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

2016

Annual Report

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Financial Highlights

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME HIGHLIGHTS

	Year Ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**3,617,431**	3,973,132	3,476,720	3,169,030	2,863,645
Gross profit	**987,813**	953,525	818,704	802,418	710,764
Profit before tax	**553,571**	525,512	415,543	318,438	253,823
Profit for the year	**467,071**	455,174	362,036	287,944	224,348
Profit attributable to:					
Owners of the parent	**467,071**	456,235	354,860	286,885	224,693
Non-controlling interests	**–**	-1,061	7,176	1,059	-345
Basic earnings per share *(RMB/share)*	**0.31**	0.45	0.36	0.49	0.38

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**6,981,210**	6,737,675	4,230,431	5,795,131	4,544,842
Total liabilities	**1,446,513**	1,595,570	1,341,294	3,264,367	2,629,396
Net assets	**5,534,697**	5,142,105	2,889,137	2,530,764	1,915,446
Equity attributable to:					
Owners of the parent	**5,534,697**	5,142,105	2,840,456	2,481,106	1,866,845

Chairman's Statement

Dear Shareholders,

I am pleased to present the annual report of the Company for the year ended 31 December 2016. On behalf of the Board of Directors, I would like to express my sincere gratitude to all Shareholders for your continual care and support to the Company.

PERFORMANCE REVIEW

The Group's revenue in 2016 amounted to RMB3,617.4 million (2015: RMB3,973.1 million), representing a decrease of 8.95% year-on-year. Net profit attributable to the owners of the parent amounted to RMB467.1 million (2015: RMB456.2 million), representing an increase of 2.38% year-on-year.

Business review

In 2016, the first year of the 13th Five-Year Plan period, facing severe domestic and international economic downward pressure and fierce market competition, higher market uncertainty and many other difficulties, the Company acted by following the trends from the horizons of strategy, development and overall situation, always insisted on leading by strategy, transformation and upgrading, lean management, safe development, and always insisted on fulfilling social responsibility, adhering to high standard and efficient corporate governance, adopting structural adjustment in orderly progress. Thus, fruitful achievement in technological innovation was gained and practical consolidation in basic management was made while accomplishments and progress were made for its reform and development which were fraught with difficulties.

Legal Corporate Management and Compliance Operation. The Company further improved its corporate governance structure, and strictly abided by laws, regulations and all provisions of regulatory authorities. The Company focused on improving its quality and efficiency, safeguarding and enhancing Shareholders' interests, completing its compliance operation and risk prevention system, and comprehensively improving its standard of operation.

Innovation-driven Development. The Company vigorously strengthened independent innovation, management innovation and business model innovation. The Company closely combined the innovation-driven model with industrial development, by deploying innovation chain based on its industrial chain, and improving capital chain based on its innovation chain, to provide support for industrial upgrading and structural adjustment.

Active Performance of Social Responsibility. At the same time of comprehensive promotion of coordinated development for different parties of enterprise, the Company actively organised and participated in various charitable activities including warm-hearted education aid in poverty mountain areas, charitable patrols on rivers for protection of Dianchi and paying visits to the elderly living alone in the nursing homes. The Company strived to create a good atmosphere of thanksgiving for society, benefit for the people, harmonious relationship and mutual help, contributing its due strength for building a harmonious socialist society.

Development prospect

2017 is an important year for implementation of the 13th Five-Year Plan. Generally speaking, the opportunities are larger than the challenges and there are more hopes than difficulties for both internal and external environment faced by the Company. To this end, the Company will strengthen its confidence to maintain its strategic focus, make solid efforts, advance forward despite of difficulties, and focus on the work of the following aspects. First task is to strengthen the strategic deployment and arrangement of "strengthen main business, emphasis on related business and expand into diversified business" of the development plan of the Company during the period of the 13th Five-Year Plan, to strengthen the firm execution of strategies and build up a new landscape of development. Second task is to vigorously promote independent innovation and business model innovation, so as to achieve connotative growth. Third task is to deepen the reform of enterprise, promote the simplification and fitness of the enterprise and improve quality and efficiency, to further enhance the vitality of enterprise and improve the operating efficiency. Fourth task is to strength the management of enterprise and continuously improve corporate governance. Fifth task is to comprehensively promote the dual growth drivers for production operation and capital operation, vigorously promote the internationalisation strategy, and continuously enhance the international management level.

Looking into the future, the Company is confident to enhance the new momentum for development, expand new space for development, and deeply plant new advantages for development, to make CRCCE stronger, better and larger, and to actively achieve value sharing with stakeholders, so as to create greater value for the society and the Shareholders.

Ren Yanjun
Chairman

Kunming, Yunnan Province, the PRC
28 February 2017

General Manager's Statement

Dear Shareholders,

I am pleased to present the consolidated results of the Company for the year ended 31 December 2016, and I would like to express my most sincere gratitude to all Shareholders for your continual care and support to the Company.

In 2016, the Company adhered to the concept of being responsible to the society, the Shareholders and the employees. Under the correct leadership of the Board of Directors, the Company overcame many unfavorable factors to promote deepening reform of enterprise, and improving management continuously, to push forward various work such as marketing, technology and production in an orderly manner, to better fulfill their responsibilities and complete tasks, and to make its way to a healthy and sustainable development.

The Company strived to fulfill its economic responsibility and made a proactive effort to face the difficulties under rather difficult internal and external situations, and achieved a revenue of RMB3,617.4 million (2015: RMB3,973.1 million), representing a decrease of 8.95% year-on-year. Net profit attributable to the owners of the parent amounted to RMB467.1 million (2015: RMB456.2 million), representing an increase of 2.38% year-on-year.

The Company conscientiously fulfilled the responsibility of quality, further strengthened the quality management, developed more stringent prevention and control measures, and increased the efforts in assessment to effectively improve product quality. The Company was rewarded the titles of "Advanced Enterprise for Quality and Efficiency in Yunnan Province in 2015" and "Outstanding Enterprise in Quality Management Group Activity in Yunnan Province in 2016".

The Company endeavored to complete its scientific research task, promoted the development of the enterprise with technological innovation, and actively prepared and built the National Large Railway Track Maintenance Machinery Engineering Research Center. The CNAS certified project successfully passed the review by China National Accreditation Service for Conformity Assessment. The Company speeded up in obtaining the product administrative license, successfully obtained the product type certificate and the manufacturing permit for XM-1800 steel rail milling and grinding machine and the manufacturing permit for CQS-550 track switch cleaning machine, which helped launching new products to market quickly. The Company strengthened its research and development for new product, and based on market demand, accelerated the promotion of more than 40 projects, including new products and key technology research and development, which consolidated a solid foundation for leading the development of the industry and maintaining our leading position.

The Company actively fulfilled its environmental and social responsibility, set up an environmental management system, strengthened its staff training, and strictly implemented environmental management objectives. It handled nearly 79 tons of hazardous wastes, 249,576 tons of waste water and 246,504 tons of recycling water, which effectively reduced pollution and emissions and protected the environment. In 2016, the Company created 120 new jobs, and donated books, clothing, stationery and other materials to poverty mountain areas and hope primary schools, which fully demonstrated the spirit of a state-owned enterprise and fulfilled its social responsibility.

There are many challenges and opportunities for the Company in 2017. The Company will continue to promote the "second venture" as expected by the Shareholders, to implement "strengthen main business, emphasis on related business and expand into diversified business", which is to continue strengthening its large railway track maintenance machinery as its main business, to maintain its leading position in the industry. On this basis, the Company focuses on implementation of related diversification, expanding diversified operations, and strives to be well-positioned in the new markets and new fields including urban rail transit market and railway power supply equipment. In addition, we expect to identify some industries in which we have a relatively high correlation with and in which we have certain capabilities and were supported by the State. We focus our strengths on making breakthroughs in such industries to cultivate new economic growth points, and try our best to quickly form a pattern consisting of two to three industries throughout the industry chain, in order to promote a healthy and sustainable development for the enterprise.

At last, on behalf of the management of the Company, I hereby express my most sincere gratitude to all Shareholders, the Board of Directors and the Supervisory Committee for their continual care, help and support and to all staff of the Company for their hard work and contributions.

Jiang He
General Manager

Kunming, Yunnan Province, the PRC
28 February 2017

Management Discussion and Analysis

While reading the following discussion and analysis, please refer to the audited financial statements and notes of the Group as shown in this report.

REVENUE

	2016 **RMB in millions**	2015 RMB in millions
Manufacturing and sales of machines	**2,336.7**	2,892.0
Parts and components sales and services	**757.1**	607.4
Overhaul services	**459.4**	432.3
Railway line maintenance services	**64.2**	41.4
Total revenue	**3,617.4**	3,973.1

The Group's revenue decreased by RMB355.7 million or 8.95% from RMB3,973.1 million for the year ended 31 December 2015 to RMB3,617.4 million for the year ended 31 December 2016.

In 2016, revenue of sales and services of parts and components, overhaul services and railway line maintenance services of the Group experienced growth, in which the greatest growth aspect was sales and services of parts and components, representing an increase of RMB149.7 million as compared to last year, which was mainly due to an increase in sales of spare parts of large track maintenance machines. The second largest growth was overhaul services, representing an increase of RMB27.1 million as compared to last year, which was mainly due to an increase in number of large railway track maintenance machines reaching the overhaul period; the third was railway line maintenance service, representing an increase of RMB22.8 million as compared to last year, which was mainly due to the increase in the service range and quantity of engineering works for railway track maintenance machines. Revenue of manufacturing and sales of machines decreased, representing a decrease of RMB555.3 million as compared to last year, which was mainly due to the decrease of large railway track maintenance machines delivered caused by large railway track maintenance machines procurement plan under the 13th Five-Year Plan of China Railway Corporation.

COST OF SALES

The Group's cost of sales decreased by 12.92% from RMB3,019.6 million for the year ended 31 December 2015 to RMB2,629.6 million for the year ended 31 December 2016. The decrease in cost of sales was in line with the decrease in revenue.

GROSS PROFIT

The Group's gross profit margin increased from 24.00% for the year ended 31 December 2015 to 27.31% for the year ended 31 December 2016. The change in gross profit margin was mainly due to an increase of gross profit margin of manufacturing and sales of machines.

OTHER INCOME AND GAINS

The Group's other income and gains increased by 55.11% from RMB41.2 million for the year ended 31 December 2015 to RMB63.9 million for the year ended 31 December 2016. The increase of other income and gains was mainly due to an increase of interest income.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses increased by 0.50% from RMB64.3 million for the year ended 31 December 2015 to RMB64.6 million for the year ended 31 December 2016, which remained flat with the same period last year.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by 5.67% from RMB395.5 million for the year ended 31 December 2015 (representing 9.95% of the Group's revenue for the whole year) to RMB417.9 million for the year ended 31 December 2016 (representing 11.55% of the Group's revenue for the whole year). The increase in administrative expenses was mainly due to the increase in research and development expenditure in 2016. After deducting research and development expenditure, the Group's administrative expenses remained flat with the same period last year.

OTHER EXPENSES

The Group's other expenses increased from RMB3.2 million for the year ended 31 December 2015 to RMB15.5 million for the year ended 31 December 2016. The increase was mainly due to an increase in provision for bad debt of receivables and a decrease in exchange gains during the year.

FINANCE COSTS

The Group's finance costs decreased from RMB6.3 million for the year ended 31 December 2015 to RMB0.2 million for the year ended 31 December 2016. The decrease in finance costs was mainly due to no bank borrowing during the year.

PROFIT BEFORE TAX

The Group's profit before tax increased by 5.34% from RMB525.5 million for the year ended 31 December 2015 to RMB553.6 million for the year ended 31 December 2016. The increase in profit before tax was mainly due to the increase of gross profit margin.

INCOME TAX EXPENSE

The Group's income tax expense increased by 22.98% from RMB70.3 million for the year ended 31 December 2015 to RMB86.5 million for the year ended 31 December 2016. The increase in income tax expense was mainly due to the policy adjustment of super-deduction of research and development costs promulgated by State Administration of Taxation.

In 2015, Aotongda Company, Ruiweitong Company and Kunweitong Company were accredited as high and new technology enterprises and received approvals from the relevant government authorities, and they were entitled to the preferential corporate income tax rate of 15%.

The Company and Guangweitong Company were subject to the preferential tax policy of the western development, and they were entitled to the preferential corporate income tax rate of 15%.

Hengyuan Business Company and Xinruitong Company were subject to the corporate income tax rate of 25%.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Profit attributable to owners of the parent increased by 2.38% from RMB456.2 million for the year ended 31 December 2015 to RMB467.1 million for the year ended 31 December 2016. The increase in the net profit attributable to owners of the parent was mainly due to the increase of gross profit margin.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit attributable to non-controlling interests increased by RMB1.1 million from negative RMB1.1 million for the year ended 31 December 2015 to nil for the year ended 31 December 2016. The increase in profit attributable to non-controlling interests was mainly due to the slight loss of Ruiweitong Company in 2015, and the Company acquired non-controlling interests of Ruiweitong Company during 2015.

BASIC EARNINGS PER SHARE

Basic earnings per share decreased by RMB0.14 from RMB0.45 for the year ended 31 December 2015 to RMB0.31 for the year ended 31 December 2016.

LIQUIDITY AND SOURCE OF CAPITAL

Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. The net decrease in cash and cash equivalents of the Group amounted to RMB465.4 million for the year ended 31 December 2016.

Net cash outflow from operating activities

The Group's net cash outflow from operating activities decreased from RMB503.2 million for the year ended 31 December 2015 to RMB307.4 million for the year ended 31 December 2016, which was mainly due to the decrease of pledged deposits of the Group.

Net cash outflow from investing activities

For the year ended 31 December 2016, the Group's net cash outflow from investing activities was approximately RMB84.4 million. The cash outflow items in investing activities mainly included the acquisition of fixed assets and intangible assets during the year.

Net cash outflow from financing activities

For the year ended 31 December 2016, the Group's net cash outflow from financing activities was approximately RMB75.5 million. The cash outflow items in financing activities were distribution of dividend and the balance payment of 2015 listing expense.

Liquidity

The Board considers that the Group has sufficient liquidity to meet the Group's present requirements for liquidity.

COMMITMENTS

The Group's commitments as at the dates indicated are set out as follows:

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Capital commitments:		
Contracted but not provided for	**97.3**	14.3

INDEBTEDNESS

The Group has no indebtedness as at 31 December 2016.

PLEDGE

The Group has no pledge as at 31 December 2016.

GEARING RATIO

The Group monitors capital management by using the gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade and bills payables, financial liabilities included in other payables and accruals less cash and cash equivalents and pledged deposits. Capital represents equity attributable to owners of the parent. The Group's gearing ratio was -13% as at 31 December 2015 and -1% as at 31 December 2016.

CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 31 December 2016.

MARKET RISKS

The Group is subject to various market risks, including foreign exchange risk and interest rate risk. Details of such risks are set out in note 35 to financial statements in this report.

POLICY RISKS

The Group is subject to risks arising from changes in the construction policies of the railway market by the Chinese government.

Directors, Supervisors and Senior Management

1. **Ren Yanjun (任延軍)**, aged 55, was appointed as a chairman, executive Director and senior engineer of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Ren has 31 years of experience in manufacturing and repair of railway track maintenance machinery. From June 1985 to January 1991, Mr. Ren worked as an assistant engineer and engineer at the machining workshop and equipment power workshop 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**"). From January 1991 to December 1991, he served as the deputy head and an engineer at the training center of Kunming Machinery Factory. From December 1991 to September 1992, he served as a deputy division manager and an engineer at the design division of Kunming Machinery Factory. From September 1992 to February 1995, he served as a manager and an engineer at the Kunming Railway South Trading 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 China Railway Large Maintenance Machinery Group Co., Ltd. From November 2002 to July 2004, Mr. Ren served as our head and senior engineer of product development department. From July 2004 to January 2010, he served as vice general manager and senior engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He served as general manager and senior engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. from January 2010 to January 2015. From January 2015 to June 2015, he served as chairman, general manager and senior engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He has been the general manager of CRCC High-Tech Equipment Corporation Limited from June 2015 to May 2016. He obtained a bachelor's degree in engineering from Southwest Jiaotong University in August 1983, majoring in mechanical engineering.

2. **Jiang He (江河)**, aged 50, was appointed as an executive Director and senior engineer of CRCC High-Tech Equipment Corporation Limited in June 2015 and as a general manager of CRCC High-Tech Equipment Corporation Limited in May 2016. Mr. Jiang has 29 years of experience in manufacturing and repair of railway track maintenance machinery. From August 1987 to December 1991, he served as a technician and assistant engineer of the assembly workshop and the training center of Kunming Machinery Factory. From December 1991 to September 1994, he served as a technician and assistant engineer of the Kunming Machinery Factory. 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. From October 1998 to December 2000, he served as the union president and an engineer at Kunming Machinery Factory. From December 2000 to March 2003, Mr. Jiang served as the deputy factory manager and engineer at Kunming Machinery Factory. From March 2003 to June 2015, he served as the vice general manager and senior engineer in Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From June 2015 to May 2016, he served as the vice general manager of CRCC High-Tech Equipment Corporation Limited. He obtained a master's degree from Southwest Jiaotong University in May 2009, majoring in business administration.

