in whole or in part without any prejudice to or abolishment of any shareholder's right and other rights permitted by laws and administrative regulations.

The Articles of Association contain no special provision for the manner in which a director shall exercise his/her power to borrow and lend or for the manner in which such power may be expanded, with the exception of the following provisions:

- a provision authorizing the board of directors to formulate a proposal relating to the Company's issuance of bonds; and
- a provision specifying that the issuance of bonds shall be subject to the approval of shareholders by special resolution in a general meeting of shareholders.

2. Modification of the Articles of Association

The Company may modify the Articles of Association in accordance with relevant laws, administrative regulations and the Articles of Association.

Any modification of the Articles of Association involving any essential provision shall come into effect only after it is approved by the company examination and approval authority authorized by the State Council. In case of any modification of the Articles of Association involving the registered items of the Company, the registration of changes shall be duly carried out according to specified procedures.

3. Right to Amend Existing Shares or Classes of Shares

No rights obtained by any class of shareholders as shareholders ("Class Rights") may be amended or abolished unless approved by a special resolution in a general meeting of shareholders and approved in a general meeting of shareholders otherwise convened by affected class of shareholders in accordance with the Articles of Association.

The Class Rights of a certain class of shares shall be deemed as modified or abolished under the following circumstances:

- where the number of such class of shares is increased or reduced, or the number of any other class of shares having equal or more voting powers or distribution rights or other privileges to or than such class of shares is increased or reduced;
- where such class of shares is converted into another class of shares in whole or in part, or another class of shares is converted into such class of shares in whole or in part, or such right of conversion is granted;
- where the right to dividends receivable or cumulative dividends attached to such class of shares is canceled or reduced;
- where such priority to obtain dividends or to obtain property distribution in the liquidation of the Company as attached to such class of shares is reduced or canceled;
- where any of share conversion right, option, voting power, transferrable right, preemptive right or right to obtain securities of the Company as attached to such class of shares is increased, canceled or reduced;
- where such right to collect payables of the Company in specified currency as attached to such class of shares is canceled or reduced;
- where a new class of shares which has equal or more voting powers or distribution rights or other privileges to or than such class of shares is created;
- where the transfer or the ownership of such class of shares is restricted or such restrictions are imposed;
- where any subscription right for such class of shares or another class of shares of the Company or any right to convert into shares is issued;
- where rights or privileges to another class of shares are increased;
- where the restructuring program of the Company will cause different classes of shareholders to bear liabilities out of proportion in restructuring; and
- where any provision of the Articles of Association is amended or abolished.

The affected class of shareholders shall, regardless of whether having any voting power in a general meeting of shareholders, have the right to vote on matters set forth in (ii) to (viii), (xi) and (xii) above in a general meeting of the class of shareholders; provided, however, that interested shareholders (as defined below) shall have no voting power in a general meeting of the class of shareholders.

Any resolution proposed in a general meeting of the class of shareholders may be implemented only after it is passed by such class of shareholders having more than two thirds of voting powers and attending such meeting.

Where the Company intends to convene a general meeting of the class of shareholders, a written notice shall be sent to all registered shareholders of such class 45 days prior to the convening of such meeting (excluding the convening date of the meeting), stating the matters to be deliberated and the convening date and venue of the meeting. Shareholders who intend to attend the general meeting shall send a written reply to the Company 20 days prior to the meeting.

Where the number of voting shares represented by shareholders who intend to attend the general meeting of the class of shareholders is more than one half of the total number of voting shares of such class in such meeting, the Company may convene a general meeting of the class of shareholders; if not, the Company may convene the general meeting of the class of shareholders only after the Company, within five days thereafter, again notify, in the form of announcement, such class of shareholders of the matters to be deliberated in the meeting and the convening date and venue of the meeting.

The notice of the general meeting of the class of shareholders is only required to be sent to shareholders having the right to vote in such meeting.

Any general meeting of the class of shareholders shall be held according to the procedure as the same as the general meeting of shareholders as possible, and provisions of the Articles of Association relating to the procedures of convening the general meeting of shareholders shall be applicable to any general meeting of the class of shareholders.

Except for other classes of shareholders, holders of domestic shares and holders of foreign shares listed abroad shall be deemed as different classes of shareholders.

Special procedures of voting in any general meeting of the class of shareholders shall not apply under the following circumstances:

- where, with the approval of shareholders by special resolution in a general meeting of shareholders, the number of domestic shares and foreign shares listed abroad separately or simultaneously issued by the Company for each 12 months is respectively no more than 20% of domestic shares and foreign shares listed abroad in issue; or
- where the Company's plan of issuing domestic shares and foreign shares listed abroad made upon its establishment has been completed over 15 months from the approval date of the securities supervisory authority of the State Council.
- where, with the approval the State Council or such qualified authority authorized by the State Council, shares registered in the domestic share register of the Company are transferred to overseas investors and are listed or traded on any overseas stock exchange.

For the purposes of the provisions relating to Class Rights in the Articles of Association, “interested shareholders” are defined as follows:

- where the Company proposes to repurchase shares to all the shareholders or repurchases shares by means of open trade on the stock exchange, “interested shareholders” refers to the “controlling shareholders” defined in the Articles of Association;
- where the Company repurchases shares by means of agreement outside the stock exchange, “interested shareholders” refers to holders of shares associated with such agreement; and
- in the restructuring program of the Company, “interested shareholders” refers to shareholders bearing liabilities in a proportion lower than other shareholders of the same class or shareholders having interests different from other shareholders of the same class during restructuring.

4. Resolutions to Be Passed by a Majority Vote

The resolution adopted in a general meeting of shareholders shall be classified into ordinary resolution and special resolution.

An ordinary resolution may be adopted only when it is passed by more than half of votes holding by shareholders (including their proxies) attending the general meeting of shareholders.

An special resolution may be adopted only when it is passed by more than two-thirds of votes holding by shareholders (including their proxies) attending the general meeting of shareholders.

5. Right to Vote

Ordinary shareholders shall have the right to attend, or authorize proxies to attend, a general meeting of shareholders and vote in such meeting. A shareholder (or a proxy) shall, when voting in a general meeting of shareholders, exercise his/her right to vote as per the number of voting shares held thereby, with each share having one vote.

When voting in a general meeting of shareholders, a shareholder (including their proxies) having two or more votes with voting power attached to is not required to cast all their voting power for affirmative or negative votes or abstention of votes.

When the number of negative votes is equal to the number of affirmative votes, the chairperson of the meeting shall have the right to cast an additional vote.

In accordance with applicable laws and regulations and the listing rules of the stock exchange in the place of listing of the Company’s shares, where any shareholder is required to waive its voting power in respect of a certain matter to be resolved or is restricted to only vote

in favor of (or against) such certain matter to be resolved, the votes cast by such shareholder or his/her proxy in violation of such provision or restriction shall not be counted.

6. General Meeting of Shareholders

The general meeting of shareholders is classified into the annual general meeting of shareholders and the interim general meeting of shareholders. The general meeting of shareholders shall be convened by the board of directors. The annual general meeting of shareholders shall be convened once each year and held within six months after the end of each fiscal year.

7. Accounting and Audit

(a) Financial and accounting policies

The Company shall formulate its financial and accounting systems in accordance with Chinese laws and requirements under PRC GAAP prepared by the relevant PRC authorities.

The board of directors shall submit to the shareholders in each annual general meeting of shareholders a financial report prepared by the Company as required by relevant laws.

The financial reports of the Company shall be prepared in compliance with the accounting standards for business enterprises and regulations of China as well as in conformity with international accounting standards and accounting standards of the overseas place of listing of shares. In case of any material difference between financial reports prepared in accordance with the two accounting standards, such difference shall be indicated in the notes to financial reports. The Company shall distribute after-tax profits of a certain fiscal year based on the lesser of after-tax profits stated in two kinds of financial reports above.

The Company shall, 20 days prior to the convening of an annual general meeting of shareholders, prepare financial reports for reference by shareholders. Each shareholder shall have the right to obtain one financial report.

Unless otherwise specified in the Articles of Association, the Company shall, at least 21 days prior to the convening of an annual general meeting of shareholders, deliver the foregoing financial reports and the balance sheet (including each document attached to the balance sheet as specified in applicable laws), together with profit or loss statements or statement of recognized income and expense or the summary financial report in such manner as specified in the Articles of Association or by postpaid mail to each holder of foreign shares listed abroad at such address registered in the register of shareholders.

The interim results or financial information published or disclosed by the Company shall be prepared in accordance with the accounting standards and regulations of China as well as the international accounting standards and accounting standards of the overseas place of listing of shares.

In addition to the obligations specified by laws, administrative regulations or listing rules of stock exchange in the place of listing of shares, the Company shall publish financial reports twice in each accounting year, i.e. publish the interim financial report within sixty days after the end of first six months of an accounting year and publish the annual financial report within one hundred and twenty days after the end of an accounting year.

The Company shall keep no accounting books other than those specified by laws.

(b) Appointment and dismissal of accountants

The Company shall appoint an independent accounting firm which is in compliance with relevant requirements under PRC laws to audit the annual reports of the Company and other financial reports of the Company.

The Company shall appoint an accounting firm for a term from the end of each annual general meeting of shareholders to the end of the next annual general meeting of shareholders.