3. **Yu Yuanlin (余園林)**, aged 52, was appointed as an executive Director, vice general manager and chief financial officer of CRCC High-Tech Equipment Corporation Limited in June 2015 and then the chief counsel in June 2016. Mr. Yu has 33 years of experience in accounting and financial management. 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. From January 2003 to December 2006, Mr. Yu was appointed as a certified public accountant of the supervisory committee under SASAC. From February 2007 to June 2008, he served as the leader of the finance group of Stock Reform and Listing Office of CRCCG. 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. From September 2009 to April 2010, he served as a level-one staff at the project supervision (labour service management) center of Southern Engineering Co., Ltd. under the Electrification Bureau of China Railway Construction Corporation. 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. From June 2010 to October 2012, he served as the vice department head of our finance department and the vice chief financial officer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From October 2012 to June 2015, he served as vice general manager and chief financial officer in Kunming China Railway Large Maintenance Machinery Group Co., Ltd. Mr. Yu obtained the qualification of certified public accountant issued by Chinese Institute of Certified Public Accountants in July 1998. In January 2016, he graduated from Shijiazhuang Railway University and obtained a master's degree, majoring in business management.

4. **Li Xuefu (李學甫)**, aged 51, was appointed as a non-executive Director of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Li has 25 years of experience in modern enterprise management and business management. From January 1991 to November 1998, he served as an engineer at the education and training department in CRCCG. From November 1998 to August 2002, he served as the vice head and senior engineer of the education and health department in CRCCG. From August 2002 to December 2005, he served as vice head of the education and health department, assistant director of Beijing training center and senior engineer in CRCCG. From December 2005 to July 2008, he served as an office director under the board of directors and senior engineer of CRCCG. From July 2008 to October 2014, he served as a director of the secretariat of the board of directors and senior engineer of CRCC. From October 2014 to June 2015, he has served as a supervisor, the deputy chief economist and a senior engineer of CRCC. He served as director of Jinli Asset Management Center in CRCCG in July 2016. He obtained a master's degree from North Jiaotong University in August 2000, majoring in business management.

5. **Wu Zhixu (伍志旭)**, aged 47, was appointed as a non-executive Director of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Wu has 24 years of experience in legal service areas, such as reorganisation and listing of enterprise, standardised daily operation of company and foreign investment. From November 1992 to October 1993, he served as a lawyer in Yunnan Trade Law Firm. From October 1993 to December 1999, he served as a lawyer and partner in Yunnan Haihe Law Firm. From December 1999 to April 2014, he served as a chief lawyer of Yunnan Qianhe Law Firm. Since April 2014, he has served as the chief lawyer of Beijing Deheng (Kunming) Law Firm. From May 2008 to May 2011, he served as an independent director of Yunnan Xiyi Industrial Co., Ltd. (stock code: 002265). From February 2011 to February 2014, he served as an independent director of Yunnan Lincang Xinyuan Germanium Industrial Co., Ltd. (stock code: 002428). Since June 2011, he has served as an independent director of Yunnan Tourism Corporation (stock code: 002059). He obtained a postgraduate diploma from Yunnan University in July 1997, majoring in economic law.

6. **Sun Linfu (孫林夫)**, aged 53, was appointed as an independent non-executive Director of CRCC High-Tech Equipment Corporation Limited in November 2015. Mr. Sun has nearly 24 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. Since December 2006, he served as the dean of Sichuan Provincial Modern Service Technology Research Institute (formerly known as Sichuan Provincial Research Institute of Manufacturing Information). 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 doctor's degree from Southwest Jiaotong University in June 1993, majoring in bridge and tunnel engineering.

7. **Yu Jiahe (于家和)**, aged 62, was appointed as an independent non-executive Director of CRCC High-Tech Equipment Corporation Limited in November 2015. Mr. Yu has 37 years of experience in design and selection of railway maintenance machinery. From June 1980 to October 1999, he successively served as intern, assistant engineer, engineer, station head and senior engineer in the Design Institute of Railway. From October 1999 to May 2014, he assisted the foundation department of the transport bureau of the former MOR. He obtained an academic certificate for university from Southwest Jiaotong University in February 1980, majoring in machinery manufacturing technique and equipment.

8. **Wong Hin Wing (黃顯榮)**, aged 54, holds a Master's degree in Executive Business Administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants, the Hong Kong Institute of Directors and the Institute of Chartered Secretaries and Administrators. He is also a member of the American Institute of Certified Public Accountants and a chartered member of the Chartered Institute for Securities & Investment. He is an Independent Non-executive Director of AEON Credit Service (Asia) Co. Ltd. (a public company listed on the Stock Exchange), Dongjiang Environmental Company Limited (a public company with A shares listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange and H shares listed on the Stock Exchange) and China Agri-Products Exchange Limited (a public company listed on the Stock Exchange). He is also a Member of Anhui Provincial Committee of the Chinese People's Political Consultative Conference, a Member of the Nursing Council of Hong Kong and a Council member of Hong Kong Institute of Certified Public Accountants. He has been the Chief Executive Officer and responsible officer of China Silk Road International Capital Limited (formerly known as Legend Capital Partners, Inc.), a licensed corporation under the SFO since 1997. Prior to this, he had worked with an international audit firm for four years and then a listed company as Chief Financial Officer for seven years. He has 33 years of experience in accounting, finance, investment management and advisory.

9. **Lyu Jianming (呂檢明)**, aged 54, was appointed as the chairman of the Supervisory Committee and employee supervisor of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Lyu has 16 years of experience in manufacturing and repair of railway track maintenance machinery. From May 2003 to February 2006, he served as the deputy head and the head of the product inspection department of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From February 2006 to April 2010, he served as the head of the production department of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From April 2010 to December 2011, he served as a vice chief engineer and the head of technology management department of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From December 2011 to February 2013, he served as the assistant to the general manager and the head of technology management department of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From February 2013 to January 2014, he served as the assistant to the general manager and the head of the international department of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He obtained a bachelor's degree in engineering from Harbin Institute of Technology in July 1984, majoring in precision machine manufacturing process.

10. **Zhang Zhumin (張主民)**, aged 43, was appointed as our representative supervisor of Shareholders in June 2015. Mr. Zhang has 19 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. From March 2003 to April 2006, he served as the financial principal and financial manager and accountant of Zhongtian Futures Co., Ltd. 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. 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. He obtained a master's degree from Jinan University in January 2002, majoring in accounting.

11. **Wang Huaming (王華明)**, aged 47, was appointed as our representative supervisor of Shareholders in June 2015. Mr. Wang has 23 years of experience in corporate economic management. 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. 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). From July 2011 to December 2012, he concurrently served as the general counsel of Anhui Engineering Co., Ltd. of China Railway 24th Bureau. From January 2013 to August 2014, he served as the financial director and general counsel of China Railway Zhanjiang Development Co., Ltd. Since September 2014, he served as the general manager of the supervision and audit department of China Railway Construction Investment Group. He obtained a master's degree from the Party University under Anhui Provincial Communist Party Committee in July 2011, majoring in economic management.

12. **Hu Bin (胡斌)**, aged 50, was appointed as our vice general manager and chief engineer in June 2015. Mr. Hu has 30 years of experience in R&D and manufacturing of railway track maintenance machinery. From February 1996 to July 1998, he served successively as a deputy division manager and engineer at the design division of Kunming Machinery Factory. From July 1998 to August 2004, he served as the deputy department head, deputy chief engineer, engineer and senior engineer of the product development department of Kunming Machinery Factory. From August 2004 to June 2015, he served as vice general manager, chief engineer, senior engineer and professor senior engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. Since September 2007, he has served as a doctoral supervisor of Kunming University of Science and Technology of mechanical design and theory major. He obtained a bachelor's degree in engineering from Shanghai Railway College in July 1987, majoring in mechanisation of railways.

13. **Huang Zhaoxiang (黃兆祥)**, aged 53, was appointed as a vice general manager of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Huang has 31 years of experience in manufacturing and repair of railway track maintenance machinery. 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. From October 1998 to March 2003, he served as the deputy factory manager division manager, engineer and senior engineer of Kunming Machinery Factory. From March 2003 to June 2015, he served as vice general manager and senior engineer at Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He obtained a bachelor's degree in engineering from Southwest Jiaotong University in July 1986, majoring in mechanical engineering.

14. **Zhang Zhong (張忠)**, aged 53, was appointed as a vice general manager of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Zhang has 31 years of experience in manufacturing and repair of railway track maintenance machinery. From August 1989 to August 1990, he worked as the head at the energy office of Kunming Machinery Factory. From August 1990 to February 1995, he worked as a deputy division manager, division manager and engineer at the equipment power division of Kunming Machinery Factory. From February 1995 to December 2004, he worked as the head at the foreign affairs office and engineer of Kunming Machinery Factory. From December 2004 to April 2010, he served as a vice general economist, the manager of Material Company under Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From April 2010 to February 2011, he served as vice general manager in Kunming China Railway Large Maintenance Machinery Group Co., Ltd. and the general manager and engineer of Beijing marketing company branch. From February 2011 to June 2015, he worked as vice general manager and engineer at Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He obtained a bachelor's degree in engineering from Changsha Railway College in July 1984, majoring in railway trains.

15. **Sun Guoqing (孫國慶)**, aged 56, was appointed as a vice general manager of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Sun has 34 years of experience in manufacturing and repair of railway track maintenance machinery. From December 1992 to December 2004, he served successively as a dispatcher, deputy director, director and distinguished economist at the assembly workshop of Kunming Machinery Factory. From December 2004 to January 2011, he worked successively as the deputy chief economist, manager of our general assembly company and distinguished economist at Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From February 2011 to January 2013, he worked as a vice general manager, the manager of the general manufacturing factory and engineer at Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2013 to May 2015, he served as vice general manager and distinguished economist at Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He obtained a bachelor's degree from the Institute of Yunnan University of Finance and Economics in June 2009, majoring in economic management.

16. **Chen Yongxiang (陳永祥)**, aged 50, was appointed as a vice general manager of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Chen has 28 years of experience in manufacturing and repair of railway track maintenance machinery. From November 1998 to December 2004, he served as the deputy director and engineer at the production preparation workshop of Kunming Machinery Factory. From December 2004 to May 2005, he worked as the manager and engineer at the metal materials processing company of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From May 2005 to January 2010, he worked as the manager and engineer at the machining company of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2010 to June 2015, he served as a vice general manager and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He obtained a master's degree in international trade relations jointly set up by Nankai University and Flinders University, Australia in June 2013.

17. **Tong Pujiang (童普江)**, aged 39, was appointed as a vice general manager of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Tong has 18 years of experience in manufacturing and repair of railway track maintenance machinery. From August 2005 to February 2011, he served as secretary, vice director, director of office and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From February 2011 to January 2013, he served as the assistant to general manager, and the head of our human resource department and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd.. From January 2013 to January 2015, he worked as the assistant to general manager, the manager of the general manufacturing factory and an engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd.. He graduated as a postgraduate student from Chinese Communist Party School (中共中央黨校) in June 2014, majoring in economic management.

18. **Ma Changhua (馬昌華)**, aged 43, is the secretary of the Board of CRCC High-Tech Equipment Corporation Limited in June 2015. Mr. Ma has 21 years of experience in manufacturing and repair of railway track maintenance machinery. From March 2005 to February 2011, he served as our deputy head, head and engineer of information management department of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From February 2011 to July 2011, he served as our office director and the head of information management department and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From July 2011 to August 2012, he served as office director and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From August 2012 to January 2014, he served as the office director, the assistant to the general manager and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2014 to February 2015, he served as the assistant to general manager and commander and engineer at construction instruction department of the northern base of the Company. From February 2015 to June 2015, he served as secretary of the board and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He obtained a master's degree in international trade relations jointly set up by Nankai University and Flinders University, Australia in June 2014.

Corporate Governance Report

The Company has always been dedicated to improving the standard of its corporate governance, and maximising long-term shareholder value by increasing the Company's accountability and transparency through strict implementation of corporate governance practices.

I. CORPORATE GOVERNANCE PRACTICES

The Company puts strong emphasis on the superiority, steadiness and rationality of corporate governance.

For the year ended 31 December 2016, the Company has fully complied with all the code provisions of the CG Code, except for the code provisions A.1.1 and A.2.1 as described below:

1. Under the Provision A.1.1 of the CG Code, regular board meetings should be held at least four times a year at approximately quarterly intervals.

   In 2016, the Company held 7 Board meetings, of which 3 were regular Board meetings for reviewing 2015 annual report and results announcement, 2016 interim report and results announcement and proposals such as change in use of part of proceeds raised. The Company only held 3 regular Board meetings in 2016 as it is not required to issue quarterly results under the Listing Rules, and no other significant proposals needed to be reviewed on regular Board meeting.

2. Provision A.2.1 of the CG Code 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 was the chairman of the Board and general manager of the Company from January 2016 to May 2016. After taking into consideration the relevant principle of Provision A.2.1 of the CG Code and reviewing the management structure of the Company, the Board believes that:

   (1) the composition of the Board is diverse and professional, and we have established a standardised and strict operation system and a set of procedural rules for meetings. The chairman of the Board, as a convener and chairperson 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 the Company, the 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 the Company.

In light of the above, the Board believes that during the said period, the roles of Mr. Ren Yanjun as the chairman of the Board and general manager provided the Company with strong and consistent leadership and allowed for effective and efficient planning and implementation of business decisions and strategies. The Board believes that during the said period, the structure of vesting the role of both chairman and general manager in the same person did not impair the balance of power and authority between the Board and the management.

According to the needs of development of the Company, Mr. Ren Yanjun ceased to act as the general manager of the Company from 27 May 2016, and his other positions in the Company remain unchanged (namely, chairman of the Board, executive Director, chairman of strategy and investment committee, chairman of nomination committee and member of remuneration and evaluation committee of the Board). Mr. Jiang He, executive Director of the Company, has been appointed as general manager of the Company with effect from 27 May 2016.

The Board and the management of the Company make every effort to comply with the CG Code in order to protect and enhance the interests of the Shareholders. As the Company continues to grow, the Company will monitor and revise its corporate governance policy on an ongoing basis, in order to ensure the relevant policy will be in compliance with the general regulations and standards required by the Shareholders.

In accordance with the relevant laws and regulations, the Company has set up a management structure with general meetings, the Board, committees of the Board, the Supervisory Committee and the management to act as check and balance against one another. The division of responsibilities among the general meetings, the Board, committees of the Board and the management is distinct, and each of them is assigned with clearly defined responsibilities. The Board has delegated the execution and daily operations of the Company's business to the management. However, clear directions are given to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Company. The Company will continue to improve its corporate governance mechanism, exercise discipline in the fulfilment of corporate duties, and strengthen information disclosure in practice.

II. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct for governing the securities transactions by the Directors and the supervisors of the Company.

The Company has issued a specific enquiry regarding whether the securities transactions by Directors and supervisors are in compliance with the Model Code, and the Company confirmed that all Directors and supervisors have complied with the securities transactions standards governing Directors and supervisors specified by the Model Code during the reporting period.

III. BOARD OF DIRECTORS

1. Composition of the Board

According to the Articles, the Company established the Board consisting of nine Directors, of whom one is chairman and three are independent Directors.

From January to May of 2016, the Board consisted of nine Directors, of whom Mr. Ren Yanjun was the chairman and an executive Director; other three executive Directors were Mr. Ma Yunkun, Mr. Jiang He and Mr. Yu Yuanlin respectively; two non-executive Directors were Mr. Li Xuefu and Mr. Wu Zhixu respectively; three independent non-executive Directors were Mr. Sun Linfu, Mr. Yu Jiahe and Mr. Wong Hin Wing respectively. In May 2016, Mr. Ma Yunkun resigned as an executive Director of the first session of the Board of Directors of the Company because he attained retirement age. The resignation of Mr. Ma Yunkun will not cause the number of Directors of the Company to fall below the required quorum, and the Board will operate normally. On 29 July 2016, the Company convened the eleventh meeting of the first session of the Board of Directors. The meeting considered and passed a resolution in relation to the election of an executive Director, which nominated Mr. Chen Yongxiang as an executive Director of the first session of the Board of Directors of the Company. The proposal of appointing Mr. Chen Yongxiang as an executive Director will become effective conditional upon approval in general meeting of the Company, with tenure commencing from approval in general meeting of the Company up to the expiry of the term of the first session of the Board.

All Directors entered into a service contract with the Company for the term of three years. A Director may be re-elected and re-appointed at a general meeting after his/her term of office expires.

The Directors strictly complied with their promises, fidelity and integrity, and diligently performed their responsibilities. The quantities and composition of the Board conformed to the requirements of relevant laws and regulations. There was no non-working relationship among the members of the Board, including financial, business, family or other significant relevant relations.

The Directors distinguished themselves in their field of expertise, and exhibited high standards of personal and professional ethics and integrity. All Directors gave sufficient time and attention to the Company's affairs. The Board believed that the ratio of the number of executive Directors to non-executive Directors was reasonable and adequate to provide checks and balances that safeguard the interests of the Shareholders and the Company as a whole.

2. Meetings of the Board and Directors attendance record

During the reporting period, the Company convened a total of seven Board meetings and one general meeting.

The following set forth the Directors' attendance of the Board meetings and the general meeting during the reporting period.

Name	Title	Board meetings	General meeting
Ren Yanjun	Chairman and executive Director	7/7	1/1
Ma Yunkun	Executive Director	3/7	0/1
Jiang He	Executive Director	7/7	1/1
Yu Yuanlin	Executive Director	7/7	0/1
Li Xuefu	Non-executive Director	7/7	1/1
Wu Zhixu	Non-executive Director	6/7	1/1
Sun Linfu	Independent Non-executive Director	5/7	1/1
Yu Jiahe	Independent Non-executive Director	7/7	1/1
Wong Hin Wing	Independent Non-executive Director	7/7	1/1

Note: Mr. Ma Yunkun resigned as an executive Director of the first session of the Board of Directors of the Company in May 2016, so he did not attend the subsequent four Board meetings and the annual general meeting of 2015 since then. Wu Zhixu (Director) delegated Li Xuefu (Director) to attend the eleventh meeting of the first session of the Board on his behalf. Sun Linfu (Director) delegated Yu Jiahe (Director) to attend the eighth and thirteenth meetings of the first session of the Board on his behalf. Yu Yuanlin (Director) did not attend the annual general meeting of 2015 due to his business trip.

3. Continuous training and development schemes for Directors

According to the CG Code, all Directors should participate in continuous professional development schemes to develop and refresh their knowledge and skills, in order to ensure that their contribution to the Board remains informed and relevant.

All Directors regularly accepted the briefs and updates about the business, operations, risk management and corporate governance of the Company, and were provided with new key laws and regulations and changes to the forgoing appropriately applicable to the Company. According to the CG Code, all Directors have to provide their respective training records to the Company.

During the reporting period, the Company provided the appropriate continuous training and professional development courses for the Directors, including engaging the Company's counsel to interpret the Listing Rules in details, etc. All Directors attended the related trainings, and were made aware of and carefully read the relevant documents. Moreover, the Company received the letters of confirmation for attending the continuous professional trainings from each Director.

4. Operation of the Board

The Board assumes responsibility for leadership and control of the Company in respect of general meetings, and is responsible for formulating the overall development strategy, reviewing and monitoring the business performance of the Company, as well as preparing and approving financial statements. Moreover, the Board appoints the management to be responsible for the day-to-day management, administration and operation of the Company, and it also reviews those delegated functions on periodic basis to ensure that relevant arrangement remains appropriate to the needs of the Company.

The Board convenes regular and extraordinary meetings in accordance with legal procedures and complies strictly with relevant laws and regulations and the Articles in the exercise of its authority, with an emphasis on protecting the interests of the Company and its Shareholders.

All Directors are given no less than 14 days' notice of regular Board meetings, and all Directors are given no less than 5 days' notice of extraordinary Board meetings.

The secretary to the Board records and prepares documents concerning all matters that are discussed during the Board meetings. Draft minutes of every Board meeting are circulated to all Directors for their review. After finalisation, the Board minutes will be signed by all Directors who have attended the meeting and the minutes recording person. These documents are permanently kept as important records of the Company at the Company's domicile.

The Board of Directors is responsible to the general meetings and it principally exercises the following powers:

(I) to convene general meetings and report its work to the general meetings;

(II) to implement the resolutions of the general meetings;

(III) to make decisions on business plans and investment plans of the Company;

(IV) to formulate the Company's proposed annual financial budget and final financial reports;

(V) to formulate the Company's profit distribution plans and plans for making up for losses;

(VI) to formulate the Company's plans for increasing or reducing the registered capital, issuing shares, bonds or other securities and listing;

(VII) to formulate the Company's plans for major acquisitions, repurchase of the Company's shares or merger, division, dissolution and change in corporate form;

(VIII) to decide matters of the Company such as external investment, purchase and sales of assets, pledge of assets, external guarantee, entrusted finance and connected transactions within the scope of authorisation of general meetings;

(IX) to decide the setting of internal administrative organs of the Company;

(X) to appoint or dismiss the general manager and the secretary to the Board of Directors of the Company, to appoint or dismiss any senior management, including vice general manager and financial controller of the Company according to the nomination by the general manager, and to decide their remuneration and rewards and punishments;

(XI) to formulate the basic management system of the Company;

(XII) to formulate proposals for any modifications to the Articles;

(XIII) to manage the disclosure of information of the Company;

(XIV) to propose on the general meetings 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;

(XV) to listen to work reports of the general manager of the Company and to review his/her work;

(XVI) to decide the establishment and composition of committees of the Board of Directors;

(XVII) to consider and approve change in use of proceeds raised;

(XVIII) 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 and the Articles.

All Directors have access to the advice and services of the company secretary. The Company provides all Directors with the necessary information and data to enable them to make scientific, timely and prudent decisions. Any Director can request the general manager to, or through the general manager to request, the Company's relevant department to provide him/her with any necessary information and explanation to enable him/her to make scientific, timely and prudent decisions. If any of the independent non-executive Directors considers necessary, an independent institution can be engaged to provide independent opinions to assist his/her in making decisions. The Company is responsible for arranging the engagement of the independent institution at the Company's costs.

Director(s) with interest in any connected transaction cannot vote at the Board meeting considering the particular connected transaction. If a resolution cannot be passed due to the Director(s) abstaining from voting, the resolution will be submitted directly to the general meeting for consideration.

The Company has taken out appropriate liability insurance for Directors, supervisors and senior management members, for the purpose of covering any of their liability arising out of the Company's corporate activities.

5. Committees of the Board

The Company has established strategy and investment committee, audit and risk management committee, nomination committee, remuneration and evaluation committee. The functions of each committee are to study specific issues in its area of expertise and to provide opinions and suggestions for consideration by the Board.

a. Strategy and Investment Committee

The strategy and investment committee of the Company was established in June 2015. It currently consists of three Directors, including one executive Director and two independent non-executive Directors. The members of the strategy and investment committee are Mr. Ren Yanjun, Mr. Sun Linfu and Mr. Yu Jiahe. Mr. Ren Yanjun is the chairman of the strategy and investment committee. 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 which should be approved by the Board.

In 2016, the strategy and investment committee held three meetings, to mainly consider the following issues:

Name of the strategy and investment committee's meetings	Date	Major matters considered
The first meeting in 2016	28 February 2016	Resolution on establishing Xinruitong Company
The second meeting in 2016	29 March 2016	Resolution on Production and Operating Plan of 2016 of the Company; Resolution on Rolling Plan for Three Years (2016-2018) of the Company
The third meeting in 2016	29 July 2016	Resolution on Structure and Responsibilities of Certain Organisations of the Company

Attendances of each member at the meetings are as follows:

No.	Name	Position	Attendances/Meetings
1	Ren Yanjun	Chairman of the committee	3/3
2	Sun Linfu	Member	2/3
3	Yu Jiahe	Member	3/3

Note: Mr. Sun Linfu appointed Mr. Yu Jiahe as his representative to attend the second meeting in 2016 of the strategy and investment committee.

b. *Audit and Risk Management Committee*

The audit and risk management committee of the Company was established in June 2015. It currently consists of three independent non-executive Directors. The members of the audit and risk management committee are Mr. Yu Jiahe, Mr. Sun Linfu and Mr. Wong Hin Wing. Mr. Yu Jiahe is the chairman of the audit and risk management committee. The Company amended the Terms of Reference of the Audit and Risk Management Committee on 29 February 2016.

The audit and risk management committee is primarily responsible for supervising the Company's internal control, risk management, financial information disclosure and internal audit matters, which include, among other things:

- to supervise and manage the audit work, to propose appointment or removal of external audit agencies, to examine and supervise the work of external audit agencies, and the relationships between the Company and the external audit agencies, to formulate and implement policies on the non-audit services provided by the external audit agencies, to examine the Letters of Explanation of Review Matters submitted to the management by the external audit agencies and timely give feedback on the matters raised by the external audit agencies in its Letters of Explanation of Review Matters;

- to supervise internal audit system and its implementation, to review the Company's financial and accounting policies and practices;

- to ensure communication and coordination between internal audit and external audit agencies;

- to supervise the Company's financial information and its disclosure, and to review the major opinions on financial reporting as set out in the statements and reports;

- to review the Company's financial control, risk management and internal control system, to review major connected transactions, and to discuss the risk management and internal control system with the management to ensure that the management has discharged its duty to establish an effective internal control system;

- to ensure the Company's arrangements for staff of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters; and

- to submit the annual report on overall risk management to the Board, to consider the Company's risk management strategies and the solutions for major risk management, to consider the establishment of the risk management organisations, and proposals of their responsibilities, and to consider the comprehensive report on the supervision, assessment and audit of risk management submitted by the internal audit department.

The Company has established an audit department with relatively independent functions on internal audit, internal control and risk management. The audit department is under the guidance and supervision of the audit and risk management committee, and reports its work to the audit and risk management committee.

During the reporting period, the audit and risk management committee reviewed risk management and internal control and expressed their reasonable opinion.

The decisions of the Board did not deviate or violate any recommendations about selection, appointment or dismissal of external auditors made by the audit and risk management committee.

During the reporting period, the audit and risk management committee reviewed 2015 results announcement and annual report, 2016 interim results announcement and interim report, auditing planning of external auditor, auditor's report and interim review report prepared by Ernst & Young.

In 2016, the audit and risk management committee held seven meetings, to mainly consider the following issues:

Name of the audit and risk management committee's meetings	Date	Major matters considered
The first meeting of 2016	22 January 2016	Auditing planning for 2015 Financial Statement of CRCCE
The second meeting of 2016	28 February 2016	Proposals of appointing audit agencies of 2015 and 2015 auditing fee payment

Name of the audit and risk management committee's meetings	Date	Major matters considered
The third meeting of 2016	29 March 2016	Proposal of the Company's final financial report for 2015
		Proposal of the Company's 2015 annual report and results announcement
		Proposal of the Company's annual profit distribution plan for 2015
		Proposal of the performance report of audit and risk management committee of the Board of Directors of the Company for 2015
		Proposal of summary for work of 2015 internal audit and planning of 2016 internal audit and risk control
		Proposal of 2015 report of internal risk control
		Proposal of 2016 implementing plan of measures of material and key risk management and control
		Proposal of rectifying plan after identified the 2015 annual internal control evaluation defects
		Proposal of continuing connected transactions
		Proposal of changes on accounting estimation
The fourth meeting of 2016	28 April 2016	Proposal of appointing 2016 audit agencies
The fifth meeting of 2016	29 July 2016	Proposal of 2016 interim results announcement

Name of the audit and risk management committee's meetings	Date	Major matters considered
The sixth meeting of 2016	25 August 2016	Proposal of 2016 interim report Proposal of systems such as Internal Audit Articles of CRCC High-Tech Equipment Corporation Limited
The seventh meeting of 2016	21 December 2016	Discussion of and communication for audit plan for 2016 financial statements of the Company

Attendances of each member at the meetings are as follows:

No.	Name	Position	Attendances/Meetings
1	Yu Jiahe	Chairman of the committee	7/7
2	Sun Linfu	Member	6/7
3	Wong Hin Wing	Member	7/7

Note: Mr. Sun Linfu appointed Mr. Yu Jiahe as his representative to attend the 2016 third meeting of the audit and risk management committee on his behalf.

c. *Nomination Committee*

The Company's nomination committee was established in June 2015. It currently consists of three Directors, including one executive Director and two independent non-executive Directors. The members of the nomination committee are Mr. Ren Yanjun, Mr. Sun Linfu and Mr. Yu Jiahe. Mr. Ren Yanjun is the chairman of the nomination committee. The Company amended the Terms of Reference of Nomination Committee on 29 February 2016.

The nomination committee is primarily responsible for formulating the nomination procedures and standards for candidates for Directors, which include, among other things:

- to examine the structure, number of members and composition (including skill, knowledge and experience of related aspects) of the Board at least once a year;

- 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.

In 2016, the nomination committee held two meetings, to mainly consider the following issues:

Name of the nomination committee	Date	Major matters considered
The first meeting in 2016	26 May 2016	Proposal on the adjustment of the title of some senior management
The second meeting in 2016	29 July 2016	Proposal on the election of executive Directors

Attendances of each member at the meetings are as follows:

No.	Name	Position	Attendances/Meetings
1	Ren Yanjun	Chairman of the committee	2/2
2	Sun Linfu	Member	2/2
3	Yu Jiahe	Member	2/2

d. Remuneration and Evaluation Committee

The Company's remuneration and evaluation committee was established in June 2015. It currently consists of three Directors, including one executive Director and two independent non-executive Directors. The members of the remuneration and evaluation committee are Mr. Yu Jiahe, Mr. Ren Yanjun and Mr. Sun Linfu. Mr. Yu Jiahe is the chairman of the remuneration and evaluation committee. The Company amended the Terms of Reference of Remuneration and Evaluation Committee on 29 February 2016.

The remuneration and evaluation committee is primarily responsible for formulating and reviewing the remuneration 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;
- to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment, to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- to develop formal, fair, reasonable and transparent remuneration system, and to supervise the effective implementation of the Company's remuneration system, to consider the Company's share incentive plan(s) and provide recommendations thereon.

Under the Provision B.1.2(c) (ii) of the CG Code, the remuneration and evaluation committee has made recommendations to the Board on the remuneration of Directors and senior management.

In 2016, the remuneration and evaluation committee held two meetings, to mainly consider the following issues:

Name of the remuneration and evaluation committee's meetings	Date	Major matters considered
The first meeting in 2016	29 March 2016	Proposal on the 2015 work report of the Board of Directors of the Company Proposal on the 2015 remuneration standard of Senior Management

Name of the remuneration and evaluation committee's meetings	Date	Major matters considered
The second meeting in 2016	28 April 2016	Proposal on the Management Measures of remuneration for the Directors and Supervisors of CRCC High-Tech Equipment Corporation Limited Proposal on the Management Measures of remuneration for the Senior Management of CRCC High-Tech Equipment Corporation Limited

Attendances of each member at the meetings are as follows:

No.	Name	Position	Attendances/Meetings
1	Yu Jiahe	Chairman of the committee	2/2
2	Ren Yanjun	Member	2/2
3	Sun Linfu	Member	1/2

Note: Mr. Sun Linfu appointed Mr. Yu Jiahe as his representative to attend on his behalf the first meeting of the remuneration and evaluation committee in 2016.

e. *Corporate governance functions*

The Board is responsible for the following corporate governance functions:

I. to formulate and review the Company's corporate governance policy and practices and make recommendations;

II. to review and monitor the training and professional development on an ongoing basis of the Directors and senior management members;

III. to review and monitor the Company's policies and practices on compliance, laws and regulations;

IV. to formulate, review and monitor any code of conduct and compliance manual, where appropriate, applicable to employees and Directors; and

V. to review the Company's compliance with the CG Code and the disclosure of corporate governance report as set out in the annual report of the Company.

IV. CHAIRMAN AND GENERAL MANAGER

The offices of the chairman and the general manager of the Company are held by different persons. Mr. Ren Yanjun is the chairman and Mr. Jiang He is the general manager of the Company. The division of responsibilities between them has been clearly established and set out in writing. The chairman is responsible for leadership of the Board and chairing Board meetings, while the general manager is responsible for the Company's day-to-day operations.

According to the Articles, the chairman exercises the following powers:

(1) to convene and preside at general meetings, and to preside at Board meetings;

(2) to supervise and check the implementation of general meeting resolutions and Board resolutions;

(3) to sign important documents of the Board of Directors and other documents that should be signed by the legal representative of the Company;

(4) to exercise certain powers of the Board of Directors in accordance with authorisation of the Board during intermissions of the meetings of the Board of Directors;

(5) to sign the securities issued by the Company;

(6) to organise the formulation of relevant systems relating to the Board and to coordinate with its operation;

(7) in case of emergency circumstances of force majeure events such as war, extraordinary natural disasters, to exercise special discretion and power of disposition which comply with legal provisions and are in the interests of the Company on matters of the Company and provide post-event reports to the Board and the general meeting;

(8) to listen to the reporting of the general manager, other senior management and person in charge of the invested enterprises of the Company;

(9) other powers granted by the Board.