Without any prejudice to the right of such accounting firm to make a claim (if any) due to its dismissal and replacement, shareholders may, prior to the expiry of the term of appointment of any accounting firm, dismiss such accounting firm by ordinary resolution in a general meeting of shareholders, regardless of the terms and conditions of any contract entered into by and between the Company and such accounting firm.

The remuneration of the accounting firm and the mode of determination thereof shall be decided by shareholders in a general meeting of shareholders. The remuneration of the accounting firm appointed by the board of directors shall be determined by the board of directors.

The decision to appoint, dismiss or discontinue the appointment of an accounting firm shall be taken by shareholders in a general meeting of shareholders and the decision shall be submitted to the securities competent authorities under the State Council for the record.

Before dismissing or discontinuing the appointment of an accounting firm, the Company shall send a prior notice to such accounting firm and the accounting firm shall have the right to make a statement at a general meeting of shareholders. An accounting firm that applies for resignation shall state in a general meeting of shareholders whether the Company is affected by any inappropriate matter. An accounting firm may resign by sending a written notice of resignation to the legal address of the Company. Such notice shall come into effect on the date on which it is delivered to the legal address of the Company or such date as indicated in such notice, whichever is later.

Such notice shall include the following statements:

- the statement that its resignation does not involve declaration which is fall to be disclosed to shareholders or creditors of the Company; or
- any statement which is fall to be disclosed.

The Company shall, within 14 days after receiving the foregoing notice, deliver a copy of such notice to relevant competent authority. If such notice contains any statement referred to in (ii) above, the Company shall keep a copy of such statement for reference by shareholders and deliver such copy of the foregoing statement to any shareholder who is entitled to receive reports in respect of the financial position of the Company by postpaid mail at such address as registered in the register of shareholders.

Where the resignation notice of an accounting firm contains any statement which shall be disclosed to shareholders or creditors, such accounting firm may require the board of directors to convene an interim general meeting of shareholders to listen to the accounting firm's explanation of its resignation.

8. Notice and Agenda of General Meeting of Shareholders

The general meeting of shareholders is the organ of power of the Company and may perform functions in accordance with the law.

Except for special circumstances such as when the Company is in a crisis, without the approval by a special resolution at the general meeting of shareholders, the Company may not enter into any contract with any person other than directors, supervisors and senior managers for the purpose of placing such person in charge of the management of all or material business of the Company.

The board of directors shall convene an interim general meeting of shareholders within two months upon the occurrence of any of the following circumstances:

- where the number of directors is less than the number prescribed by the Companies Law of China, or less than two-thirds of the number of directors as stipulated in the Articles of Association;
- where the loss uncovered by the Company reaches one third of the total amount of paid-up capital;
- where a shareholder or shareholders who solely or jointly have 10% or more voting power require in writing an interim general meeting of shareholders to be convened (based on the number of shares held on the date such written request is made by the shareholders);
- where the board of directors deems necessary;
- the Supervisory Committee proposes of convening;
- approval of over half of all Independent Non-executive Directors of the Company to the proposal of convening; or
- other circumstance specified by laws or the Articles of Association.

Where the Company intends to convene a general meeting of shareholders, a written notice shall be sent to all registered shareholders 45 days prior to the convening of such meeting (excluding the convening date of the meeting), stating the matters to be deliberated and the convening date and venue of the meeting. Shareholders who intend to attend the general meeting of shareholders shall send a written reply to the Company 20 days prior to the holding of such meeting.

In a general meeting of shareholders of the Company, the board of directors, the Supervisory Committee and a shareholder/shareholders who solely or jointly hold 3% or more of voting shares in the Company shall have the right to put forward a proposal to the Company.

The Company shall calculate the number of voting shares held by shareholders who intend to attend the meeting according to the written replies received no later than 20 days prior to the convening of the general meeting of shareholders. Where the number of voting shares held by shareholders who intend to attend the meeting reaches one half of total voting shares of the Company, the Company may convene a general meeting of shareholders; if not, the Company may convene a general meeting of shareholders only after re-notifying shareholders in form of announcement of matters to be deliberated and date and venue of the meeting within 5 days prior to the convening of the proposed general meeting of shareholders.

A notice of general meeting of shareholders shall comply with the following requirements:

- shall be made in writing;
- the time, venue and duration of the meeting shall be designated;
- matters and resolutions to be deliberated in the meeting shall be submitted;
- shareholders shall be provided with such data and explanations as necessary for them to make a wise decision on matters to be deliberated. This principle shall include, without limitation, the provision of specific conditions and contracts (if any) for proposed transactions and the appropriate explanation of their causes and consequences when the Company proposes merger, share redemption, restructuring of share capital or any other restructuring;
- where any director, supervisor or senior manager has a material interest in any matter to be deliberated, the nature and degree of such interest shall be disclosed. Where the impact of any matter to be deliberated on any director, supervisor, manager or other senior manager as a shareholder is different from that on any other shareholder of the same class, such difference shall be stated;
- the full text of any special resolution to be submitted in the meeting shall be contained;
- such notice shall clearly state that all shareholders shall have the right to attend the general meeting of shareholders, and authorize a proxy in writing to attend such general meeting of shareholders and vote in such meeting, and the proxy does not have to be a shareholder;

- such notice shall clearly indicate the time and place of service of power of attorney authorizing the proxy to vote in the meeting;
- the equity registration date on which a shareholder is entitled to attend such general meeting of shareholders; and
- the name and contact information of the contact person of the meeting.

The notice concerning a general meeting of shareholders of the Company shall be delivered by person or sent by postpaid mail to shareholders at such address as indicated in the register of shareholders whether or not such shareholders have voting powers at the meeting, or may also be published in the form of announcement.

Such announcement shall be published in one or more newspapers designated by CSRC and the regulatory authorities in the place of listing of the Company's shares, and the websites of the Company and stock exchange within a period of 45 to 50 days prior to the convening of the meeting. Once such announcement is published, it shall be deemed that all holders of domestic shares have received the notice of the general meeting of shareholders. If no notice of a meeting is sent to any person who has the right to receive such notice due to any accident or omission, or such person fails to receive any notice of a meeting, the meeting and resolutions adopted in the meeting shall not be invalid for such reason.

Where a shareholder requires or shareholders require convening a general meeting of the class of shareholders, the following procedures shall be followed:

- Two or more shareholders aggregately holding more than 10% (inclusive) of voting shares in the Company may sign a written request or several written requests in the same format to suggest the board of directors for convening a general meeting of the class of shareholders and clarify the subjects to be discussed in such meeting. The board of directors shall convene a general meeting of the class of shareholders as soon as possible after receiving the foregoing written request. The foregoing number of shares shall be calculated as of the date on which the shareholder(s) proposes (propose) the written request.
- Where the board of directors fails to give any notice of convening a meeting within 30 days after the receipt of the foregoing written request, shareholders who render such request shall be have the right to convene a general meeting of the class of shareholders on its own within four months after the board of directors receive such request, and the procedures for convening should be the same as the convening of a general meeting of shareholders by the Board as practicable as possible.

Where any shareholder(s) convenes a meeting due to the board of directors' failure to convene the meeting upon the foregoing request, all reasonable expenses arising therefrom shall be borne by the Company and deducted from the amount owed by the Company to the delinquent director(s).

Any shareholder solely holding, or shareholders aggregately holding, more than 3% of shares in the company may put forward an interim proposal and submit the same in writing to the convener 10 days prior to the convening of the general meeting of shareholders; and the convener shall notify other shareholders of such proposal within two days after receiving the proposal and shall submit such interim proposal to the general meeting of shareholders for deliberation.

Except for the foregoing matters, the convener may not modify any proposal contained in the notice of general meeting of shareholders or add any new proposal after issuing the announcement in relation to the notice of general meeting of shareholders.

A general meeting of shareholders shall be convened by the board of directors and presided over by the chairman as the chairperson; where the chairman is unable to, or fails to, perform his/her duties, the vice-chairperson of the board of directors shall preside over the general meeting of shareholders; where both the chairman and the vice-chairman are unable to, or fail to, perform their duties, a director elected by over half of all directors shall preside over the general meeting of shareholders.

The following matters shall be settled by ordinary resolution in a general meeting of shareholders:

- work reports of the board of directors and the Supervisory Committee;
- plans for distributing profits and plans for making up losses drafted by the board of directors;
- the appointment or dismissal of members of the board of directors and the Supervisory Committee and their remuneration and mode of payment thereof;
- annual budget and final reports of the Company;
- annual reports of the Company;
- matters other than those to be settled by special resolution in accordance with requirements of laws or the Articles of Association.

The following matters shall be settled by special resolution in a general meeting of shareholders:

- increase/decrease of registered capital and issuance of any class of shares, share warrants and other similar securities by the Company;
- issuance of bonds by the Company;
- division, merger, dissolution and liquidation as well as transformation of the Company;

- amendment of the Articles of Association;
- matters relating to the Company's purchase, sales or guarantee of major assets in an amount equal to or more than 30% of total value of latest audit assets of the Company within one year;
- share incentive plans;
- other matters which are stipulated in laws or the Articles of Association, approved by an ordinary resolution and are believed to be likely to impose significant impact on the Company, and required to be settled by a special resolution.

Where any resolution adopted in a general meeting of shareholders of the Company or by the board of directors violates any laws and administrative regulations, a shareholder shall have the right to request a court to hold such resolution invalid.

Where the convening procedures or method of voting of any general meeting of shareholders or any meeting of the board of directors violates laws, administrative regulations or the Articles of Association, or the content of any resolution violates the Articles of Association, a shareholder may request a court to cancel relevant resolution within sixty (60) days from the date when such resolution is passed.

9. Transfer of Shares

Where, with the approval by the regulatory authority in charge of securities under the State Council, a holder of domestic shares of the Company may transfer unlisted shares held thereby to any overseas investor and shares so transferred may be listed or traded on any overseas stock exchange. The listing or trading of any share so transferred on any overseas stock exchange shall also be in compliance with regulatory procedures, rules and requirements of such overseas stock exchange. The listing and trading of the foregoing shares on an overseas stock exchange are not subject to approval in class shareholding's meetings.

The Company shall not accept the shares of the Company as the subject of pledge.

Shares held by promoters of the Company may not be transferred within one year from the incorporation date of the Company. Shares issued prior to any public offering of shares may not be transferred within one year from the date when the shares of the Company are initially listed and traded on a stock exchange. The transfer of more than 5% of the Company's shares shall be made in accordance with the laws, administrative regulations, regulatory documents and relevant requirements of the Listing Rules.

Directors, supervisors and senior managers of the Company shall declare the number of shares held by them in the Company and any change thereto to the Company. The number of shares transferable by any director, supervisor and senior manager each year during his/her term of office may not exceed 25% of the total number of shares he/she held in the Company, save and except for changes in shareholdings caused by judicial enforcement, inheritance, bequest and legal division of assets, and shares held by him/her in the Company may not be

transferred within one (1) year from the date when the shares of the Company are listed and traded in any stock exchange. Shares held by any person above in the Company may not be transferred within six (6) months after he/she leaves office.

Where any director, supervisor or senior manager of the Company or any shareholder holding 5% or more of shares in the Company sells shares held thereby in the Company within six (6) months after purchasing or repurchases shares within six (6) months after selling, the earnings arising therefrom shall be owned by the Company and the board of directors of the Company shall recover earnings from the foregoing person. However, for a securities company that holds more than 5% shares due to its underwriting of unsold shares, the sale of such shares shall not be subject to the six-month period restriction.

All paid-up H shares may be transferred freely in accordance with the Articles of Association; provided, however, that unless the following conditions are met, the board of directors may refuse to recognize any deed of transfer without stating any reason:

- (i) a fee of HK\$ 2.5 (for each deed of transfer) or the maximum fee specified by the Stock Exchange for the time being has been paid to the Company in order to register the deed of transfer of shares and other documents relating to or likely to affect the ownership of shares;
- (ii) the deed of transfer only involves foreign shares listed in Hong Kong;
- (iii) stamp duties payable on the deed of transfer have been paid;
- (iv) relevant share certificates and other evidences reasonably required by the board of directors establishing that the transferor has the right to transfer relevant shares have been submitted;
- (v) where shares are to be transferred to joint holders, the number of joint holders may not be more than four; and
- (vi) relevant shares are free of any lien of any company.

Any modification or correction of any part of the register of shareholders shall be carried out in accordance with the legislation of the depositing place of the register of shareholders.

No information contained in the register of shareholders shall be modified due to any transfer of shares within thirty (30) days prior to the convening of any general meeting of shareholders or within five (5) days prior to the base date on which the Company decides to distribute dividends.

10. The Company's Right to Repurchase its Own Shares

The Company may, in accordance with laws and the Articles of Association and as approved by the approval authorities authorized by the State Council, repurchase its own shares under any of the following circumstances:

- where any share is canceled in order to reduce the registered share capital of the Company;

- where the Company merges with another company which holds any shares in the Company;
- where any share is awarded to any employee of the Company;
- where any shares are repurchased from shareholders to the extent that such shareholders vote against the adoption of any resolution in a general meeting of shareholders in respect of the merger and division of the Company; or
- other circumstances specified by laws and administrative regulations and relevant competent authorities of the China.

Where the Company intends to repurchase shares due to reasons indicated in (i) to (iii) above, relevant resolutions shall be adopted in a general meeting of shareholders. Where the Company repurchases any shares in accordance with the preceding paragraph under the circumstance stated in (i), shares so repurchased shall be canceled within 10 days from the date of such repurchase. Under the circumstances specified in (ii) and (iv), shares repurchased shall be transferred or canceled within 6 months.

Where the Company repurchases any shares in accordance with provisions set forth in (iii) above, the number of shares so repurchased may not be more than 5% of total number of issued shares. Funds for repurchase shall be appropriated from the after-tax net profits of the Company, and shares so repurchased shall be transferred to employees within one year.

The Company may repurchase shares:

- by making general offers of repurchase to all the shareholders in the same proportion;
- by public trading on the stock exchange; or
- based on an over-the-counter agreement; and
- in any other manner approved by laws, administrative regulations and rules and as approved by the approval authorities authorized by the State Council.

The Company shall, when intending to repurchase its own shares based on an over-the-counter agreement, obtain the prior approval by the general meeting of shareholders in accordance with the Articles of Association. Likewise, with the prior approval by the general meeting of shareholders, the Company may dissolve or change the contract made as above or waive any contractual right. In respect of redeemable shares which the Company has the right to repurchase, if they are not repurchased on the market or by means of bidding, the price of repurchasing must be defined within the specified limit of maximum price. Where shares are repurchased by means of bidding, bidding suggestions shall be put forward to all the shareholders on equal conditions. Contract for repurchase of shares shall include (without limitation) the agreement under which the relevant party agrees to bear the obligation of repurchasing shares and obtains the right to repurchase shares.

The Company may not transfer any contract for repurchase of shares or any right granted by such contract.

Unless the Company has entered the liquidation procedure, the Company shall comply with the following provisions relating to the repurchase of issued shares:

- where the Company repurchases shares at their par value, relevant funds shall be deducted from the book balance of distributable profits of the Company and proceeds from the issuance of new shares for the purpose of repurchasing existing shares;
- where the Company repurchases shares at the premium of their par value, the portion of funds amounting to the par value shall be deducted from the book balance of distributable profits of the Company and proceeds from the issuance of new shares for the purpose of repurchasing shares, and the portion of funds in excess of the par value shall be handled as follows:
 - where shares so repurchased are issued at their par value, such funds shall be deducted from the book balance of distributable profits of the Company;
 - where shares so repurchased are issued at the premium of their par value, such funds shall be deducted from the book balance of distributable profits of the Company and the proceeds from the issuance of new shares for the purpose of repurchasing shares. However, the amount deducted from the proceeds from the issuance of new shares may not exceed the total amount of premium obtained from the issuance of shares so repurchased or the amount of the capital surplus fund account of the company at the time of repurchasing shares (including the amount of premium from the issuance of new shares).
- payment made by the Company for the following purposes shall be appropriated from the distributable profits of the Company:
 - obtaining the right to repurchase shares;
 - altering any contract for repurchasing shares;
 - discharging any obligation of the Company under any contract for repurchasing shares.
- after the total book value of canceled shares are deducted from the registered capital of the Company in accordance with relevant provisions, the amount deducted from the distributable profits for the purpose of paying the portion of par value of shares so repurchased shall be recognized in the capital surplus fund account of the Company.

If the Company has the right to repurchase redeemable shares for the purpose of redemption:

- in the case of repurchase neither on the market nor by means of bidding, the price of repurchasing shares must be defined within the specified limit of maximum price; and

- in the case of repurchase by means of bidding, relevant invitations to bid shall be available to all the shareholders on equal conditions.

11. No Provision Is Made in the Articles of Association for Prohibiting Any Subsidiaries of the Company from Holding Shares

12. Dividend and Other Methods of Distribution

The Company may distribute dividends by way of cash or shares.

Interest may accrue on money paid by any shareholder for any share prior to call; provided, however, that the holder of any share shall have no right to participate in the distribution of dividends in respect of money prepaid for such share.

The Company shall on behalf of holders of foreign shares appoint a receiving agent to receive dividends paid by the Company for such shares and other payables on behalf of such shareholders.

A receiving agent appointed on behalf of holders of foreign shares listed in Hong Kong shall be a trust company registered in accordance with the Trustee Ordinance of Hong Kong.

Dividends and other amounts paid by the Company to holders of domestic shares shall be distributed in RMB; dividends and other amounts paid by the Company to holders of foreign shares shall be denominated and declared in RMB and paid in the relevant foreign currency. The applicable exchange rate shall be the average offer rate for the relevant foreign currency published by the People's Bank of China during the calendar week prior to the declaration of dividends and other amounts, and foreign currencies to be paid by the Company to holders of foreign shares shall be settled in accordance with the foreign exchange management requirements of China.

13. Proxy Entrusted by Shareholder

Any shareholder who has the right to attend a general meeting of shareholders and to vote therein may appoint one or more persons (whether being shareholders) as his/her shareholder proxy(proxyes) to attend the general meeting of shareholders and vote therein on his/her behalf. Such shareholder's proxy shall, as authorized by such shareholder, have the right to:

- speak in the general meeting as the same as such shareholder;
- solely or jointly with others require voting by ballot;
- vote by hand or poll, but a proxy of a shareholder who has appointed more than one proxy may only vote by poll.