The general manager of the Company is responsible to the Board. The general manager and the management team under his leadership have the following powers:

(1) to take charge of the production, operation and management of the Company, to organise implementation of resolutions of the Board of Directors, and to report his/her work to the Board of Directors;

(2) to organise the implementation of annual operation plans and investment plans of the Company;

(3) to establish plans for establishment of the Company's internal management structure;

(4) to establish the Company's basic management system;

(5) to formulate the basic rules and regulations of the Company;

(6) 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;

(7) to appoint or dismiss of managers other than those whose appointment or dismissal shall be decided by the Board of Directors;

(8) to propose convening an interim meeting of the Board of Directors;

(9) other powers granted by the Board.

V. INDEPENDENT NON-EXECUTIVE DIRECTORS

According to the Articles, independent non-executive Directors are elected in the general meeting for a term of three years. Upon expiry of the term, they are eligible for re-election and re-appointment, but no more than six years, except where otherwise expressly provided by relevant laws, regulations and listing rules of the stock exchange in which the Company's shares are listed.

Each of the independent non-executive Directors has issued a confirmation in respect of the factors set out in Rule 3.13 of the Listing Rules concerning his independence. The Company considers all of the independent non-executive Directors to be independent.

VI. BOARD DIVERSITY POLICY

When determining the composition of the Board, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All appointments of the Board will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merits of the candidates and the contribution that they can bring to the Board.

The Board has set measurable objectives (including the aforesaid measurable objectives) to implement the policy and the nomination committee is responsible for reviewing such objectives from time to time to ensure their appropriateness and monitoring the progress made towards achieving those objectives, and reviewing the policy, as appropriate, to ensure its continued effectiveness from time to time.

During the reporting period, the nomination committee has considered the Board diversity policy and also reviewed the educational level, skills, experiences and diversities of the Board to determine if they were sufficient to enhance the efficiency of the Board and maintain the high standard of corporate governance. After consideration, the nomination committee believed that the current composition of the Board is balanced and diversified, which is suitable for the business development of the Company. Thus, the Board diversity policy was fulfilled during the reporting period.

VII. NOMINATION OF DIRECTORS

Directors are elected at general meetings in accordance with the Articles. Written notice of intention to nominate a candidate for the post of Director and the candidate's agreement to be nominated must be given to the Company after the date of the notice of the general meeting and at least seven days prior to the holding of the general meeting.

VIII. REMUNERATION OF SENIOR MANAGEMENT

According to Provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band whose particulars are contained in the section headed “Directors, Supervisors and Senior Management” in 2016 report is set out below:

Remuneration band (RMB)	Number of individuals
RMB1 million or above	5
RMB0.9 million (including) to RMB1 million	2
Less than RMB0.9 million	1
Total	8

Note: One senior management member resigned on 27 May 2016 and therefore, the remuneration above only included the remuneration of this senior management member during the period from 1 January 2016 to 27 May 2016.

IX. REMUNERATION OF THE AUDITOR

Ernst & Young is the overseas auditor of the Company in 2016, and Ernst & Young Hua Ming LLP is the domestic auditor of the Company in 2016. For the year ended 31 December 2016, the services provided and the remuneration received by Ernst & Young and Ernst & Young Hua Ming LLP are as follows:

2016 financial statement audit	RMB1.70 million
2016 interim review	RMB0.40 million
Special audit	RMB0.56 million

X. DIRECTORS’ RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors confirm that they are responsible for the preparation of consolidated financial statements for the year ended 31 December 2016, and to give a true and fair of the Group’s financial position and financial performance.

XI. JOINT COMPANY SECRETARIES

Mr. Law Chun Biu and Mr. Ma Changhua were appointed as joint company secretaries of the Company on 23 November 2015.

Mr. Law Chun Biu, aged 43, 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 Fuji Kon 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.

Biography of Mr. Ma Changhua is set out in the section of "Directors, Supervisors and Senior Management".

XII. CONSTITUTIONAL DOCUMENTS

The Company's first extraordinary general meeting of 2015 was convened on 24 June 2015 to deliberate and pass the resolution on Adoption of the Articles after Issuance and Listing of H Shares of CRCC High-Tech Equipment Corporation Limited, and to approve the applicable Articles (Draft) after issuance and listing of H Shares. Those Articles came into force since the listing date of H Shares on the Main Board of the Stock Exchange. In 2016, the persons authorised by the Board supplemented and varied the applicable Articles after the listing of H Shares according to the situation of issuing shares and relevant requirements of laws and regulations, and published the updated version on websites of the Company and of the Hong Kong Stock Exchange.

XIII. RISK MANAGEMENT AND INTERNAL CONTROL

According to regulating documents such as Code of Corporate Governance, Guidelines on Comprehensive Risk Management of Enterprises controlled by Central Government, Normal Regulations on Internal Control of Enterprises and its auxiliary guidelines, the Company established Measures on Internal Control and Comprehensive Risk Management of CRCC High-Tech Equipment Corporation Limited, setting a comprehensive and throughout risk management and internal control system which will be participated by all employees.

The Company closely adhered to its development strategy. We collected initial information of risk management, organised regular risk identification analysis and assessment, established risk management strategy, offered and implemented risk management resolutions, and supervised and improved risk management workflow, to prevent the Company from suffering from major and material risk incidents.

The Company has a sound organisation system of internal control. The Board is responsible for the establishment, improvement and effective implementation of the risk management and internal control systems. An annual year-end review of the effectiveness of the Company's and its subsidiaries' risk managements and internal control systems during the year has been conducted. Guided by the Board and the audit and risk management committee, the audit department carries out inspection, supervision and evaluation for internal controls of the Company and its branches and subsidiaries in respect of important control functions such as financial control, operation control, compliance control and risk management, supervises and timely rectifies internal control deficiencies and effectively controls operating risks.

The objectives of internal control of the Company include ensuring a legal and compliance management, asset safety, accuracy and completeness of financial reports and related information in a reasonable manner, enhancing its operating efficiency and results, and promoting the implementation of strategy development. Due to the intrinsic limitations of internal control system, only reasonable guarantees can be provided for the abovementioned objectives. In addition, the effectiveness of its internal control is subject to change according to the changes of internal and external environment and operations. Inspection and supervision system is established for the Company. In case of shortcomings found, the Company will adopt rectification measures immediately.

Through the audit and risk management committee and the audit department, the Board arranged an assessment to the risk management and internal control system of the Company and considered that the risk management and internal control system of the Company was effectively operated and sufficient in 2016. The system could maintain and improve the internal control activities of the Company and ensure that the Company was able to resist changes from internal business and external environment in terms of finance, operation and risk management, to safeguard the safety of the asset of the Company and the interest of the Shareholders.

The Company has prepared "Insider of Inside Information Management Regulation of CRCC High-Tech Equipment Corporation Limited" according to provisions relating to disclosure of inside information of the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong, to identify insider information, and to protect and supervise the timely management and publishing of insider information, so as to safeguard the legal interests of investors.

XIV. SHAREHOLDERS' RIGHTS

1. Convening extraordinary general meetings

Shareholders holding more than 10% of shares (individually or together with others) shall be entitled to request for an extraordinary general meeting upon signing one or several written requests with the same content and format, and stating the subject of the meeting. If the Board agrees to convene an extraordinary general meeting, it shall issue a notice of general meeting within five days upon making the Board decision. If the Board disagrees to convene an extraordinary general meeting, or does not reply within 10 days upon receipt of the proposal, Shareholders individually or together holding more than 10% of the shares of the Company are entitled to request the Supervisory Committee in writing to hold an extraordinary general meeting. If the Supervisory Committee agrees to convene the extraordinary general meeting, it shall issue a notice of general meeting within five days upon making the decision. If the Supervisory Committee does not issue the notice of general meeting within the prescribed period, it shall be deemed as the Supervisory Committee not convening and not holding the general meeting. Then the Shareholders who individually or together hold more than 10% of the shares for more than 90 consecutive days may convene and hold the meeting themselves.

2. Putting enquires to the Board

The Company's information shall be communicated to the Shareholders mainly through general meetings (including annual general meetings), the Company's financial reports (interim reports and annual reports), and its corporate communications posted on the Company's website and the Stock Exchange's HKExnews website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any relevant questions shall be first directed to the company secretary at the Company's principal place of business in Hong Kong or the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

3. Putting proposals to general meetings

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. Besides, Shareholder(s) should follow the procedures of "Convening the extraordinary general meetings" for putting forward proposals at general meetings. The Company shall include the matters in the proposals which are within the scope of the terms of reference of the general meetings in the agenda of the meeting.

XV. INVESTOR RELATIONSHIP

The Company places great emphasis on communication with investors and has established a securities affairs department to handle affairs regarding investor relationship. When investors come to visit the Company, reception and site visit will be arranged by designated staff. The Company actively participates in various meetings concerning investor relationship, so as to enable investors to have better understanding about the Company.

The Company strictly complied with the provisions of the Listing Rules regarding to information disclosure and disclosed any information affecting investors immediately and accurately and completely in accordance with preparation rules and procedures of information disclosure, to ensure all investors receiving information of the Company fairly and sufficiently.

The Company will continue to improve its relationship with investors, so as to further enhance its transparency.

The Board is pleased to present the Directors' Report and the audited financial statements of the Company for the year ended 31 December 2016.

THE COMPANY'S BUSINESS ACTIVITIES

The Company is mainly engaged in the research, development, manufacture and sale of large railway track maintenance machines, parts and components sales and services, overhaul services and railway line maintenance services.

There was no material change in the nature of the Company's key business during the reporting period.

MAJOR RISKS AND UNCERTAINTIES

The Board is ultimately responsible for the sufficient risk control measures of the Company, so as to directly and effectively reduce the major risks faced by the Company during the business operation. The Board delegates part of its responsibilities to each of the function departments.

The Company's business operation and financial position may face the following major risks:

Regulatory risks

The majority of the Company's core businesses are subject to the regulatory requirements of the following laws, regulations and departmental rules:

- Railway Law of the People's Republic of China promulgated by the Standing Committee of the National People's Congress on 7 September 1990 and amended on 27 August 2009 and 24 April 2015;

- Regulation on Administration of Railway Safety promulgated by the State Council on 17 August 2013 and enforced on 1 January 2014;

- 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 24 December 2013 and enforced on 1 January 2014;

- Rules for the Implementation of License for Design, Manufacture, Maintenance and Import of Railway Locomotives and Vehicles promulgated and enforced by the State Railway Administration of the People's Republic of China on 3 April 2014.

In 2016, the Company also paid close attention to the legislative development of the industry while operating in compliance with the regulatory requirements under the abovementioned laws, regulations and departmental rules.

Policy risks

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 materially impact our business.

Market risks

The Company's market risks are mainly from its major customers and major suppliers:

- Most of the Company's revenue comes from major customers. Therefore, the loss of one or more major customers or customers groups or changes in their orders or the terms of the contract may have a material adverse impact on the Company's business.

- The largest supplier of the Company is Plasser & Theurer, the purchase from whom is attributable to approximately 23.07% of the Company's total purchase, and the purchase attributable to our five largest suppliers amounted to 58.32% of our total purchase. Significant changes in the relationship between the Company and our major suppliers may have a material adverse impact on our business.

In addition, other market risks, including foreign exchange risk and interest rate risk, also have an impact on our business and operation, details of which are set out in note 35 to the financial statements of this report.

Operating risks

Operating risks generally include risks resulting from inadequate or failed internal processes and the risks resulting from human error in internal operations or other reasons. For example, defective products resulting from human error in internal operation may lead to product claims or incur loss against the Company.

In order to manage these risks, the Company established a mature internal control system and improved business processes, so as to minimise the risk of such adverse effects on the Company.

ENVIRONMENTAL POLICY

The Company will perform its social responsibilities and strictly implement the Environmental Protection Law of the People's Republic of China and other requirements under applicable laws and regulations from the perspective of corporate sustainability and development, as well as carry out solid environmental protection technical renovation work and regulate the environmental protection indexes. In particular, the Company will standardise the management of operation and maintenance of environmental facilities, and improve the operation rate and efficiency of environmental protection facilities, so as to ensure standard emission. Adhering to the principle of "safety and reliability, mature technology and being cost-effective", the Company will continue to optimise and refine the process of the technological improvement, and advance the implementation of environmental technical renovation in a continuous manner.

BUSINESS MODEL AND DIRECTION OF STRATEGY

The Company insists on the market-oriented principle of development and is committed to creating sustainable value for the Shareholders in order to achieve sustainable development for the Company. Manufacturing and sales of large railway track maintenance machines, parts and components sales and services, overhaul services and railway line maintenance services are the major sources of income of the Company. The key strategic development directions of the Company are:

1. Emphasis on strategic plan, so as to lead enterprise development. Strengthen the strategic plan of "focus on core business, correlation and diversification", ensure the implement of above strategies, and form a new pattern of enterprise development.

2. Enhance quality and improve efficiency, so as to realise stable growth. Reduce costs, adjust the structure, promote reform, lay the groundwork, stick to comprehensiveness, and improve the quality of development and economic benefits, in order to promote the healthy and sustainable development of enterprises.

3. Deepen the reform to stimulate development vitality. We will continue to improve the corporate governance systems and mechanisms, speed up the reform of corporate organisational structure, further enhance the vitality of enterprises and improve operational efficiency.

4. Focus on innovation-driven, enhance competitiveness. Firmly implement the concept of revitalizing the enterprise with science and technology and sustainable development strategy. Promote management innovation, market innovation, brand innovation, organism of production innovation and business model innovation.

5. Adhere to the structural adjustment, speed up the transformation and upgrading. Promote the adjustment and upgrading of traditional industries, to promote resource integration and mergers and acquisitions in a larger scale, on higher levels and with greater efforts.

The business review and development prospect of the Group are set out in the two sections of Chairman's Statement and Management Discussion and Analysis. There is no material events having influence on the Group after the end of the financial year under review.

RESULTS AND DIVIDENDS

For results of the Company for the year ended 31 December 2016 prepared in accordance with the IFRSs, please refer to the audited financial statement of this report. The annual results for the year ended 31 December 2016 of the Company have been reviewed by the audit and risk management committee of the Company.

As at 31 December 2016, the Group's retained profits (before distribution of the final dividend) amounted to RMB573.6 million in total, and the Board proposed the distribution of dividend of RMB0.16 per share (including applicable taxes) for the year in cash. The distribution of the proposed dividends is subject to the Shareholders' approval at the 2016 annual general meeting to be held in 2017. After being considered and approved, the final dividend for the year ended 31 December 2016 is expected to be paid on or around 21 August 2017. Further details in relation to the closure of register of member for H shares will be announced by the Company after the arrangement of such general meeting.

FINANCIAL HIGHLIGHTS

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

Short-term borrowings

The Group has no short-term borrowings as at 31 December 2016.

Long-term borrowings

The Group has no long-term borrowings as at 31 December 2016.

Share capital

As at 31 December 2016, the share capital of the Company was 1,519,884,000 shares, of which 531,900,000 shares are H Shares.

USE OF PROCEEDS OF THE COMPANY

After deducting the underwriting commissions and expenses in connection with the global offering, the net proceeds of the global offering were approximately RMB2.27 billion. As disclosed in the prospectus of the Company, we planned to apply the net proceeds from the global offering for the following purposes:

1. construction of our "International Technology Cooperation Center" Project: approximately 40% of the net proceeds from the global offering would be used for the construction of our "International Technology Cooperation Center" Project, including acquisition of land, construction of infrastructure and purchase of equipment;

2. development of regional business network platform: approximately 30% of the net proceeds from the global offering would 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;

3. general domestic and overseas mergers and acquisitions: approximately 20% of the net proceeds from the global offering would be used for general domestic and overseas acquisitions relate to the large railway track maintenance machinery industry, and will enable us to strengthen and complement our core value chain; and

4. working capital: no more than approximately 10% of the net proceeds from the global offering would be used to supplement working capital.

On 28 December 2016, the Company held the 13th meeting of the first session of the Board, at which the Proposal to Change the Usage of Part of the Proceeds was considered and approved. The Board has resolved to change the use of net proceeds from the global offering as following: as described in section 2 above, approximately 20% (approximately RMB0.45 billion) of the net proceeds from the Global Offering originally allocated to the development of regional business network platform will be re-allocate to supplement of the Company's working capital. Below sets forth the revised usage of the net proceeds from the Global Offering:

	Net proceeds originally allocated		Net proceeds allocated after amendment	
	RMB billion	Percentage of net proceeds	RMB billion	Percentage of net proceeds
Construction of our "International Technology Cooperation Center" Project	0.91	40%	0.91	40%
Development of regional business network platform	0.68	**30%**	0.23	**10%**
General domestic and overseas mergers and acquisitions	0.45	20%	0.45	20%
Working capital	0.23	**10%**	0.68	**30%**
	2.27	100%	2.27	100%

Note: Any discrepancies in the table between the totals and sums of amounts listed therein are due to rounding.