A shareholder shall appoint in writing a proxy and the proxy statement shall be signed by the trustor or the agent duly authorized thereby in writing. Where the trustor is a corporate body, the proxy statement shall be affixed with its corporate seal or signed by its director or duly authorized agent. The proxy statement shall, at least 24 hours prior to the convening of relevant meeting in which voting is made by such proxy statement or 24 hours prior to the designated

voting time, be filed in the domicile of the Company or any other place indicated in the notice of convening such meeting. If such proxy statement is signed by any other person authorized by the trustor with a letter of authorization or any other document of authorization, such letter of authorization or other document of authorization shall be verified by a notary public. The letter of authorization or other document of authorization verified by a notary public, together with the proxy statement for appointing the proxy, shall be delivered to the registered office of the Company or any other place indicated in the notice of convening the meeting.

If the trustor is a corporate body, its legal representative or any person authorized by resolution of the board of directors or other decision-making body may attend a general meeting of shareholders on behalf of the trustor.

Any form of any proxy statement sent by the board of directors to any shareholder for appointing his/her proxy shall enable such shareholder to instruct his/her proxy to vote in favor of or against according to his/her wish. The entrusting statement shall indicate that the shareholder proxy may cast a vote at his/her own discretion to the extent that the shareholder does not make any instruction.

Where the trustor has passed away, lost capacity of conduct, revoked the appointment or revoked the authorization granted by signature, or relevant shares have been transferred before the commencement of voting in the general meeting which the proxy attends on behalf of relevant shareholder, the voting made by such proxy according to the proxy statement shall maintain in effect as long as the Company has received no written notice concerning such death, loss of capacity of conduct, revocation or transfer before the commencement of relevant meeting.

14. Call for Share Contribution and Forfeiture of Shares

Interest may accrue on money paid by any shareholder for any share prior to any call; provided, however, that the shareholder shall have no right to participate in the distribution of dividends in respect of money prepaid for such share.

Subject to relevant laws and regulations of China and the requirements of the Stock Exchange, with regard to any unclaimed dividend, the Company may exercise the power to forfeit the same; provided, however, that such power may not be exercised prior to the expiry of relevant applicable prescription.

15. Inspection of Register of Shareholders and Other Rights of Shareholders

The Company shall keep a register of shareholders.

The Company may, in accordance with the memorandum of understanding or agreement entered into with CSRC and the overseas securities regulatory authority, keep a register of shareholders of foreign shares abroad and entrust an overseas agency to manage such register.

A duplicate of the register of shareholders of foreign shares shall be kept in the registered office of the Company. The overseas agency entrusted shall ensure the consistency of information registered in the original and duplicate of such register. The original of the register of shareholders of foreign shares listed in Hong Kong shall be kept in Hong Kong.

In case of any inconsistency of information registered in the original and duplicate of the register of shareholders of foreign shares, the original shall prevail.

The Company shall keep a complete register of shareholders.

A register of shareholders shall consist of the following parts:

- the register of shareholders kept in the registered office of the Company (save as indicated in (ii) and (iii) below);
- the register of shareholders of foreign shares of the Company listed abroad kept in the place where the stock exchange on which such foreign shares are traded is located; and
- such register of shareholders as the board of directors deems necessary to be kept in any other place in respect of listing.

Different parts of the register of shareholders shall not be repetitive. At the effective time of registration, any transfer of shares registered in any part of the register of shareholders may not be registered in any other part of the register of shareholders. Any part of the register of shareholders shall be amended or corrected in accordance with the laws of the place where such part of register of shareholders is kept.

No change relating to any transfer of shares shall be registered in the register of shareholders within 30 days prior to the convening of the general meeting of shareholders or within five days prior to the recording date when the Company distributes dividends.

When the Company decides to convene a general meeting of shareholders, distribute dividends, liquidate or treat any other matter for which stock equity shall be determined, the board of directors shall determine a date for recording of stock equity determination. At the close of the determination date, persons listed in the register of shareholders of the Company shall be shareholders of the Company who are entitled to the relevant rights.

Any person objects to the register of members and request to add his/her name (title) to, or delete from the register of shareholders may apply to a court in relevant jurisdiction for changing the information contained in the register.

A shareholder shall have the right to obtain the following information, including (without limitation):

- a copy of the Articles of Association after paying relevant charges;
- after paying reasonable charges, having the right to inspect and copy:
 - a. the register of all shareholders;
 - b. personal data of directors, supervisors, general manager and other senior managers of the Company;

- the status of share capital and the special resolution of the Company;
- report on the total par value, number, maximum price and minimum price of each class of shares repurchased by the Company since the previous accounting year as well as all expenses paid by the Company for such repurchase;
- counterfoils of corporate bonds, minutes of general meetings, resolutions of the Board meetings, resolutions of meetings of the Supervisory Committee and financial and accounting reports;
- a copy of the latest annual inspection report which has been submitted to the administration for industry and commerce of China or other competent authority for the record.

If any shareholder requires to inspect the information mentioned in the preceding paragraph or demands materials, such shareholder shall provide a written document establishing the class and number of shares held thereby in the Company. After verifying the identity of the shareholder, the Company shall provide such information as required by the shareholder.

16. Quorum of General Meeting of Shareholders

If the number of voting shares held by shareholders who intend to attend a meeting reaches at least one half of the total number of voting shares, the Company may convene a general meeting of shareholders.

If the number of the class of voting shares held by shareholders who intend to attend a meeting reaches at least one half of the total number of such class of voting shares, the Company may convene a general meeting of the class of shareholders.

17. Rights of Minority Shareholders in case of Fraud or Oppression

Except for obligations specified by laws and administrative regulations or the listing rules of the place of listing of shares, no controlling shareholder shall, when exercising his/her rights as a shareholder, exercise his/her voting power in any manner detrimental to the benefit of all or some shareholders of the Company in respect of:

- exemption of any director's or supervisor's obligations for acting in good faith for the best benefit of the Company;
- approval for any director's or supervisor's (for his/her own benefit or for other's benefit) dispossessing in whatever form properties of the Company, including (without limitation) opportunities favorable to the Company; or
- approval for any director's or supervisor's (for his/her own benefit or for other's benefit) depriving individual rights of other shareholders of the Company, including (without limitation) any right to distribution and right to vote, but excluding the restructuring plan of the Company submitted in the general meeting of shareholders for approval in accordance with the Articles of Association.

18. Dissolution and Liquidation Procedures

The Company shall dissolve and liquidate in accordance with the law under any of the following circumstances:

- where it is resolved in the general meeting of shareholders that the Company be dissolved;
- where the Company shall be dissolved due to merger or division;
- where the Company is declared bankruptcy due to its inability to discharge due debts;
- where the Company has its business license revoked, or is ordered to close down or canceled in accordance with law;
- where shareholders holding more than ten percent of voting rights held by all the shareholders of the Company may request a people's court to dissolve the Company to the extent that the Company is confronted with serious difficulties in operation and management, its continued existence may cause grievous losses to the benefit of its shareholders and the difficulties cannot be surmounted through other channels;
- other circumstances under which the Company shall dissolve in accordance with laws and regulations.

Where the Company dissolves in accordance with (i), (ii), (iv), (v) above, a liquidating group shall be established within fifteen days and the members thereof shall be determined by ordinary resolution in a general meeting of shareholders. Where the Company dissolves in accordance with the above, a people's court shall, in accordance with relevant laws, organize shareholders, relevant authorities and relevant professional personnel to form a liquidating group to perform liquidation.

If the board of directors decides to place the Company in liquidation (except for the liquidation arising from the Company's declaration of bankruptcy), the board of directors shall in the notice of a general meeting of shareholders convened for such purpose state that the board of directors has made full investigation of the status of the Company and believes that the Company may fully repay its debts within 12 months after the commencement of liquidation.

After the resolution on the liquidation of the Company is passed by shareholders in a general meeting of shareholders, the functions and authorities of the board of directors shall terminate with immediate effect.

The liquidating group shall, as instructed by the general meeting of shareholders, report the income and expenditure of the liquidating group, the business of the Company and the liquidation progress to shareholders in a general meeting of shareholders at least once each year, and shall make a final report to the general meeting of shareholders at the end of liquidation.

The liquidating group shall send a notice to creditors within ten days after its establishment and make at least three announcements published on newspapers designated by CSRC and the website of the Company and the stock exchange within 60 days after its establishment.

The liquidating group shall register creditors' rights declared.

During the period of liquidation, the liquidating group shall execute the following functions and exercise the following powers:

- to check up on the assets of the Company and draw up a balance sheet and a detailed inventory of assets separately;
- to send a notice or announcement to all creditors;
- to dispose of and liquidate any unsettled business relevant to the Company;
- to pay all taxes owed and charged on the process of liquidation;
- to settle claims and debts;
- to handle properties remained after the Company's debts are discharged; and
- to participate in any civil litigious activity on behalf of the Company.

After checking up on the Company's properties and preparing the balance sheet and the detailed inventory of assets, the liquidating group shall formulate a liquidating plan and submit it to the general meeting of shareholders or relevant competent authority for confirmation.