Save for the aforesaid changes, there is no other change to the usage of net proceeds from the global offering.

The following table sets forth the actual use of **proceeds** of the Company as at 31 December 2016:

Planned use	Budgeted amount *RMB billion*	Actual usage amount *RMB billion*
Construction of our "International Technology Cooperation Center" Project	0.91	0.52
Development of regional business network platform	0.23	0.01
General domestic and overseas mergers and acquisitions	0.45	0.01
Working capital	0.68	0.68
Total	2.27	1.22

As at 31 December 2016, the balance of the proceeds from H Shares issuance of the Company was approximately RMB1.07 billion (including interest income).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company Law of the PRC or in the Articles which require the Company to offer new shares on a pro-rata basis to its existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the reporting period, there was no purchase, redemption or sale of any listed securities of the Company by the Company or any of its subsidiaries.

SHAREHOLDERS' EQUITY

Shareholders' equity of the Company is set out in the consolidated statement of changes in equity of this report.

RETAINED PROFITS

As at 31 December 2016, the Group's retained profits calculated in accordance with relevant regulations amounted to approximately RMB573.6 million, of which RMB243.2 million has been proposed to be paid as final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

Our major customers include China Railway Corporation ("**CRC**") and its affiliated enterprises, local railway operators and railway construction companies. During the year, the revenue from the sales of goods and provision of services in aggregate attributable to CRC and its affiliated enterprises was approximately 66.14% of the Group's total revenue.

Saved as disclosed above, none of the Directors, their close associates or those Shareholders so far as is known to the Directors having more than 5% interest in the share capital of the Company, had any interest in CRC during the year.

Plasser & Theurer is the largest supplier of the Company, and the percentage of the Company's purchase attributable to purchase from Plasser & Theurer was approximately 23.07% of the Company's total purchases. The purchases attributable to our five largest suppliers amounted to approximately 58.32% of our total purchase costs. Our five largest suppliers are all independent third parties.

Saved as disclosed above, none of the Directors, their close associates or those Shareholders so far as is known to the Directors having more than 5% interest in the share capital of the Company, had any interest in any of the Company's five largest suppliers during the year.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year till the date of this report are:

Executive Directors

Ren Yanjun – *Chairman of the Board*
Ma Yunkun (Resigned as an executive Director of the Company's First Session of the Board in May 2016)
Jiang He – *General manager*
Yu Yuanlin – *Vice general manager, chief financial officer, chief counsel*

Non-executive Directors

Li Xuefu
Wu Zhixu

Independent non-executive Directors

Sun Linfu
Yu Jiahe
Wong Hin Wing

Supervisors

Lyu Jianming – *Chairman of the Supervisory Committee, employee supervisor*
Zhang Zhumin – *Representative supervisor of Shareholders*
Wang Huaming – *Representative supervisor of Shareholders*

COMPOSITION OF THE SUPERVISORY COMMITTEE

According to the Articles, the Supervisory Committee shall comprise three supervisors, of which two supervisors are representative supervisors of Shareholders and one supervisor is an employee supervisor.

As at the date of this report, the Supervisory Committee comprised three supervisors, of which Mr. Lyu Jianming is the chairman of the Supervisory Committee and Mr. Zhang Zhumin and Mr. Wang Huaming are the representative supervisors of Shareholders.

BIOGRAPHIES OF DIRECTORS AND SUPERVISORS

Details of the biographies of the Directors and supervisors of the Company are set out in "Directors, Supervisors and Senior Management" section of this report.

POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of positions held by Directors, supervisors and senior management of the Company in entities of substantial Shareholders and other entities are set out in the section headed "Directors, Supervisors and Senior Management" of this report.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

The Company has entered into service contracts with all Directors and supervisors for a term of three years. The service contracts with all Directors and supervisors shall continue for a term of three years or for a shorter period as may be decided upon at the respective re-elections of the Directors and supervisors at the general meeting or the employees' representative committee meeting of the Company (as the case may be). Notice of termination of service contracts given by any party shall not be less than three months.

None of the Directors nor supervisors entered into a service contract with the Company which is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year and as at 31 December 2016, none of the Directors nor supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries was a party.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and as at 31 December 2016, none of the Directors, directly or indirectly, had an interest in any business which competes or may compete with the business of the Company and/or its subsidiaries.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND GENERAL MANAGER IN THE SHARES AND DEBENTURES

During the year and as at 31 December 2016, none of the Directors, supervisors and the general manager or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or any interests or short positions required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or any personal, family, corporate or other interests or short positions required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PERMITTED INDEMNITY PROVISIONS

During the reporting period and as at 31 December 2016, the Company has purchased liabilities insurance for the Directors and supervisors, which provides appropriate insurance for the Group's directors and supervisors.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Directors, supervisors or their respective spouse or children under 18 years old, or were any such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors and supervisors of the Company to acquire such rights in any other body corporate.

EMPLOYEES AND REMUNERATION POLICY

The Company's remuneration policy for its employees takes into account the individuals' post value, work performance and competence. The Company places great emphasis on the provision of on-the-job-training and development of its employees. Each staff member is required to participate in trainings organised by the Company and its department prior to the commencement of his or her employment. The Company formulates training plans according to its staff position and career development needs and releases its annual training plan at the beginning of year pursuant to which all departments need to organise staff training. The management and other employees are required to undertake training for enhancing work ability as specified by the Company. The Company has established channels for career development of employees. Employees have opportunities of promotion and development according to the orders of different positions within the Company. As at 31 December 2016, the Company had 1,976 full-time employees, and the total amount of remuneration (including salaries and allowances) for employees in 2016 was approximately RMB412.3 million.

The remuneration of Directors and supervisors is proposed by the Board and subject to approval by the Company at the general meeting, taking into consideration their respective experience, level of responsibilities within the Company, performance of the Company as well as remuneration benchmark in the industry and the market situation. Details of the remunerations of Directors and supervisors are set out in note 8 to the financial statements.

MANAGEMENT CONTRACT

During the reporting period, there was no contract entered into or subsisted in relation to the management and administration of the whole or any substantial part of any business of the Company.

STRUCTURE OF SHARE CAPITAL

The Company's share capital structure as at 31 December 2016 was as follows:

Shareholder	Type	As at 31 December 2016 Number of shares	 % of issued share capital
China Railway Construction Corporation Limited	Domestic share	968,224,320	63.70%
China Railway Construction Investment Group Co., Ltd.	Domestic share	4,939,920	0.325%
China Railway Construction International Group Co., Ltd.	Domestic share	4,939,920	0.325%
China Civil Engineering Construction Corporation	Domestic share	4,939,920	0.325%
CRCC China-Africa Construction Limited	Domestic share	4,939,920	0.325%
Shares in public hands	H Share	531,900,000	35.00%
Total		1,519,884,000	100%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSED ACCORDING TO THE SFO

To the knowledge of the Directors of the Company, as at 31 December 2016, except for the Directors, supervisors or chief executives of the Company, the interests and short positions of any person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO are set out as follows:

Unit: share

Name of substantial Shareholder	Number of shares held [note 1]	Capacity	Approximate percentage of domestic share capital	Approximate percentage of H share capital	Approximate percentage of issued share capital
China Railway Construction Corporation Limited [note 2]	968,224,320(L)	Beneficial owner	98.00%	–	63.70%
	19,759,680(L)	Interest of controlled corporation	2.00%		1.30%

Name of substantial Shareholder	Number of shares held note 1	Capacity	Approximate percentage of domestic share capital	Approximate percentage of H share capital	Approximate percentage of issued share capital
China Railway Construction Corporation note 3	987,984,000(L)	Interest of controlled corporation	100.00%	–	65.00%
Morgan Stanley note 4	94,447,000(L) 21,622,500(S)	Interest of controlled corporation	–	17.75% 4.06%	6.21% 1.42%
GIC Private Limited	53,439,500(L)	Investment manager	–	10.05%	3.52%
CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited note 5	44,285,500(L)	Beneficial owner	–	8.33%	2.91%
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. note 5	44,285,500(L)	Interest of controlled corporation	–	8.33%	2.91%
CRRC Corporation Limited note 5	44,285,500(L)	Interest of controlled corporation	–	8.33%	2.91%
CRRC Group Co., Ltd. note 5	44,285,500(L)	Interest of controlled corporation	–	8.33%	2.91%
Babson Capital Management LLC	38,715,000(L)	Investment manager	–	7.27%	2.55%
Baring Asset Management Limited	38,132,500(L)	Investment manager	–	7.16%	2.51%
Fullerton Fund Management Company Ltd note 6	36,542,500(L)	Investment manager	–	6.87%	2.40%
FFMC Holdings Pte. Ltd. note 6	36,542,500(L)	Interest of controlled corporation	–	6.87%	2.40%
Temasek Holdings (Private) Limited note 6	36,542,500(L)	Interest of controlled corporation	–	6.87%	2.40%

Name of substantial Shareholder	Number of shares held note 1	Capacity	Approximate percentage of domestic share capital	Approximate percentage of H share capital	Approximate percentage of issued share capital
Northern Trust Fiduciary Services (Ireland) Limited	27,986,500(L)	Trustee (other than a bare trustee)	–	5.26%	1.84%

Note 1: L – Long Position, S – Short Position.

Note 2: China Railway Construction Corporation Limited ("**CRCC**") (including its wholly-owned subsidiaries, namely China Railway Construction Investment Group Co., Ltd., China Railway Construction International Group Co., Ltd., China Civil Engineering Construction Corporation and CRCC China-Africa Construction Limited) directly or indirectly held a long position of 987,984,000 domestic shares of the Company.

Note 3: As at 31 December 2016, China Railway Construction Corporation directly held approximately 55.73% shares of CRCC, while CRCC directly or indirectly held 987,984,000 domestic shares of the Company. Therefore, China Railway Construction Corporation was deemed to be interested in these shares.

Note 4: Morgan Stanley held a long position of 94,447,000 H Shares and a short position of 21,622,500 H Shares of the Company through certain of its controlled corporations.

Note 5: As at 31 December 2016, CSR Zhuzhou Institute Co., Ltd. held 100% equity of CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Ltd. and was a wholly-owned subsidiary of CRRC Corporation Limited. Moreover, CRRC Group held 55.92% shares of CRRC Corporation Limited and CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Ltd. held 44,285,500 H Shares of the Company. Thus CSR Zhuzhou Institute Co., Ltd., CRRC Corporation Limited and CRRC Group were deemed to be interested in these shares.

Note 6: Temasek Holdings (Private) Limited held a long position of 36,542,500 H Shares of the Company through its controlled corporation.

CONTINUING CONNECTED TRANSACTIONS

Transactions conducted between the Group and the following parties constitute continuing connected transactions under the Listing Rules. During the reporting period, details of the Group's continuing connected transactions were as follows:

Non-exempt continuing connected transactions

The following transactions constitute non-exempt continuing connected transactions of the Group and thus are subject to reporting, announcement, annual review and independent Shareholders' approval requirements under the Listing Rules.

Large Maintenance Machinery and Accessories Sales Framework Agreement with CRCC

On 23 November 2015, the Company entered into the Large Maintenance Machinery and Accessories Sales Framework Agreement with CRCC (the "**Large Maintenance Machinery and Accessories Sales Framework Agreement**"). Pursuant to such agreement, our Group agreed 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 term of the Agreement was from the Listing date of the Company to 31 December 2017, and is subject to early termination by either party giving at least three months' prior written notice to the other party, and can be renewed by mutual agreement. For details, please refer to the Company's prospectus dated 3 December 2015 and the shareholder's circular dated 25 May 2016.

The principal pricing policy of the Large Maintenance Machinery and Accessories Sales Framework Agreement was as follows:

(i) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices at which the same type of products and services provided by the Group to an independent third party customer on normal commercial terms;

(ii) where there are no market prices for the relevant products which are applicable to new types of large railway track maintenance machines to be tailor-made for the specifications required by the CRCC Group for its specific business needs, 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 plus reasonable profits; the Group will charge a mark-up rate, taking into consideration of the specific types of products, for the transactions on a cost-plus basis. Such mark-up rate charged to the CRCC Group is not lower than 15% for all cases, which is the same mark-up rate charged to an independent third party customer.

For the year ended 31 December 2016, CRCC held approximately 65% issued share capital of the Company and is a controlling shareholder of the Company, and therefore CRCC and its associates are connected persons of the Company. Transactions under the Large Maintenance Machinery and Accessories Sales Framework Agreement constitute continuing connected transactions of the Company.

The Company has 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 under Chapter 14A of the Listing Rules in connection with the abovementioned continuing connected transactions. The Company convened its 2015 annual general meeting on 21 June 2016, on which it considered and approved the resolution on the revision to the annual caps for the continuing connected transactions under the Large Maintenance Machinery and Accessories Sales Framework Agreement, to RMB1,000 million and RMB1,100 million for the year of 2016 and 2017, respectively.

For the year ended 31 December 2016, the amount of products and services provided by the Group to CRCC and/or its associates under the Large Maintenance Machinery and Accessories Sales Framework Agreement was RMB44.8 million, not exceeding the annual cap of RMB1,000 million for the year of 2016 approved by the general meeting.

Financial Services Framework Agreement with CRCC Finance Company Limited

On 23 November 2015, the Company entered into the previous financial services framework agreement with CRCC Finance Company Limited (subsidiary of CRCC). Pursuant to such agreement, CRCC Finance Company Limited agreed to provide deposit services to the Group after Listing. The term of the agreement was from the Listing date of the Company to the date of 2015 general meeting. On 30 March 2016, the Company entered into the financial services framework agreement (the "**Financial Services Framework Agreement**") with CRCC Finance Company Limited to renew the previous financial services framework agreement, pursuant to which CRCC Finance Company Limited agreed to provide deposit services to the Group for the term commencing from the date of 2015 annual general meeting and ending on 31 December 2018. Other than the above changes, all existing terms and conditions of the previous financial services framework agreement remained unchanged. For details, please refer to the Company's prospectus dated 3 December 2015 and the shareholder's circular dated 25 May 2016.

The main pricing policy of the Financial Services Framework Agreement was as follow:

Pursuant to the Financial Services Framework Agreement, CRCC Finance Company Limited shall accept deposits from the Group at interest rates not lower, and thus no less favourable to the Group, than the prevailing rates offered by the major PRC commercial banks for deposits of similar nature.

The Group and CRCC Finance Company Limited 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.

For the year ended 31 December 2016, CRCC Finance Company Limited is a connected person of the Company by virtue of being a subsidiary of CRCC. Therefore, the transactions contemplated under the Financial Services Framework Agreement constitute continuing connected transactions of our Company.

The Company has 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 under Chapter 14A of the Listing Rules in connection with the abovementioned continuing connected transactions. The Company convened its 2015 annual general meeting on 21 June 2016, on which it considered and approved the resolution on the renewal of the Financial Services Framework Agreement and the revision to the annual caps for the connected transactions. The general meeting has agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and on the proposed maximum daily balance of deposits (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the period from the date of 2015 annual general meeting to 31 December 2016 and the two years ending 31 December 2018 both being RMB1,200 million.

For the period from 1 January 2016 to 20 June 2016, the maximum daily balance (including accrued interest) deposited in CRCC Finance Company Limited by the Group under the previous financial services framework agreement was RMB468.9 million, not exceeding the cap of RMB500 million approved by the Stock Exchange.

For the period from the date of 2015 annual general meeting to 31 December 2016, the maximum daily balance of deposits (including accrued interest) was RMB379.7 million placed by the Group with CRCC Finance Company Limited under the Financial Services Framework Agreement, not exceeding the cap of RMB1,200 million approved by the general meeting.

ANNUAL REVIEW FOR CONTINUING CONNECTED TRANSACTIONS

Directors (including independent non-executive Directors) reviewed and confirmed that the Company's continuing connected transactions complied with the agreed procedures and principles, all the above continuing connected transactions were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Board engaged the auditor of the Company to conduct certain procedures in relation to the continuing connected transactions of our Company. The auditor has issued a letter in relation to the continuing connected transactions pursuant to Rule 14A.56 of the Listing Rules. In the letter, the auditor of the Company confirmed that, in respect of these continuing connected transactions of the Company during the reporting period:

(1) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the disclosed continuing connected transactions have not been approved by the Board;

(2) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(3) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(4) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the disclosed continuing connected transactions have exceeded the annual caps set by the Company.

Related party transactions

Details of the related party transactions undertaken by the Company during the reporting period are set out in note 31 to the financial statements.

The Company has complied with the applicable requirements under the Listing Rules for those related party transactions which constituted non-exempt connected transactions/continuing connected transactions under the Listing Rules. Other related party transactions either did not constitute connected transactions/continuing connected transactions under the Listing Rules or constituted connected transactions/continuing connected transactions under the Listing Rules but were exempted from all disclosure and independent Shareholders' approval requirements under the Listing Rules.

Non-Competition Agreement

CRCC, CRCCG and the Company have entered into a non-competition agreement dated 23 November 2015 (the "**Non-Competition Agreement**"), pursuant to which, save as exceptional circumstance specified in the Non-Competition Agreement, CRCC and CRCCG have unconditionally and irrevocably undertaken to the Company (for the interests of the Company itself and other members of the Group) that, during the term of the Non-Competition Agreement, CRCC and CRCCG shall not, and shall procure that their respective associates (other than the Group) will not, directly or indirectly, whether on their own or jointly with another person or company, own, interest 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**").

During the year ended 31 December 2016, the Company's independent non-executive Directors reviewed compliance with the Non-Competition Agreement as well as relevant information provided by CRCC and CRCCG. In the opinions of independent non-executive Directors, CRCC and CRCCG complied with the relevant provisions under the Non-Competition Agreement in 2016; their respective operations were independent of the Group's business, without any mutual competition conduct with the Group. The Board was able to independently operate and manage the Company's business well on the premise of the overall interests of the Company and its Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

According to publicly available information and as far as the Directors were aware, as at the date of this report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

EVENTS AFTER THE BALANCE SHEET DATE

As disclosed in note 10 to the financial statements, the Board of the Company proposed, on 28 February 2017, a final dividend of RMB0.16 (inclusive of tax) per share in respect of the year ended 31 December 2016. The proposed final dividend is subject to the approval of the Company's Shareholders at the forthcoming annual general meeting.

TAXATION

According to regulations of 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) (《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》(國稅函[2008]897號)) promulgated by the State Administration of Taxation, while assigning the dividends of 2008 and subsequent years to overseas H share non-resident enterprise shareholders, Chinese resident enterprises shall uniformly withhold corporate income tax as per 10%. Accordingly, the Company shall withhold corporate income tax at the rate of 10% before distributing final dividend to non-resident enterprise shareholders listed on H Share register of the Company. Shares registered in the name of non-individual registered shareholders (including HKSCC Nominees Limited, other nominees, trustees or other organisations and institutions) will be treated as being held by non-resident enterprise shareholders, and the dividends receivable shall therefore withhold corporate income tax.

Pursuant to the requirements of Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Cai Shui Zi [1994] 020) (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)), foreign individuals are exempted from individual income tax on dividends and bonus received from foreign-invested enterprises in the PRC. As the Company is a foreign-invested joint stock limited company, thus the individual shareholders who hold the H Shares of the Company and whose names appear in the register of members of the H Shares of the Company are not required to pay the individual income tax of the PRC.

On 28 February 2017, the Board proposed to pay the final dividend of RMB0.16 per share (inclusive of tax), totaling RMB243.2 million, for the year ended 31 December 2016.

The proposed dividend would be distributed until obtaining approval from the Shareholders in the 2016 annual general meeting to be convened in 2017.

AUDITOR

Financial statements for the year were audited by Ernst & Young. The Resolution in Relation to the Appointment of the Auditor of the company for 2016 was considered and approved on the 2015 annual general meeting convened on 21 June 2016, which decided to re-engage Ernst & Young as the overseas auditor and Ernst & Young Hua Ming LLP as the domestic auditor of the Company in 2016.

By order of the Board of Directors
Ren Yanjun
Chairman

Kunming, Yunnan, the PRC
28 February 2017

Supervisory Committee's Report

During the reporting period, pursuant to the PRC Company Law, the Articles, the Listing Rules and the terms of reference of the Supervisory Committee, members of the Supervisory Committee performed their duties prudently and effectively with respect to the supervision of the Company's operations and business activities in accordance with applicable rules and regulations in order to safeguard the Company's and its Shareholders' interests.

I. MEETINGS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the year, the Company held three Supervisory Committee meetings, which considered and approved the resolutions on the 2015 annual report and the results announcement, announcement of interim results for 2016 and 2016 interim report. The notices, convening, holding and passing of resolutions of the meetings were in compliance with the requirements of the relevant laws and regulations and the Articles.

During the year, members of the Supervisory Committee attended the general meetings and Board meetings of the Company in person or by ways of telecommunication.

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE

1. The Company carried on its operations lawfully

In 2016, in accordance with applicable laws and regulations, the Supervisory Committee reviewed the procedures adopted in the convening, passing of resolutions, decision-making procedures, results of voting of the Company's general meetings and the Board meetings, implementation of resolutions of general meetings by the Board, the performance of duties of senior management and the management system of the Company. The Supervisory Committee is of the opinion that the Directors and senior management of the Company diligently performed their responsibilities and in compliance with the applicable laws and regulations. During the reporting period, no breaches of laws or regulations which were materially prejudicial to the interests of the Company and its Shareholders were discovered.

2. Financial reports give a true and accurate view

The Supervisory Committee seriously and thoroughly reviewed the Group's financial system and financial position. The Supervisory Committee considers that the Group's 2016 financial report is true and accurate and presents the financial position and financial performance fairly, and that the audit opinion issued by Ernst & Young is also true and fair.

3. Connected transactions

The Supervisory Committee considers that the connected transactions between the Group and CRCC and its subsidiaries during the year were entered into in the ordinary and usual course of our business. The transactions were on the principles of openness, fairness and justness and were entered into in the interests of the Group and the shareholders as a whole. After its review, the Supervisory Committee considers that the Group's procedures of connected transactions in 2016 were in compliance with the relevant laws and regulations of the PRC and is not aware of any impairment to the Company and its Shareholders' interest by means of connected transactions.

4. The implementation of Non-Competition Agreement

The Supervisory Committee is of the opinion that during the year, CRCCG and CRCC complied with the terms of the Non-Competition Agreement, performed their undertakings, and had not entered into businesses in competition with the Group's businesses, save as disclosed in the paragraph headed "Non-Competition Agreement" in the Directors' Report.

5. The implementation of resolutions of the general meeting

During the year, members of the Supervisory Committee attended seven Board meetings and one general meeting. There were no objections to the various reports and resolutions submitted by the Board for consideration at the general meeting. The Board of Directors seriously carried out resolutions of the general meeting.

Lyu Jianming (呂檢明)
Chairman of the Supervisory Committee

Kunming, Yunnan, the PRC
28 February 2017

Environmental, Social and Governance Report

We are pleased to present this Environmental, Social and Governance (ESG) Report, which demonstrates the updates on sustainable development of the Company and its subsidiaries from 1 January 2016 to 31 December 2016. This section has been prepared based on the ESG Reporting Guide issued by the Hong Kong Stock Exchange, with a purpose of reporting on employment and labour practice, operating practice, community and environment and so on.

CORPORATE SOCIAL RESPONSIBILITY GOVERNANCE

The Board of Directors of the Company takes the responsibility of the environmental, social and governance strategies and reporting matters of the Company, and is responsible for the sustainable development matters relating to or affecting the Company's businesses or operations, Shareholders and other persons related to main businesses and supervises the position and practice of the Company. The corporate social responsibility working group of the Company is responsible for implementing the environmental, social and governance strategies, policies and measures determined by the Board of Directors and monitoring their performance and providing guidance and reporting to the Board of Directors on relevant issues.

The Company has set up a comprehensive management system, including three levels of management system, namely GB/T 19001-2015 idt ISO 9001: 2015 quality management system, ISO 14001: 2015 environmental management system, and GB/T 28001-2011 occupational health and safety management system. All of these management systems have passed through the re-certification external audit of quality, environment, occupational health and safety management system in 2016. At the same time, the Company has passed through the secondary review for standardisation of safety of safety regulatory authorities for many consecutive years. Through the comprehensive management system and providing trainings to employees, the various internal business units within the Company are guided to integrate corporate social responsibility into their operations and activities.

The Company is committed to complying with the relevant environmental and social responsibility laws and regulations which have significant impact on the Company. We will continuously devote more resources to strengthen corporate social responsibility governance and commit to promote the sustainable development of the Company, and to jointly create and share sustainable value with stakeholders in the economic, social and environmental fields.

EMPLOYMENT AND LABOUR PRACTICE

We believe that talent is an integrated part for our future development, and we regard compliance with the laws as the minimum responsibility. At the beginning of 2016, the Company carried out the collection of and risk assessment for laws and regulations for the human resources system, including the national laws, administrative regulations, national and industry standards, regulatory requirements and others, with a total amount of 49 and conducted a compliance assessment, and has converted them to various rules and systems as well as clear procedures of the Company in specific form. During the reporting period, the Company has complied with the relevant laws and regulations relating to employment and labour which have a significant impact on the Company.

EMPLOYMENT

Base on main businesses of the enterprise as guidelines, the Company absorbed talents in an open, transparent, fair and merit-based principle.

During the reporting period, the Company absorbed talents in following ways:

(i) Internal recruitment: select suitable employees from the human resources reserve of the Company through internal promotion, job designation, job rotation, orientation training, etc., to engage in vacant or urgently needed jobs; and

(ii) External recruitment: absorb high-caliber management talents, professional and technical talents and craftsmen required for the businesses through the recruitment from the campus and society, the mass media, the recruitment by headhunters, the introduction of high-caliber talents, etc.

As at December 31, 2016, the Company had a total of 1,976 employees, representing an increase of 3.35% compared with the same period of 2015, which was primarily due to hiring additional manpower because of natural growth of the businesses and the implementation of the strategic plan. Apart from this, there is no material change in the number of employees.

Indicators	Number of employees in 2016
By gender	
Male	1,562
Female	414
By type of employment	
Senior management	11
Middle management	103
General employees	454
Professional and technical staff	1,408
By group of age	
Below 30 years old	661
30 years to 50 years old	1,126
Above 50 years old	189
By structure of educational degree	
Doctors	2
Masters	138
Bachelors	604
College and below	1,232
By district	
China	1,976

The "Administration Measures on the Labour Contract for Employees" of the Company specifies that we establish and terminate employment contracts with our employees in accordance with the requirements of national laws and regulations. The Company guarantees that all employees shall be entitled to the nation required holidays and weekends, annual leave, family care leave, marriage and funeral leave, family planning leave and other paid leaves, as well as other holidays contracted by labour contracts, collective contracts. The Company implemented a working system of 8 hours a day, 40 hours a week. However, due to production or other special circumstances, we ensure that, without violating the national regulations, we insist on arranging our employees to extend their working hours on a voluntary basis according to the overtime procedure without prejudice to their health.

We also seek to implement higher standards of health, safety and well-being within the employees' businesses in all our business practices and to provide fair and equal opportunities in recruitment, training, promotion, designation, working leave, remuneration, benefits, termination of contracts and other issues. Such rights are not affected by factors such as age, gender, physical health or mental status, marriage status, family positions, race, skin color, nationality, religion, political connection and sexual orientation.

REMUNERATION AND BENEFITS

The Company follows the principle of "distribution according to performance and equal pay for equal job", establishes and improves the performance appraisal system covering middle and above management and ordinary employees, and provides competitive remuneration in the industry according to job requirements and the employees' achievements and contributions. At the same time, the Company takes the result of appraisal and evaluation as an important basis for employees' post adjustment, dismissal, etc., so as to continue to optimise the team of human resources.

The Company organises health examination for all employees every year, with an examination coverage rate of 100%. According to the requirements of local government, the Company also provides a well-established benefit package for its employees every year, including pension insurance, work-injury insurance, maternity insurance, medical insurance, unemployment insurance, enterprise annuity, housing provident fund and other social insurance and welfare, with a coverage rate of 100% of each insurance.

We advocate a healthy balance between employees' life and work. The union of the Company set up various types of employee clubs, such as Qingniao photography club, dancing club, delicacy club and badminton club, and organised various amateur activities from time to time to appeal employees to participate in to enrich their diversified interests.

During the reporting period, the Company organised the following (in part) amateur activities:

(i) 2016 shopping street and delicacy festival activities

(ii) "Glory and Dream" Chinese New Year evening celebration

(iii) A basketball friendship game for "Celebration for New Year's Day" between CRCCE 6441 basketball team and 78316 armed forces team

(iv) Badminton competition among authorities

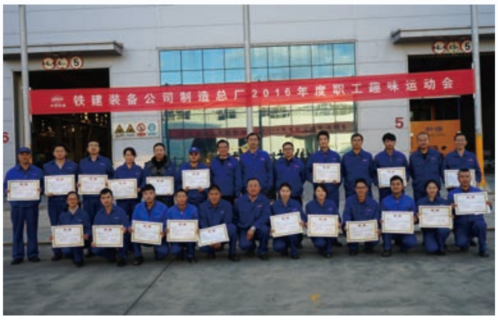
(v) "Futsal" football game

(vi) Funny sports games for staff

(vii) First session of race walking for hiking club

(viii) “Splendor Youth” 5.4 Youth Day flash

(ix) Theme garden party activities for “Welcome for New Year’s Day, and celebration for Chinese New Year”



OCCUPATIONAL HEALTH AND SAFETY

In light of our business characteristics, the occupational health and safety of employees is considered to be an important social responsibility. The Company has adopted the GB/T28001-2011 Occupational Health and Safety Management System as the standard for how to reduce occupation, health and safety risks. The Company has also improved and perfected the system in a timely manner and maintained the occupational health and safety management system certification through the annual audit of external supervision and management departments. The Company has established a number of occupational health and safety regulations which has been certified nationally in compliance with international standards, implemented various manuals and internal policies on safety control processes and standards, and required all employees to comply with the relevant regulations.

We have developed safety implementation procedures for identified hazardous work, such as "Emergency Plan for Acute Occupational Poisoning", "Special Emergency Plan for Work Injury Accident", and "Special Emergency Plan for Food Poisoning Accident", etc., to provide employees with necessary job information, guidance, training and supervision, and actively promoted employee occupational health and safety awareness. In 2016, the Company has financed a total of RMB7.67 million for special fund for labour protective equipment to provide necessary protective equipment and medical insurance for all the businesses or which is harmful to the employees. The Company has also established a safety education and training system to conduct regular safety reviews to ensure that all employees are aware of hazards and prevention. We also supported the development of occupational health and safety in the industry. As at 31 December 2016, the Company did not have any employees whose death was due to their works and there were no relevant laws and regulations that violate the relevant safety working environment and avoid occupational hazards.

DEVELOPMENT AND TRAINING

We believe that the knowledge and skills of our employees are crucial to our operation and business growth and we are committed to improving our employees' current performance, selecting and cultivating leading talent, continuously enhancing our strengths of research and development, sales and skilled workforce to provide human resources support for our business needs and future development.

Training for employees is our primary mean for human resource development. In view of this, the Company collects the training requirements for its subordinate units and its employees every year and proposes and implements training plans. The categories of training plans include qualification training and adaptive training while the programs include enterprise management, sales, software operation, safety knowledge, property management, key job skills and other aspects. As at 31 December 2016, the Company completed 104 internal and external training programs, with actual trainees of 5,267 persons and employees training expenses of RMB2.73 million.

The human resource department of the Company opened up an online education account of "Cloud-Based Learning" for employees free of charge, enabling them to participate in suitable courses to enhance their knowledges and skills. We also encouraged employees to enroll in training courses outside of the Company and the parent, and to enrich themselves and develop their careers through diversified skill training or skill identification.

During the reporting period, the Company organised the following employees training activities (partial):

(i) Corporate culture training and three-level safety education and training for new employees

(ii) Ruiweitong Company Kunming branch organised professional attainment trainings regarding treasury management

(iii) Aotongda Company carried out a special training on "Improvement of Sales Skills Based on Major Client Management"

(iv) Aotongda Company carried out a knowledge training on the DNCS digital network electrical control system

(v) Trainings on quality, environment, occupational health and safety management system standards and audit knowledge

(vi) Continual education and special business training on "replacement of business tax with value-added tax" for accountants

(vii) Training and communication on the use of press release and new medias in 2016

(viii) Training activity on Enhancement of Business English jointly organised by international department and Ruiweitong Company

STANDARDS ON LABOURS

We adopted a zero-tolerance policy on the employment of child labour and forced labour, and reflected our strict compliance with the prohibition of using child labour and forced labour of international standards and relevant domestic regulations through our strict internal systems including the "Regulations on Employment Management". None of part of the business process (including any suppliers or subcontractors) can employ child labour or forced labour.

There are specific requirements for the ages of the candidates in the "Administration Measures on Employee Recruitment" of the Company, and the identity information of the candidates is reviewed and the recruitment of child labour is strictly forbidden. The Company creates a safe and healthy working environment for its employees, provides labour protection, pays reasonable remuneration and provides various benefits, and prohibits forced labour. The union organisation of the Company plays an active role in safeguarding the interests of employees.