Where the liquidating group finds that the Company's properties are insufficient to discharge debts after checking up on the Company's properties and preparing the balance sheet and the detailed inventory of assets, the liquidating group shall apply to a people's court for declaration of bankruptcy in accordance with law. After the people's court has ruled to declare the Company bankrupt, the liquidating group shall turn the liquidation affairs over to a people's court.

After the end of liquidation of the Company, the liquidating group shall prepare a liquidation report and the statement of receipt and expenditure and financial books for the liquidation period, and after being verified by Chinese CPAs, submit the same to the general meeting of shareholders or relevant competent authority for confirmation. The liquidating group shall, within thirty days from the date of confirmation by the general meeting of shareholders or relevant competent authority, submit the foregoing documents to the company registration authority to apply for deregistration of the Company and to announce the termination of the Company.

19. Other Important Provisions Concerning the Company or Shareholders thereof**(a) General provisions**

The Company is a permanent company limited by shares.

The Company may invest in other limited liability companies and joint stock limited companies to which the Company shall be liable to the extent of the amount of capital contribution.

The Articles of Association are a legally binding document regulating the organization and behavior of the Company and the right and obligation relationships between the Company and shareholders and among shareholders. A shareholder may bring a lawsuit against the Company according to the rights and obligations granted and imposed by the Articles of Association in relation to any matter of the Company, vice versa, and shareholders may also bring a lawsuit against each other according to such rights and obligations. A shareholder may also bring a lawsuit against directors, supervisors, general manager and other senior managers of the Company. Lawsuit referred to in the Articles of Association includes lawsuit brought before a court and arbitration applied for to an arbitration institution.

(b) Shares and transfer

An overseas investor mentioned in the Articles of Association refers to an investor who subscribes for any shares issued by the Company abroad and from Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan; whereas a domestic investor refers to an investor who subscribes for any shares issued by the Company in China, other than investors in regions as mentioned above.

The Company may increase its share capital by:

- public offering shares;
- non-public offering shares;
- allocating bonus shares to existing shareholders;
- increasing share capital with surplus fund; and
- any other means specified by laws and regulations and approved by relevant regulatory authority.

The Company shall increase capital to issue new shares according to the procedures specified by relevant laws and administrative regulations of the State after obtaining the approval in accordance with the Articles of Association.

The Company may reduce its registered capital in accordance with the Companies Law and other regulations and the procedures specified in the Articles of Association.

Where the Company reduces its registered capital, a balance sheet and a detailed inventory of assets shall be prepared. After reduction of the capital, the amount of the Company's registered capital shall not be less than the statutory minimum.

With the approval by the regulatory authority in charge of securities under the State Council, a holder of domestic shares of the Company may transfer shares held thereby to any overseas investor and shares so transferred may be listed or traded on the overseas stock exchange. The listing or trading of any share so transferred on the overseas stock exchange shall also be in compliance with regulatory procedures, rules and requirements of such overseas stock exchange.

(c) Shareholders

A shareholder of the Company is a person who lawfully holds any shares in the Company and whose name is registered in the register of shareholders.

A shareholder shall enjoy rights and bear obligations according to the class and number of shares held thereby. Persons holding the same class of shares shall enjoy equal rights and bear equal obligations.

Save as otherwise specified in the Articles of Association, holders of domestic shares and foreign shares are ordinary shareholders and are entitled to the same rights and shall perform the same obligations.

The Company shall not freeze or otherwise reduce rights attached to relevant shares only by reason that any one or more persons who directly or indirectly hold shares fail to disclose his/her/their interests to the Company.

All shares of the Company are issued in the form of registered certificate.

Share certificates of the Company shall be signed by the legal representative of the Company. If the stock exchange on which shares are listed requires share certificates to be signed by a senior manager of the Company, share certificates shall also be signed by such senior manager. A share certificate shall come into effect after it is affixed with the seal of the Company or affixed with the seal in the printing form; provided, however, that such seal shall be one affixed with the board of directors' authorization. The signature specimen affixed by the legal representative or any other senior manager of the Company on any share certificate may be printed on the share certificate.

Where any registered shareholder of the Company or any person who requests to have his/her name registered on the register of shareholders in respect of any shares in the Company loses the share certificate relating to shares of the Company ("Original Share Certificates"), such shareholder or person may apply to the Company for reissuing a new share certificate in respect of such shares ("Relevant Shares").

Holders of domestic shares shall be subject to relevant provisions of the Companies Law when losing their share certificates and applying for new share certificates. Where any holder of foreign shares listed in Hong Kong loses a share certificate and applies for a new share certificate, the new share certificate will be issued only after the following conditions are met:

- (i) the applicant shall, when filing an application, submit such a form as required by the Company as well as documents which are certified by a notary public or for which a lawful vow is made, setting forth the reasons for such application, situation of losing the Original Share Certificates and evidences and making a statement that no other person has the right to request to be registered as a shareholder in respect of the Relevant Shares.
- (ii) before the Company decides to issue the new share certificate, no statement made by any person other than the applicant declaring that he/she shall be registered as the shareholder in respect of such Relevant Shares has been received.
- (iii) if the Company decides to issue a new share certificate to the applicant, it shall publish an announcement in relation to the preparation of issuance of new share certificate on a newspaper specified by the board of directors at least once every 30 days for a period of 90 days.
- (iv) the Company shall, before publishing the decision of issuing a new share certificate, submit a copy of the announcement to the stock exchange on which the Relevant Shares are listed and shall publish the announcement only after receiving the reply from such stock exchange, acknowledging that such announcement has been displayed in the place of such stock exchange. The relevant announcement shall be displayed for 90 days in the place of such stock exchange. If an application for a new share certificate is filed without the consent of the registered shareholder of Relevant Shares, the Company shall send a copy of the announcement to be published to such registered shareholder.
- (v) where the Company does not receive any objection made by any person against the relevant application after the expiry of the 90-day period specified in (iii) and (iv) above, the Company may issue a new share certificate to the applicant accordingly.
- (vi) when the Company issues a new share certificate in accordance with the Articles of Association, the Company shall cancel the Original Share Certificates on a real-time basis and keep records of the canceling of the Original Share Certificates and the issuance of share certificate on the corresponding register of shareholders.
- (vii) all expenditures incurred by the Company due to the cancellation of the Original Share Certificates and the issuing of a new share certificate will be borne by the applicant. Unless the applicant provides a reasonable guarantee for the payment of relevant expenditures, the Company shall have the right to refuse to take any action.

The Company may exercise the power to cease to send dividend warrants to certain holders of foreign shares listed abroad by mail, subject to the non-execution of dividend warrants for consecutively two times. However, if the dividend warrant sent for the first time fails to arrive to the recipient and is returned, the Company may also exercise such power.

The Company may not exercise the power to sell shares held by shareholders unable to be contacted, unless:

- dividends in respect of relevant shares have been paid for at least three times in a 12-year period and no dividend has been claimed for such period; and
- upon the expiry of such 12-year period, the Company publishes an announcement on one or more newspapers in the place of listing of the Company, stating its intention of selling such shares, and notifies the securities regulatory body at the location where such shares of the Company are listed.

(d) Board of directors

The board of directors shall be responsible to the general meeting of shareholders and may exercise the following functions and authorities:

- to convene a general meeting of shareholders and make a report on work to the general meeting of shareholders;
- to execute the resolutions adopted in the general meeting of shareholders;
- to decide on the Company's business plans and investment plans;
- to draw up annual financial budget plans and final accounts plans of the Company;
- to draw up plans for profit distribution and plans for making up losses of the Company;
- to prepare the Company's plans for increasing or reducing the registered capital, issuing shares, bonds or other securities and listing;
- to draft the Company's plans for major acquisitions, repurchase of the Company's shares or merger, division, dissolution and change in corporate form;
- to decide such matters of the Company such as external investment, purchase and sales of assets, pledge of assets, external guarantee, entrusted finance and related party transactions within the scope of authorization of general meeting of shareholders;
- to decide the setting of internal administrative organs of the Company;

- to appoint or dismiss the general manager and the secretary to the board of directors of the Company, to appoint or dismiss any chief scientist, vice general manager, general counsel and CFO of the Company according to the nomination by the general manager, and to decide their remuneration and rewards and punishments;
- to formulate the basic managerial system of the Company;
- to formulate plans for modifying the Articles of Association;
- to manage the disclosure of information of the Company;
- to propose to the general meeting of shareholders the appointment or change of the accounting firm that provides the Company with the service of auditing annual financial statements and to determine its audit fee;
- to listen to work reports of the general manager of the Company and to review his/her work;
- to decide the establishment and composition of special committees of the board of directors;
- other functions and authorities as specified by laws, regulations and the listing rules of the stock exchange on which shares of the Company are listed and as granted by the general meeting of shareholders and the Articles of Association.

When the board of directors resolves matters mentioned above, those referred to in (vi) and (xii) shall be approved by more than two-thirds of directors and the remaining matters may be approved by more than one half of directors. The board of directors shall perform its duties in compliance with national laws, administrative regulations, the Articles of Association and shareholders' resolutions.

The board of directors shall convene at least four meetings on a regular basis each year, which shall be convened by the chairperson of the board of directors.