OPERATION PRACTICE

Supply chain management

We strictly implemented supplier assessment mechanism and practice policy, which selected and re-assessed appropriate, capable and responsible suppliers on basis of prices, safety management, environmental protection capabilities, inspection capabilities, infringement history, capacity, delivery cycle, after-sales services, and assurance abilities. We supported and opened door to suppliers who offered green products and services, employee benefits and welfare, and advocated compliance with laws and regulations, as well as contractual obligations.

For instance, the Company launched supplier selection process, giving preference to suppliers who had been accredited by ISO 14001: 2015 Environmental Management System under same conditions. During the annual on-site review on some of suppliers chosen randomly, the Company attached great importance to suppliers' environmental protection practices. The Company established an effective anti-corruption supervision system and a management supervision mechanism, for the purpose of identifying and preventing any bribery, fraud or misconduct in the course of procurement and tendering. Incorporating the concept of sustainable development into supply chain, the Company proposed green procurement and production and called on suppliers to act in concert to fulfill corporate social responsibilities, hoping to improve overall performance of the industry. Should any supplier fail to meet environmental or social policies set by the Company or contractual requirements, the Company would terminate subsequent cooperation, until improvement has been made by suppliers.

Product Liability

As a leader in the market of large railway track maintenance machinery, we are committed to provide high-quality products and services, to comply with business ethics and ethical rules, and we are devoted to responsible conducts during sales and provision of products and services.

The Company has set up a complete quality management system in line with GB/T 19001-2015 idt ISO 9001: 2015 standards. With reference to quality inspection procedures, the Company set out rigorous work flows, and initiated several long-term campaigns including "Quality and Effectiveness Improvement", "On-site Safety and Quality Management". All of these demonstrated the Company's determination in quality control on product manufacturing process. In the meantime, we made the quality assessment results as important reference for employee remuneration review.

During the reporting period, the Company carried out inspection for the first time on the 73 key parts purchased from external parties in accordance with relevant requirements as set out in "Rules for Implementing Equipment Manufacturing Inspection Management", which was issued by Manufacturing Inspection Department for Industrial Machinery of Kunming Railway Bureau. Such an effort was aimed to further control the quality of materials purchased from external parties.

We strictly followed product operation procedures to ensure safety. For key parts and operation procedures, we posted safe operation specifications and set forth necessary conspicuous notices. In the meantime, we invited clients to attend training sessions and sent professional personnel to offer on-site assistance, helping clients to learn how to use our products and ensuring them to operate these products in safe manner.

During the reporting period, the Company has complied with laws and regulations relating to product liability which would have material impact on the Company. In addition, there was no non-compliance incident in relation to health and safety, advertisement, labeling and confidentiality matters associated with products and services.

Anti-corruption

In a bid to help employees to cope with conflicts of interests and to resist temptations of illegitimate benefits, the Company worked out "Anti-fraud Framework", "Measures on Petition Treatment", "Clean Management on Major Infrastructure Projects", and other corporate regulations. In the meantime, the Company propagated anti-corruption policies and measures via various means, and made efforts to nurture a corporate culture that values honesty and diligence. Every year, the Company arranged training sessions on laws and regulations, integrity and ethical conduct, requiring all employees to comply with state laws and regulations, industry code of conduct, corporate ethics and regulations.

During the reporting period, efforts made by the Company to combat bribery, blackmail, fraud and money laundering were as follows:

(i) Launching anti-corruption publicity campaign for one month, and inviting experts from Kunming Railway Transport Procurator to deliver lectures on "Combating duty-related crimes", sending warnings to all employees and urging them to stay honest and upright;

(ii) Taking advantage of new media and disseminating anti-corruption content via OA system, WeChat and short message service;

(iii) Setting up special column for discipline inspection and anti-corruption on the Company's WeChat public platform "鐵建裝備心世界"; and

(iv) Sending anti-corruption notices for three times to management (of middle level and above) when important festivals and holidays were around the corner, which involved a total of 318 management members.

With a commitment to sound operation and management regime, we are dedicated to uncorrupted operation guided by clear anti-corruption policy. We also intensify supervision on investment management, tendering, procurement, marketing & sales, confidentiality, asset accounting and other matters. In case of any bribery, blackmail, fraud, money laundering and other malpractices, employees can report to appropriate personnel via hot line, letter or email. Employees who have violated relevant laws and regulations, if deemed as criminal, will be transferred to judicial authorities for punishment.

COMMUNITY

The objective of community investment was to create true and sustainable benefits for communities where the Company operated its businesses. In addition to charity activities, we established partnership with communities and encouraged employees to participate in volunteer activities, thus building up long-term community investment pattern.

We took part in community construction in the following four ways:

1. Offering support to employees and encouraging and arranging them to participate in volunteer activities, and making relevant schedules for them, such as visiting nursing homes and senior apartments, organising blood donation, and etc.;

2. Making donations in the form of money, goods and materials or services to directly support and fund public welfare projects. While making donations by ourselves, we also solicited related parties for donations;

3. Sharing responsibilities in community construction; promoting interaction with community members by offering shuttle bus services, jointly sponsoring kindergartens and establishing entertainment centers for the elderly; and

4. Setting up supplementary medical insurance system for the benefit of employees and aid fund that aims to relief every employee from poverty, support every child of employees for schooling and share every employees' burden in medical care; adhering to the tenet of caring campaign and visit policy to support employees in medical care, schooling and daily life.

During the reporting period, the Company made its presence on the following public welfare activities (partial):

(i) The Company initiated a campaign themed "Role model learning and volunteer commitment" in 2016, delivering volunteer services to Enlai Nursing Home, Qianghua Nursing Home, senior apartments, and Xishan District of Kunming City, and highlighting volunteer spirit.

(ii) "Autumn endowments", which underscores caring and talent cultivation, has become an annual activity of the Company. Delivering caring to employees, the campaign was initiated to promote unity within the Company, and scholarships embarked by "Autumn endowments" were honored to 19 beneficiaries who are children of employees this year.

(iii) Donations were jointly sponsored by the Company's Youth League Committee, hiking association, youth bookstore and Hengyuan Business Company. Books, clothes, stationery and other presents, which worth over RMB10,000, were sent to 30 students of Yiliang County Zhushan Primary School.

(iv) On 12 July 2016, the Dianchi Lake cycling themed "Caring to homeland • Green travelling" organised by Guangweitong Company kicked off with 17 participants, conveying the message of "Low-carbon travelling for beautiful city" to Kunming citizens.

(v) On 12 April 2016, Hengyuan Business Company, a subsidiary of the Company launched actions against mosquitoes and flies. All areas that would become breeding grounds for mosquitoes were guarded by pesticide, killing many mosquitoes and flies and cutting off channels for disease spread, thus providing employees and their families with a better environment for health.

ENVIRONMENT

Emission

Regarding reducing emission of pollutants and wastes as our own responsibility, we have therefore been in strict compliance with the international rules and domestic regulations relating to air pollution. Besides, the Company has also determined various working rules to strictly manage placement and disposal of discarded coating materials, obsolete package and flotsam leftover from production, and continued to improve environment management related methods and measures, expecting to reduce generation of wastes and increase recycle utilisation.

The Company mainly conducts the followings with respect to emission:

(i) We demand and encourage all the staff to conduct their behaviours on a responsibility basis, and promote environment protection throughout our supply chain and relevant markets;

(ii) We adopt advanced exhaust emission processing equipment for our large railway track maintenance machines, making sure that each function of our products and system could meet the high standards in relation to environment protection and comply with relevant operation standards as well. Moreover, we will continue to keep an eye on research and development of environment protection equipment and technology;

(iii) We find out and monitor the influence upon environment arising from our normal operation through continuous review and announcement of the organised exhaust emission by the Company; and

(iv) We have introduced large ventilation and dust-removing system, welding fume purifier, sewage treatment and water reclaiming system to reduce smoke dust emission and minimise land pollution, through which, we carry out management of 5S level in our operation sites and enhance placement and management over materials or discarded articles.

During the reporting period, the Company monitored the emission of waste water, exhaust and plant noise, with results thereof reaching the relevant standards. All the dangerous wastes such as emulsion and paint residue are treated by Yunnan Dadi Fengyuan Environment Protection Co., Ltd.* (雲南省大地豐源環保有限公司) which is qualified. As for those innocent wastes such as steel scrap and iron scurf, they are disposed of through external bidding-for-sale procedure. During the reporting period, there is no occurrence of environment emergency for which the Company shall be liable.

Use of resources

We advocate adopting the systems of "lower cost and higher efficiency" and "energy conservation and emission reduction" among our employees, and prepared documents such as "Administration Measures on Energy Conservation and Emission Reduction", "Administration Measures on Use of Energy of the Company", "Administration Measures on Waste Disposal" and etc., to supervise the use of energy of the Company. We strive to enhance our energy utilisation efficiency, reduce operation cost and prevent environment pollution.

We encourage our employees to adopt green measures through the workflow by measures such as paperless offices; double-sided printing and less use of disposable paper cups. We promote purchasing energy-efficient products, and enhance the regular check and maintenance of water and electricity equipment. The information of our utilisation of electricity, water resources and natural resources collected will be used as guidelines for planning our next year's resources efficient utilisation scheme. The Company also encourages its employees to have exploration and innovation on the use of resources.

During the reporting period, the principal activities within the scope of resources usage of the Company include:

(i) Arrange approval and check of our power generators for production equipment twice a year and eliminate the high energy consumption power generators gradually;

(ii) Enter into a "Technology Service Contract of Water Balancing Test and Establishing a Water Conservation Enterprise" with Yunnan Institute of Measuring and Testing Technology, to optimise water pipe network of the area where the Company is located at and to increase our water conservation ability; and

(iii) Install energy conservation facilities (constant pressure frequency converter) for 阿特拉斯 power frequency G250 rotary screw air compressors, with an expectation of 20%-30% conservation of energy, approximately RMB159,600 (regarding to air compressors only).

Environment and natural resources

We understand the importance of strengthening our environment management. During the reporting period, the Company worked proactively and successfully to complete the transition to ISO 14001:2015 Environment Management System and recertification audit. The Company has also completed the upgrade training for its auditors.

The Company pays great attention to the contingency plan for environmental emergencies, and establishes an emergency system including comprehensive plan, specific emergency plan and on-site response plan. "Emergency Plan for Environmental Emergencies" of the Company has been filed to Environmental Protection Bureau of Guandu District, Kunming City. The Company has carried periodic drills every year to strengthen its ability of emergency response in case of environmental emergency.

The Company places great emphasis on increasing the awareness of environment protection of its employees. Internal and external specific trainings and trainings on laws and regulations are arranged for its environment management personnel, hazardous waste disposal personnel and duty operation personnel every year, incorporating protection measures for environment and natural resources into the everyday life of the employees.

We also work jointly with the legal advisor of the Company to constantly monitor the development of the state policy and regulations of environment relating to the business we are operating, and to promptly react and adopt appropriate measures, such as converting to a management system fitting to the Company.

Independent Auditor's Report

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To the shareholders of CRCC High-Tech Equipment Corporation Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of CRCC High-Tech Equipment Corporation Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 86 to 172, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board ("**IAASB**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "**Code**") issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Fair value measurement of available-for-sale investment on H-share listed company	
As at 31 December 2016, the available-for-sale investments were significant to the consolidated financial statements. As disclosed in note 3 to the consolidated financial statements, the available-for-sale investments are measured at fair value on the basis of quoted market prices and non-liquidity effect. This assessment of fair value imposes significant management estimates on the non-liquidity discount ratio. Further details are included in notes 3, 12 and 33 to the consolidated financial statements.	We have executed the audit procedures below for the valuation of available-for-sale investments. 1. We obtained the management's calculation sheet of the fair value of available-for-sale investments and verified the accuracy by re-calculation and referring to the market share prices at the end of reporting period. 2. We involved our valuation specialists to assist us in evaluating the methodologies and assumptions used by management for determination of non-liquidity discount ratio, such as risk-free interest rate and the restricted period input for the Black-Scholes option-pricing model and Finnerty model.

Impairment of trade receivables	
As the accounting policies presented in note 2.4 to the consolidated financial statements, the impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. When determining whether a trade receivable is collectable, significant management judgement is involved. Management considered various factors which included the ageing analysis of the balances, locations of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of customers. Further details are included in notes 3 and 18 to the consolidated financial statements.	Our procedures to assess the recoverability of trade receivables included, but are not limited to, inquiry about management's special consideration, examining subsequent receipts by checking them against bank receipts, checking the correctness of the ageing analysis by customer, comparing to historical repayment pattern, and evaluating the financial strength of customers with significant overdue balances.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young
Certified Public Accountants
Hong Kong
28 February 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**3,617,431**	3,973,132
Cost of sales	6	**(2,629,618)**	(3,019,607)
Gross profit		**987,813**	953,525
Other income and gains	5	**63,940**	41,223
Selling and distribution expenses		**(64,594)**	(64,272)
Administrative expenses		**(417,906)**	(395,500)
Other expenses		**(15,465)**	(3,172)
Finance costs	7	**(217)**	(6,292)
PROFIT BEFORE TAX	6	**553,571**	525,512
Income tax expense	9	**(86,500)**	(70,338)
PROFIT FOR THE YEAR		**467,071**	455,174

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profitor loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**(16,208)**	13,027
Income tax effect		**2,431**	(1,954)
		(13,777)	11,073
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains/(losses) on defined benefit plan		**110**	(200)
Income tax effect		**(17)**	31
		93	(169)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(13,684)**	10,904
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**453,387**	466,078
Profit attributable to:			
Owners of the parent	*11*	**467,071**	456,235
Non-controlling interests		**–**	(1,061)
		467,071	455,174
Total comprehensive income attributable to:			
Owners of the parent		**453,387**	467,139
Non-controlling interests		**–**	(1,061)
		453,387	466,078
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic and diluted (expressed in RMB per share)	*11*	**0.31**	0.45

Consolidated Statement of Financial Position

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Available-for-sale investments	12	**224,214**	240,422
Property, plant and equipment	13	**946,867**	947,269
Prepaid land lease payments	14	**430,227**	422,881
Other intangible assets	15	**11,191**	17,834
Long-term prepayments	19	**20,645**	20,623
Deferred tax assets	16	**18,625**	19,163
Total non-current assets		**1,651,769**	1,668,192
CURRENT ASSETS			
Prepaid land lease payments	14	**10,831**	10,464
Inventories	17	**1,470,205**	1,361,418
Trade and bills receivables	18	**2,552,347**	1,684,150
Prepayments, deposits and other receivables	19	**88,875**	41,161
Pledged deposits	20	**–**	299,684
Cash and cash equivalents	20	**1,207,183**	1,672,606
Total current assets		**5,329,441**	5,069,483
CURRENT LIABILITIES			
Trade and bills payables	21	**1,130,207**	1,323,796
Other payables and accruals	22	**224,001**	190,083
Tax payable		**37,043**	17,695
Defined benefit obligations		**650**	820
Provisions	23	**9,093**	9,670
Government grants	24	**4,926**	4,926
Total current liabilities		**1,405,920**	1,546,990
NET CURRENT ASSETS		**3,923,521**	3,522,493
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,575,290**	5,190,685

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT LIABILITIES			
Defined benefit obligations		**720**	1,350
Government grants	24	**14,186**	19,112
Deferred tax liabilities	16	**25,687**	28,118
Total non-current liabilities		**40,593**	48,580
Net assets		**5,534,697**	5,142,105
EQUITY			
Equity attributable to owners of the parent			
Issued capital	25	**1,519,884**	1,519,884
Reserves	26	**4,014,813**	3,622,221
Total equity		**5,534,697**	5,142,105

Ren Yanjun
Executive director

Yu Yuanlin
Executive director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent							
	Issued capital RMB'000	Capital reserve* RMB'000	Special reserve* RMB'000	Surplus reserve* RMB'000	Retained profits* RMB'000	Available-for-sale investment revaluation reserve* RMB'000	Defined benefit plan revaluation reserve* RMB'000	Total equity RMB'000
At 1 January 2016	1,519,884	3,229,898	–	47,068	196,184	159,333	(10,262)	5,142,105
Profit for the year	–	–	–	–	467,071	–	–	467,071
Other comprehensive income for the year:								
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	(13,777)	–	(13,777)
Re-measurement gains on defined benefit plan, net of tax	–	–	–	–	–	–	93	93
Total comprehensive income for the year	–	–	–	–	467,071	(13,777)	93	453,387
Dividends declared	–	–	–	–	(60,795)	–	–	(60,795)
Appropriation to statutory surplus reserve *(note (ii))*	–	–	–	28,820	(28,820)	–	–	–
Transfer to special reserve *(note (i))*	–	–	10,542	–	(10,542)	–	–	–
Utilisation of special reserve *(note (i))*	–	–	(10,542)	–	10,542	–	–	–
At 31 December 2016	1,519,884	3,229,898	–	75,888	573,640	145,556	(10,169)	5,534,697

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent									
	Issued capital *RMB'000*	Capital reserve* *RMB'000*	Special reserve* *RMB'000*	Surplus reserve* *RMB'000*	Retained profits* *RMB'000*	Available-for-sale investment revaluation reserve* *RMB'000*	Defined benefit plan revaluation reserve* *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
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/(loss) for the year	–	–	–	–	456,235	–	–	456,235	(1,061)	455,174
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	11,073	–	11,073	–	11,073
Re-measurement losses on defined benefit plan, net of tax	–	–	–	–	–	–	(169)	(169)	–	(169)
Total comprehensive income for the year	–	–	–	–	456,235	11,073	(169)	467,139	(1,061)	466,078
Dividends declared	–	–	–	–	(368,068)	–	–	(368,068)	(1,937)	(370,005)
Issue of shares	531,900	1,796,745	–	–	–	–	–	2,328,645	–	2,328,645
Share issue expenses	–	(83,839)	–	–	–	–	–	(83,839)	–	(83,839)
Acquisition of non-controlling interests	–	(42,228)	–	–	–	–	–	(42,228)	(45,683)	(87,911)
Capitalisation from reserve	–	797,192	–	(153,657)	(643,535)	–	–	–	–	–
Appropriation to statutory surplus reserve *(note (ii))*	–	–	–	56,410	(56,410)	–	–	–	–	–
Transfer to special reserve *(note (i))*	–	–	8,798	–	(8,798)	–	–	–	–	–
Utilisation of special reserve *(note (i))*	–	–	(8,798)	–	8,798	–	–	–	–	–
At 31 December 2015	1,519,884	3,229,898	–	47,068	196,184	159,333	(10,262)	5,142,105	–	5,142,105

* These reserve accounts comprise the consolidated other reserves of RMB4,014,813,000 (31 December 2015: RMB3,622,221,000) in the consolidated statement of financial position as at 31 December 2016.

Notes:

(i) The Group has appropriated a certain amount of retained profits to a special reserve fund for safety production expense purposes 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.

(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 profit after tax, as determined under 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.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**553,571**	525,512
Adjustments for:			
Finance costs	7	**217**	6,292
Foreign exchange gains, net	6	**(1,923)**	(6,364)
Interest income	5	**(22,345)**	(3,046)
Dividend income from available-for-sale investments	5	**(4,423)**	(3,920)
Depreciation of items of property, plant and equipment	6	**67,026**	69,795
Amortisation of other intangible assets	6	**10,421**	5,662
Amortisation of prepaid land lease payments	6	**10,622**	8,858
Amortisation of long-term deferred expenses	6	**263**	182
Impairment/(reversal of impairment) of trade receivables	6	**6,835**	(2,715)
Impairment/(reversal of impairment) of other receivables	6	**10**	(32)
Reversal of write-down of inventories to net realisable value	6	**(360)**	(1,443)
Loss/(gain) on disposal of items of property, plant and equipment	6	**63**	(298)
		619,977	598,483
Increase in inventories		**(108,427)**	(34,273)
Increase in trade and bills receivables		**(875,032)**	(1,129,214)
(Increase)/decrease in prepayments, deposits and other receivables		**(48,009)**	14,012
Decrease/(increase) in pledged deposits		**299,684**	(133,684)
(Decrease)/increase in trade and bills payables		**(193,589)**	357,340
Increase/(decrease) in other payables and accruals		**48,565**	(96,597)
Decrease in defined benefit obligations		**(800)**	(1,109)
(Decrease)/increase in provisions		**(577)**	1,217
Decrease in government grants		**(4,926)**	(4,926)
Cash flows used in operations		**(263,134)**	(428,751)
Interest received		**22,345**	3,046
Income tax paid		**(66,631)**	(77,469)
Net cash flows used in operating activities		**(307,420)**	(503,174)

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for acquisition of items of property, plant and equipment	**(67,319)**	(15,588)
Additions of prepaid land lease payments	**(18,335)**	–
Payments for acquisition of other intangible assets	**(3,376)**	(18,421)
Proceeds from disposal of items of property, plant and equipment	**230**	631
Dividend income from available-for-sale investments	**4,423**	3,920
Net cash flows used in investing activities	**(84,377)**	(29,458)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of shares	**–**	2,270,065
Share issue expenses	**(14,537)**	(17,733)
New bank loans and other borrowings	**–**	673,546
Repayment of bank loans and other borrowings	**–**	(673,546)
Interest paid	**(217)**	(6,292)
Dividends paid	**(60,795)**	(368,068)
Net cash flows (used in)/from financing activities	**(75,549)**	1,877,972
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(467,346)**	1,345,340
Cash and cash equivalents at beginning of year	**1,672,606**	320,902
Effect of exchange rate changes on cash and cash equivalents	**1,923**	6,364
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,207,183**	1,672,606

1. CORPORATE AND GROUP INFORMATION

CRCC High-Tech Equipment Corporation Limited (the "**Company**") is a joint stock limited company incorporated in the People's Republic of China (the "**PRC**"). On 24 June 2015, the Company was converted from a limited liability company into a joint stock limited company. In December 2015, the Company issued 531,900,000 H shares with a nominal value of RMB1.00 each through the Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and the H shares were listed on the Hong Kong Stock Exchange. The registered office of the Company is located at No.384 Yangfangwang, Jinma Town, Kunming, Yunnan Province, the PRC.

During the year, 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 of the Company (the "**Directors**"), the Company's holding company is China Railway Construction Corporation Limited ("**CRCC**"), a company established in the PRC. The Company's ultimate holding company is China Railway Construction Corporation ("**CRCCG**"), a company established in the PRC, which is wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council.

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	Place and date of registration and business	Registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Beijing Ruiweitong Engineering Machinery Co., Ltd.* ("北京瑞維通工程機械有限公司")	Beijing, China June 2009	RMB584,370,622	100%	–	Provision of overhaul services and manufacturing and sale of parts and components

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place and date of registration and business	Registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Kunming Aotongda Railway Machinery Co., Ltd.* ("昆明奧通達鐵路機械有限公司")	Kunming, China June 2010	RMB50,000,000	100%	–	Provision of overhaul services and manufacturing and sale of parts and components
Beijing Kunweitong Railway Mechanisation Engineering Co., Ltd.* ("北京昆維通鐵路機械化工程有限公司")	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")	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")	Kunming, China December 2013	RMB30,000,000	100%	–	Manufacturing and sale of parts and components
Kunming China Railway Xinruitong Materials and Equipment Co., Ltd.* ("昆明中鐵鑫瑞通物資設備有限公司")	Beijing, China May 2016	RMB298,540,000	100%	–	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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") which comprise standards and interpretations approved by the International Accounting Standards Board ("**IASB**"), and International Accounting Standards ("**IASs**") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016. 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 financial statements of the subsidiaries are prepared for the same reporting period 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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 above. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Annual Improvements 2014-2016 Cycle	Amendments to a number of IFRSs[5]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 No mandatory effective date yet determined but available for adoption

5 *Annual Improvements 2014-2016 Cycle* has amendments to three standards. Amendments to IFRS 12 will be effective for annual periods beginning on or after 1 January 2017. Amendments to IFRS 1 and Amendments to IAS 28 will be effective for annual periods beginning on or after 1 January 2018.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 up adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations 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 are 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 of the acquiree.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. 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 statements 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements 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.

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 to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

Except for that the depreciation of certain items of machinery and equipment for research and development is calculated on the accelerated depreciation method, the depreciation of other property, plant and equipment 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 and structures	2.71%
Machinery	9.50%
Production equipment	9.50%-19.00%
Measurement and experimental equipment	19.00%
Vehicles	19.00%
Other equipment	19.00%-31.67%

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment or other intangible assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or other intangible assets 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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.

2.4 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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 investment 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 the available-for-sale investment revaluation reserve 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.

2.4 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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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).

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 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 to other expenses 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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 and other payables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

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 the 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.

2.4 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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(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 labour 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Retirement benefits

1. 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.

2. 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.

3. 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 obligation recognised in the consolidated statement of financial position in respect of these defined benefit plans is the present value of the defined benefit obligations at the end of the reporting period. The defined benefit obligation is calculated by an independent qualified actuarial firm, Towers Watson Management Consulting (Shenzhen) Co., Ltd. Beijing Branch 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 statement 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits (continued)

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 profit or loss and other 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.

2.4 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

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional 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).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements 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 the 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.

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 13 to the financial statements.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables and other receivables

The policy for impairment of trade receivables and other receivables of the Group is based on the evaluation of collectability and the ageing analysis of trade receivables and other 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 18 and note 19 to the financial statements.

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 17 to the financial statements.

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 23 to the financial statements.

Development costs

The Group capitalises development costs for a project in accordance with the relevant accounting policy for research and development costs in note 2.4 to the financial statements. 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 year, all development costs are expensed based on management's judgement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 12 to the financial statements.

4. 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

	2016 ***RMB'000***	2015 *RMB'000*
Mainland China	**3,617,268**	3,938,047
Other countries	**163**	35,085
	3,617,431	3,973,132

The revenue information above is based on the locations of the customers.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
Mainland China	**1,408,930**	1,408,607

All the non-current assets are located in Mainland China. The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and financial instruments.

Information about a major customer

Information about revenue from a major customer which amounted to 10% or more of the Group's revenue is shown in the following table:

	2016 ***RMB'000***	2015 *RMB'000*
China Railway Corporation	**1,691,001**	2,240,523
Proportion of revenue	**47%**	56%

5. REVENUE, OTHER INCOME AND GAINS

Revenue 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:

	2016 RMB'000	2015 RMB'000
Revenue:		
Sales of machines	**2,336,745**	2,891,973
Sales of parts and components	**757,149**	607,450
Overhaul services	**459,382**	432,349
Railway line maintenance services	**64,155**	41,360
	3,617,431	3,973,132
Other income and gains:		
Interest income	**22,345**	3,046
Government grants	**18,815**	12,048
Training income	**6,256**	5,506
Dividend income from available-for-sale investments	**4,423**	3,920
Rental income	**2,004**	2,173
Sale of scrap materials	**2,038**	1,405
Others	**8,059**	13,125
	63,940	41,223

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2016 RMB'000	2015 RMB'000
Cost of machines sold		**1,783,696**	2,301,611
Cost of parts and components sold		**485,877**	391,767
Cost of overhaul services		**315,643**	306,383
Cost of railway line maintenance services		**44,402**	19,846
Total cost of sales		**2,629,618**	3,019,607
Depreciation of items of property, plant and equipment	13,(a)	**67,026**	69,795
Amortisation of prepaid land lease payments	14	**10,622**	8,858
Amortisation of other intangible assets	15	**10,421**	5,662
Amortisation of long-term deferred expenses		**263**	182
Total depreciation and amortisation		**88,332**	84,497
Impairment/(reversal of impairment) of trade receivables	18	**6,835**	(2,715)
Impairment/(reversal of impairment) of deposits and other receivables	19	**10**	(32)
Total impairment losses, net		**6,845**	(2,747)

6. PROFIT BEFORE TAX (continued)

	Notes	2016 RMB'000	2015 RMB'000
Reversal of write-down of inventories to net realisable value	*17*	**(360)**	(1,443)
Lease expense under operating leases of buildings and equipment		**5,335**	930
Auditor's remuneration		**2,660**	3,592
Employee benefit expenses (including directors',supervisors' and chief executive's remuneration *(note 8)*):	*(b)*		
Wages, salaries and allowances		**214,707**	213,686
Defined contribution scheme expenses		**50,060**	44,137
Defined benefit scheme expenses		**40**	90
Welfare and other expenses		**144,858**	148,223
Total employee benefit expenses		**409,665**	406,136
Research and development costs	*(c)*	**187,144**	161,090
Provisions for warranties, net	*23*	**9,434**	11,020
Interest income	*5*	**(22,345)**	(3,046)
Dividend income from available-for-sale investments	*5*	**(4,423)**	(3,920)
Loss/(gain) on disposal of items of property, plant and equipment		**63**	(298)
Foreign exchange gains, net		**(1,923)**	(6,364)
Government grants	*5,(d)*	**(18,815)**	(12,048)

6. PROFIT BEFORE TAX (continued)

Notes:

(a) Depreciation of approximately RMB48,550,000 (2015: RMB55,634,000) is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

(b) Employee benefit expenses of approximately RMB259,334,000 (2015: RMB250,559,000) are included in cost of sales in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

(c) Employee benefit expenses of approximately RMB52,413,000 (2015: RMB45,288,000) are included in research and development costs in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

(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.

7. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans and other loans	**–**	6,292
Bills discount interest	**217**	–
	217	6,292

No interest was capitalised in 2016 (2015: Nil).

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors', supervisors' and chief executive's remuneration

Directors', supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Fees	**–**	–
Other emoluments:		
– Salaries, allowances and benefits in kind	**1,373**	2,421
– Performance related bonuses	**3,915**	3,128
– Pension scheme contributions	**160**	245
	5,448	5,794

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Directors', supervisors' and chief executive's remuneration (continued)

The names of the Directors, supervisors and chief executive and their remuneration for the years ended 31 December 2016 and 2015 are as follows:

2016

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors					
Mr. Ren Yanjun *(i)*	–	281	1,033	42	1,356
Mr. Ma Yunkun *(ii)*	–	108	1,034	–	1,142
Mr. Jiang He (Chief executive) *(iii)*	–	264	929	41	1,234
Mr. Yu Yuanlin	–	231	827	40	1,098
Non-executive directors					
Mr. Li Xuefu	–	–	–	–	–
Mr. Wu Zhixu	–	118	–	–	118
Independent non-executive directors					
Mr. Sun Linfu	–	–	–	–	–
Mr. Yu Jiahe	–	106	–	–	106
Mr. Wong Hin Wing	–	106	–	–	106
	–	1,214	3,823	123	5,160
Supervisors					
Mr. Lyu Jianming	–	159	92	37	288
Mr. Zhang Zhumin	–	–	–	–	–
Mr. Wang Huaming	–	–	–	–	–
	–	159	92	37	288
	–	1,373	3,915	160	5,448

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Directors', supervisors' and chief executive's remuneration (continued)

2015

	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*
Executive directors					
Mr. Ren Yanjun (Chief executive)	–	423	752	40	1,215
Mr. Ma Yunkun	–	415	756	23	1,194
Mr. Jiang He	–	356	692	38	1,086
Mr. Yu Yuanlin	–	171	591	17	779
Mr. Yang Chaokai *(iv)*	–	186	–	18	204
Mr. Chen Yongxiang *(iv)*	–	186	–	18	204
Non-executive directors					
Mr. Li Xuefu	–	–	–	–	–
Mr. Wu Zhixu	–	–	–	–	–
Independent non-executive directors					
Mr. Sun Linfu	–	–	–	–	–
Mr. Yu Jiahe	–	–	–	–	–
Mr. Wong Hin Wing	–	–	–	–	–
	–	1,737	2,791	154	4,682
Supervisors					
Mr. Hu Bin *(v)*	–	197	–	18	215
Mr. Mo Bin *(v)*	–	185	–	18	203
Mr. Guo Yun *(v)*	–	187	–	18	205
Mr. Lyu Jianming	–	115	337	37	489
Mr. Zhang Zhumin	–	–	–	–	–
Mr. Wang Huaming	–	–	–	–	–
	–	684	337	91	1,112
	–	2,421	3,128	245	5,794

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Directors', supervisors' and chief executive's remuneration (continued)

Notes:

(i) Mr. Ren Yanjun resigned as chief executive effective from 27 May 2016.

(ii) Mr. Ma Yunkun resigned as an executive director effective from 27 May 2016.

(iii) Mr. Jiang He was appointed as chief executive effective from 27 May 2016.

(iv) Mr. Yang Chaokai and Mr. Chen Yongxiang resigned as directors effective from 24 June 2015.

(v) Mr. Hu Bin, Mr. Mo Bin and Mr. Guo Yun resigned as supervisors effective from 24 June 2015.

(b) Five highest paid employees

The five highest paid employees within the Group for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
Chief executive	**1**	1
Directors	**2**	2
Non-director and non-supervisor employees	**2**	2
	5	5

Details of the directors' and chief executive's remuneration are set out above in part (a).

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Five highest paid employees (continued)

Details of the remuneration of the above non-director and non-supervisor highest paid employees are as follows:

	2016	2015
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**462**	712
Performance related bonuses	**1,752**	1,274
Pension scheme contributions	**81**