Each director shall only be entitled to one vote. Unless otherwise specified in the Articles of Association, any resolution adopted by the board of directors may come into effect only after it is passed by more than half of all the directors. When the number of votes in favor of any resolution is equal to the number of votes against such resolution, the chairperson of the board of directors shall be entitled to an additional vote.

Where any director is associated with the enterprise involved in the matters to be resolved in a meeting of the board of directors, such director may not vote on such matter or vote on such matter on behalf of other directors. Such a meeting of the board of directors may be held with the attendance of more than half of the directors who are not associated with the enterprise, and the resolution made in the meeting of the board shall be subject to adoption by

more than half of the unassociated directors. Where the number of unassociated directors attending a meeting of the board of directors is fewer than three, such matter shall be submitted to the general meeting of shareholders for deliberation.

(e) Independent non-executive directors

The board of directors of the Company shall include at least one third or more of independent non-executive directors and consist of 9 directors, of whom 3 are independent non-executive directors.

(f) Secretary of the board of directors

The secretary of the board of directors shall be a natural person having necessary professional knowledge and experience and be appointed by the board of directors.

(g) Supervisory Committee

The Company shall have a Supervisory Committee.

The Supervisory Committee shall consist of three members, of whom one is the chairperson of the Supervisory Committee.

The appointment or dismissal of the chairperson of the Supervisory Committee shall be decided by two-thirds or more of members of the Supervisory Committee. Any resolution of the Supervisory Committee shall be voted in favor by two-thirds or more of supervisors.

A supervisor shall serve for a term of three years and may serve for another term in case of being reelected.

No director, general manager and other senior manager shall simultaneously be a supervisor. The Supervisory Committee shall be responsible to the general meeting of shareholders and exercise the following functions and authorities in accordance with the law:

- to examine the Company's periodic reports compiled by board of directors and propose written examination opinions;
- to check financial affairs of the Company, and when necessary, to appoint another accounting firm under the name of the Company to review financial affairs of the Company independently;
- to supervise the performance of the Company's duties by directors and senior managers and propose suggestions of dismissing directors and senior managers who violate laws, administrative regulations, the Articles of Association or resolutions adopted in the general meetings of shareholders;

- to require directors, general manager and other senior managers of the Company to correct their behaviors that damage the benefit of the Company;
- to propose convening an interim general meeting of shareholders and to convene and preside over the general meeting of shareholders when the board of directors fails to perform the duty of convening and presiding over such meeting;
- to submit a proposal to the general meeting of shareholders;
- to negotiate with any director or senior manager or bring a lawsuit against any director or senior manager in accordance with the requirements under relevant laws;
- to conduct an investigation in case of abnormal situation in the Company's operation; to hire professional organizations such as accounting firms and law firms to facilitate their work if necessary;
- other authorities granted by the general meeting of shareholders in accordance with the Articles of Association.

Supervisors shall attend meetings of the board of directors as a non-voting attendant.

(h) General Manager

The Company shall have a general manager who shall be appointed and dismissed by the board of directors. The general manager shall be responsible to the board of directors and exercise the following functions and authorities:

- to take charge of the production, operation and management of the Company, to organize implementation of resolutions of the board of directors, and to report his/her work to the board of directors;
- to organize the implementation of annual operation plans and investment plans of the Company;
- to draw up the basic managerial system of the Company;
- to formulate specific regulations of the Company;
- to propose to the board of directors the appointment or dismissal of any vice general manager, chief accountant, chief engineer and chief economist of the Company;
- to appoint or dismiss of managers other than those whose appointment or dismissal shall be decided by the board of directors;
- to propose convening an interim meeting of the board of directors;
- to decide matters which the board of directors authorizes the general manager to decide;

- other functions and authorities granted by the Articles of Association or the board of directors.

(i) *Surplus fund*

When distributing annual after-tax profits, the Company shall draw 10% of such profits into the statutory surplus fund of the Company. Where the accumulated amount of the Company's statutory surplus fund is 50% or more of the Company's registered capital, such drawing may be ceased.

If the statutory surplus fund of the Company is insufficient to make up losses arising over previous years, the Company shall, before making allocation to the statutory surplus fund as specified in the foregoing paragraph, use profits generated in current year to make up such losses.

After the Company draws statutory surplus fund from its after-tax profits, it may further draw discretionary surplus fund from the after-tax profits according to the resolutions adopted in the general meeting of shareholders.

The after-tax profits remaining after making up losses of the Company and making allocation to the surplus fund shall be distributed to shareholders in accordance with the respective proportion of shares held by them, except for profits that is not to be distributed in the proportion of shareholding in accordance with the Articles of Association.

If the general meeting of shareholders has, in violation of the preceding paragraph, distributed profits to shareholders before making up losses of the Company and making allocation to the statutory surplus fund shareholders shall return profits distributed in violation of the regulations of the Company.

Shares held by the Company itself shall not be involved with profit distribution.

(j) *Settlement of disputes*

The Company shall settle disputes as follows:

- Where any dispute or claim relating to the affairs of the Company arises between shareholders of foreign shares listed abroad and the Company, between shareholders of foreign shares listed abroad and the Company's directors, supervisors, general manager or other senior managers and between shareholders of foreign shares listed abroad and shareholders of domestic shares in respect of rights and obligations under the Articles of Association, the Companies Law and other relevant laws and administrative regulations, relevant parties shall submit such dispute or claim to arbitration.

Such dispute or claim shall be submitted to arbitration as a whole; all persons who take actions for the same cause or are required to participate in the settlement of such dispute or claim shall abide by the arbitration if they are companies or shareholders, directors, supervisors, general manager or other senior managers of the Company.

Disputes relating to the definition of shareholders and the register of shareholders may be settled by means other than arbitration.

- The applicant for arbitration may file an application for arbitration to the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Center in accordance with its securities arbitration rules. After the applicant for arbitration submits any dispute or claim to arbitration, the other party shall be subject to the arbitration in the arbitration institution chosen by the applicant.

If the applicant for arbitration applies for arbitration to the Hong Kong International Arbitration Center, either party may request arbitration in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Center.

- Settlement of such dispute or claim as referred to in (i) by arbitration shall be governed by laws of the People's Republic of China, save as otherwise specified by laws and administrative regulations.
- The award granted by the arbitration institution shall be final and binding upon both parties.

1. FURTHER INFORMATION ABOUT OUR COMPANY**A. Incorporation**

Our Company was converted into a joint stock limited company in the PRC by way of promotion under the PRC Company Law on June 24, 2015. Our Company has established a place of business in Hong Kong at 23/F, Railway Plaza, 39 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong, and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on July 22, 2015. Mr. Law Chun Bui has been appointed as our agent for the acceptance of service of process in Hong Kong. As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant PRC laws and regulations. A summary of the relevant provisions of our Articles of Association is set out in Appendix VI to this prospectus. A summary of certain relevant aspects of the PRC laws and regulations is set out in Appendix V to this prospectus.

B. Changes in capital

Our predecessor was established as a limited liability company in the PRC with a registered capital of RMB987,984,000. Upon our conversion into a joint stock limited company, the Company's initial registered capital was RMB987,984,000, divided into 987,984,000 Domestic Shares of par value RMB1.00 each, all of which were held and fully paid up or credited as fully paid up by the Promoters.

Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the registered capital of the Company will be RMB1,519,884,000, divided into 987,984,000 Domestic Shares and 531,900,000 H Shares, fully paid up or credited as fully paid up, representing approximately 65.00% and 35.00% of the registered capital, respectively.

Save as aforesaid, there has been no alteration in the registered capital of the Company since its conversion into a joint stock limited company in the PRC.

C. Restrictions on share repurchases

For details of the restrictions on share repurchases by our Company, please refer to "Appendix VI – Summary of Articles of Association" to this prospectus.

D. The Company's extraordinary general meeting held on June 24, 2015

At the extraordinary general meeting of our Company held on June 24, 2015, among other things, the following resolutions were passed by the Shareholders:

- (a) the issue by the Company of the H Shares with a nominal value of RMB1.00 each up to 35% of the total share capital of the Company after the Global Offering (regardless of the H Shares which may be issued upon the exercise of the Over-allotment Option) and such H Shares to be listed on the Stock Exchange;

- (b) subject to the completion of the Global Offering, the Articles of Association has been approved and adopted, which shall only become effective on the Listing Date, and the Board has been authorized to amend the Articles of Association in accordance with any comments from the Stock Exchange and the relevant PRC regulatory authorities; and
- (c) the authorization to the Board and its authorized persons to exercise full power to deal with matters relating to the issuance of H Shares and the Listing of the Company.

E. Our Reorganization

We underwent the Reorganization, details of which are set out in the section headed “History, Reorganization and Corporate Structure” in this prospectus. As confirmed by Jia Yuan Law Offices, our PRC legal advisers, our Reorganization complies with all applicable PRC laws and regulations, and all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Reorganization have been obtained.

2. SUBSIDIARIES OF OUR COMPANY

A. Subsidiaries

The Company’s subsidiaries are referred to the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

B. Changes in the share capital of subsidiaries

Save as disclosed below, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years preceding the date of this prospectus:

- (a) On 4 December, 2014, the registered capital of Ruiweitong Company increased from RMB120,952,100 to RMB584,370,622.18.

3. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of our material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus which are or may be material, and a copy of each has been delivered to the Registrar of Companies in Hong Kong for registration:

- (i) the equity transfer agreement in relation to Beijing Ruiweitong Engineering Machinery Co., Ltd. dated November 4, 2014 entered into between our Company and Beijing China Railway Fangshan Bridge, pursuant to which our Company acquired 33% of the equity interest held by Beijing China Railway Fangshan Bridge in Ruiweitong Company for a consideration of RMB240,838,112.32;

- (ii) the Non-Competition Agreement dated November 23, 2015 entered into between the Company and our controlling shareholders regarding the non-competition undertaking given by our controlling shareholders in favor of the Company as referred to in the section headed “Relationship with the Controlling Shareholders and Directors” in this prospectus;
- (iii) the Hong Kong Underwriting Agreement dated December 2, 2015 entered into between the Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters regarding the underwriting by the Hong Kong Underwriters of the Hong Kong Public Offering as referred to in the section headed “Underwriting” in this prospectus;
- (iv) the cornerstone investment agreement dated November 27, 2015 and entered into between the Company, CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited, the Sole Global Coordinator and the Sole Sponsor, pursuant to which CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$30 million, rounded down to the nearest whole board lot of 500 H shares;
- (v) the cornerstone investment agreement dated November 27, 2015 and entered into between the Company, Jiantou Investment (Hong Kong) Limited, the Sole Global Coordinator and the Sole Sponsor, pursuant to which Jiantou Investment (Hong Kong) Limited has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with RMB80 million, rounded down to the nearest whole board lot of 500 H shares; and
- (vi) the cornerstone investment agreement dated November 28, 2015 and entered into between the Company, Yunnan Energy Financial Holding Co., Ltd., the Sole Global Coordinator and the Sole Sponsor, pursuant to which Yunnan Energy Financial Holding Co., Ltd. has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$10 million, rounded down to the nearest whole board lot of 500 H shares.

B. Intellectual property rights

(a) Patents

As of the Latest Practicable Date, our Group has the following patents which are considered by us to be or may be material to our business:

No.	Patent Owner	Type	Patent	Patent No.	Date of Application	Patent Term
1.	The Company	Utility model	Digging device of railway ballast cleaner with automatic width adjustment	ZL200520022631.X	2005.08.08	10 years
2.	The Company	Utility model	A type of ballast cleaning machine	ZL200520099815.6	2005.09.20	10 years
3.	The Company	Utility model	Ballast regulator	ZL200520099819.4	2005.09.21	10 years

No.	Patent Owner	Type	Patent	Patent No.	Date of Application	Patent Term
4.	The Company	Utility model	bogie for large railway track maintenance machinery	ZL200620019323.6	2006.03.03	10 years
5.	The Company	Utility model	Narrow gauge railway track cleaning machine	ZL200620019325.5	2006.03.03	10 years
6.	The Company	Utility model	A type of mobile rail welding machine	ZL200620019354.1	2006.03.15	10 years
7.	The Company	Utility model	Vertical chain type side slope digging device	ZL200620019449.3	2006.04.14	10 years
8.	The Company	Utility model	Side slope screen scarifier with vertical chain-type digging mechanism	ZL200620019448.9	2006.04.14	10 years
9.	The Company	Utility model	Railway air pressure welded rail vehicle	ZL200720104840.8	2007.07.26	10 years
10.	The Company	Utility model	Track switch cleaning machine	ZL200720105154.2	2007.11.15	10 years
11.	The Company	Utility model	Bidirectional ballasting and shaping machine	ZL200920111062.4	2009.03.18	10 years
12.	The Company	Invention	Combined railway ballast transport machine and operation method thereof	ZL200910094246.9	2009.03.20	20 years
13.	The Company, Aotongda Company	Invention	Rotary transfer machine	ZL201010039136.5	2010.01.08	20 years
14.	The Company, Ruiweitong Company	Utility model	Digging and Screening machine for full section	ZL201020278029.3	2010.08.02	10 years
15.	The Company	Utility model	A type of road bed full-section broken stone sieve cleaning machine	ZL201020277953.X	2010.08.02	10 years
16.	The Company	Utility model	Integrated high- efficiency excavator	ZL201020278027.4	2010.08.02	10 years
17.	The Company	Utility model	Full section ballast bed gravel efficient screen scarifier	ZL201020278026.X	2010.08.02	10 years
18.	The Company	Invention	Device for measuring wind pressure of dusty gas flow	ZL201110368179.2	2011.11.19	20 years
19.	The Company	Invention	A type of railway ballast bed side dirt cleaning and vacuuming device	ZL201110368178.8	2011.11.19	20 years
20.	The Company	Invention	Sewage suction truck for railway ballast bed	ZL201110368180.5	2011.11.19	20 years
21.	The Company, Ruiweitong Company	Invention	Rail pulling and aligning device	ZL201110413741.9	2011.12.10	20 years
22.	The Company	Invention	A type of railway ballast distribution reshaping and maintenance device	ZL201210449633.1	2012.11.12	20 years
23.	The Company	Invention	A type of shunting interference muffling air exhaust and noise reduction device and railway track bed blowing and sucking sweeping work device	ZL201210445474.8	2012.11.09	20 years

No.	Patent Owner	Type	Patent	Patent No.	Date of Application	Patent Term
24.	The Company	Utility model	A type of main line turnout stabilizing vehicle	ZL201220688385.1	2012.12.14	10 years
25.	The Company	Utility model	Broad gauge cleaning machine	ZL201320495276.2	2013.08.14	10 years
26.	The Company, Kunweitong Company	Utility model	A type of assembling and disassembling device for digging bottom beam	ZL201320607074.2	2013.09.30	10 years
27.	The Company	Utility model	A type of rotary cutter holder type milling module	ZL201320586372.8	2013.09.23	10 years
28.	The Company	Utility model	A type of combined type material transport vehicle	ZL201320726703.3	2013.11.18	10 years
29.	The Company	Utility model	Meter-gauge railway multifunctional dynamic stabilization locomotive	ZL201420013406.9	2014.01.10	10 years
30.	The Company	Utility model	Stabilizing device for wide-gauge stabilizing vehicle, and operating vehicle	ZL201420139576.1	2014.03.26	10 years
31.	The Company	Utility model	A type of stabilizing car for broad gauge track	ZL201420139985.1	2014.03.26	10 years
32.	The Company	Utility model	A type of water replenishing and material feeding vehicle	ZL201420213524.4	2014.04.29	10 years
33.	The Company	Utility model	Contour machining device for reshaping railhead of steel rail	ZL201320688015.2	2013.11.04	10 years
34.	The Company	Utility model	A type of tamping machine for road bed side slope	ZL201420350544.6	2014.06.30	10 years
35.	The Company	Invention	Track tamping machine	ZL201210141203.3	2012.05.09	20 years
36.	The Company	Invention	A type of dirt collecting device integrating gravity setting dust elimination and bag type dust elimination	ZL201210445732.2	2012.11.09	20 years
37.	The Company	Utility model	A type of iron dust conveying equipment	ZL201420443275.8	2014.08.07	10 years
38.	The Company	Utility model	A type of railway ballast processing machine suitable for narrow working plane of railway tunnel	ZL201420476687.1	2014.08.22	10 years
39.	The Company	Utility model	A type of ballast processing machine containing side cut digging devices and suitable for narrow working faces	ZL201420476701.8	2014.08.22	10 years
40.	The Company	Invention	Excavation bottom beam opening and closing automatic control devices, methods and processes	ZL201210502735.5	2012.11.30	20 years
41.	The Company	Utility model	A type of railway track shape milling and grinding equipment	ZL201420641609.2	2014.10.31	10 years
42.	Hunan Hicam Precision Industry Co., Ltd., the Company	Invention	Movable numerical control grinding apparatus for grinding steel rail and control method thereof	ZL201210336900.4	2012.09.13	20 years








No.	Patent Owner	Type	Patent	Patent No.	Date of Application	Patent Term
43.	The Company	Invention	A type of abrasive powder collection device equipped with cyclone filter dust collector	ZL201210139832.2	2012.05.08	20 years
44.	The Company	Invention	Track tamping and stabilizing car and turnout stabilizing method	ZL201210159590.3	2012.05.22	20 years
45.	The Company	Invention	A type of dirt collection device integrating gravity dust removal and cyclone dust removal	ZL201210446071.5	2012.11.09	20 years
46.	The Company	Utility model	Track snow removal machine	ZL201420867162.0	2014.12.31	10 years
47.	The Company	Utility model	Track bed sand removal machine	ZL201420867185.1	2014.12.31	10 years
48.	The Company	Utility model	A type of device that absorb and separate accumulated sand from track bed and corresponding sand removal machine	ZL201420871972.3	2014.12.31	10 years
49.	The Company	Utility model	A type of device that absorb accumulated sand from track	ZL201420870524.1	2014.12.31	10 years
50.	The Company	Utility model	A type of device that helps absorbing coal and sand on the side of track and corresponding sand removal machine	ZL201420867638.0	2014.12.31	10 years

As of the Latest Practicable Date, our Group has applied for the following patents which are considered by us to be or may be material to our business:

No.	Patent Applicant	Type	Patent	Application No.	Date of Application
1.	The Company	Invention	A type of device working for absorbing coal machines	201510704054.0	2015.10.27
2.	The Company	Utility model	A device used in track snow removers to lift directions and lock device and track snow removers with brush	201520874440.X	2015.11.05
3.	The Company	Utility model	A type of track snow remover with brush	201520874122.3	2015.11.05
4.	The Company	Utility model	A type of track snow blower and track snow remover with brush	201520873556.1	2015.11.05
5.	The Company	Invention	A type of device to remove snow to keep tracks in place used in track snow removers and track snow removers with brush	201510742379.8	2015.11.05
6.	The Company	Utility model	A new type of absorbing coal machine series used in tunnels of railway line.	201520931001.8	2015.11.19
7.	The Company	Utility model	A lifting device carried on railway vehicles	201520876170.6	2015.11.05

(b) Trademarks

As of the Latest Practicable Date, the following trademarks have been registered in the name of the relevant member of our Group which are considered by us to be or may be material to our business:

No.	Trademark Owner	Trademark	Registration Number	Class and Product	Place of Registration	Expiry Date
1.	The Company		1281805	Class 7	PRC	2009.06.07-2019.06.06
2.	The Company		1271756	Class 7	PRC	2009.05.07-2019.05.06
3.	The Company		4320716	Class 7	PRC	2007.04.14-2017.04.13
4.	The Company		4861327	Class 7	PRC	2008.07.28-2018.07.27
5.	The Company		4861328	Class 7	PRC	2008.07.28-2018.07.27
6.	Aotongda Company		1737938	Class 7	PRC	2012.03.28-2022.03.27
7.	Aotongda Company		1737939	Class 7	PRC	2012.03.28-2022.03.27

As of the Latest Practicable Date, our Company has applied for the registration of the following trademarks which are considered by us to be or may be material to our business:

No.	Trademark Applicant	Trademark	Application Number	Class and Product	Intended Place of Registration	Application Date
1.	The Company		303604699	Classes 7, 8 and 9	Hong Kong	2015.11.20
2.	The Company		303604707	Classes 7, 8 and 9	Hong Kong	2015.11.20

The class number represents the specifications of products or services which have already been applied for or registered. Detailed specifications of the products or services represented by that class number are set out in the relevant application forms or registration certificates.

4. DISCLOSURE OF INTERESTS

A. Substantial shareholders

So far as our Directors are aware, each of the following persons will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company:

Shareholder	Nature of interest	Class	Assuming no exercise of the Over-allotment Option		Assuming the Over-allotment Option is fully exercised	
			Number of Shares held	Approximate percentage of shareholding in the total share capital of the Company	Number of Shares held	Approximate percentage of shareholding in the total share capital of the Company
CRCC	Beneficial owner/ Interest of controlled corporation	Domestic Shares	987,984,000	65.00%	987,984,000	61.76%
CRCCG	Interest of controlled corporation	Domestic Shares	987,984,000	65.00%	987,984,000	61.76%

Our Directors and chief executive of the Company are not aware of any person (who is not a Director, Supervisor or chief executive of the Company), who will, immediately following the completion of the Global Offering, have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at general meetings of any other member of our Group.

B. Disclosure of the Directors', Supervisors' or chief executive's interests in the shares, underlying shares and debentures of the Company or any of its associated corporations

Immediately after the Global Offering, none of the Directors, Supervisors or chief executive of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register of interests referred to in section 352 of the SFO, or

which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the H Shares are listed on the Stock Exchange. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors.

C. Particulars of service contracts

Each of our executive Directors and non-executive Directors has entered into a service contract with our Company with a term of three years commencing from the Listing Date, which may be terminated in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations.

Each of the Supervisors has entered into a service contract in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and provision of arbitration with our Company.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

D. Directors' and Supervisors' remuneration

For each of the three years ended December 31, 2014 and the six months ended June 30, 2015, the aggregate amount of salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors and Supervisors were approximately RMB5,204,000, RMB6,096,000, RMB5,079,000 and RMB1,716,000, respectively. Save as disclosed under Note 9 in the Accountants' Report set out in Appendix I to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of each of the three years ended December 31, 2014 and the six months ended June 30, 2015.

Under the current arrangements, our Directors and Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2015 under arrangement in force as of the date of this prospectus, which is expected to be approximately RMB5,000,000 in aggregate.

E. Agency fees or commissions paid or payable

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed in the paragraph headed "Consents" in this appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of our Company or any of our subsidiaries within the two years ended on the date of this prospectus.

F. Related party transactions

During the two years preceding the date of this prospectus, we have engaged in the material related party transactions as described in Note 35 to the financial information in the Accountants' Report set out in Appendix I to this prospectus.

G. Personal guarantees

Our Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

H. Disclaimers

- (a) None of our Directors or Supervisors nor any of the parties listed in the paragraph headed "Qualification of experts" in this appendix is directly or indirectly interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company.
- (b) Save as disclosed in the section headed "Directors, Supervisors and Senior Management" in this prospectus, none of our Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be immediately disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the Shares are listed on the Stock Exchange.
- (c) Save as disclosed in this prospectus or in connection with the Underwriting Agreements, none of our Directors or Supervisors nor any of the parties listed in paragraph headed "Qualification of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is unusual in nature or which is significant in relation to our business.
- (d) None of the parties listed in the paragraph headed "Qualification of experts" in this appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities.
- (e) None of our Directors or Supervisors or their respective associates or any Shareholders of our Company (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest customers.

5. OTHER INFORMATION**A. Estate duty**

We have been advised that no material liability for estate duty under the PRC law is likely to fall upon us.

B. Litigation

As of the Latest Practicable Date, our Company is not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

C. Sole Sponsor

The Sole Sponsor is an indirect wholly-owned subsidiary of CITIC Securities Company Limited, in which 15.59% of the outstanding shares were indirectly owned by CITIC Limited as of the Latest Practicable Date. China CITIC Bank, a subsidiary of CITIC Limited, has granted a bank loan of RMB350 million to the Company. As China CITIC Bank does not form part of the sponsor group, the fact that it has granted a bank loan to the Company will not impair the independency of the Sole Sponsor. Based on the foregoing facts and taking into account all the other criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules, the Sole Sponsor is of the view that it satisfies the applicable independence criteria and has declared its independence pursuant to Rule 3A.07 of the Listing Rules. The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our Shares, including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The Sole Sponsor is entitled to sponsor's fee in the amount of US\$900,000.

D. Preliminary expenses

The preliminary expenses of our Company are approximately RMB8,429,950.50 and were borne by our Company.

E. Qualification of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

<u>Name</u>	<u>Qualification</u>
CITIC CLSA Capital Markets Limited	Licensed to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants
Jia Yuan Law Offices	PRC legal advisers
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer
China Insights Consultancy Limited	Industry consultant

F. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2015 (being the date to which our Group's latest audited consolidated financial statements were prepared).

G. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

H. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

I. Miscellaneous

- (a) Save as disclosed in this prospectus within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or is proposed to be fully or partly paid for in cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of our subsidiaries; and
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in or debenture of our Company;
- (b) save as disclosed in this prospectus, there is no founders or management or deferred shares or debentures of our Company or any of our subsidiaries;
- (c) the Company has no outstanding convertible debt securities or debentures;

- (d) there is no arrangement under which future dividends are waived or agreed to be waived;
- (e) there has been no interruption in the business of the Company which may have or has had a significant effect on the financial position of the Company in the last 12 months preceding the date of this prospectus;
- (f) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (g) there is no subsidiary in our Group which is a sino-foreign equity joint venture or which operates as or under a cooperative or contractual joint venture; and
- (h) we currently do not intend to apply for the status of a sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-foreign Joint Venture Law.

J. Consents

Each of the experts as referred to in the paragraph headed “Qualification of experts” in this appendix has given, and has not withdrawn, their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

Save as disclosed in this prospectus, none of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

K. Promoters

The Promoters of our Company are CRCC, China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company.

Saved as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given, or proposed to be paid, allotted or given to any Promoters in connection with the Hong Kong Public Offering or the related transactions described in this prospectus.

**APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES IN HONG KONG AND AVAILABLE
FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** application forms;
- (b) the written consents referred to in the paragraph headed “Consents” in Appendix VII to this prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “Summary of our material contracts” in Appendix VII to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Baker & McKenzie at 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the accountants’ report on our Company prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information prepared by Ernst & Young, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the three years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015;
- (e) the valuation report relating to the property interests of our Company prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix III to this prospectus;
- (f) the material contracts referred to in the paragraph headed “Summary of our material contracts” in Appendix VII to this prospectus;
- (g) the service contracts referred to in the paragraph headed “Particulars of service contracts” in Appendix VII to this prospectus;
- (h) the written consents referred to in the paragraph headed “Consents” in Appendix VII to this prospectus;

**APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES IN HONG KONG AND AVAILABLE
FOR INSPECTION**

- (i) the industry report prepared by China Insights Consultancy Limited, the industry consultant;
- (j) the PRC legal opinion prepared by Jia Yuan Law Offices, the PRC legal advisers of the Company; and
- (k) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation.



中國鐵建高新裝備股份有限公司
CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED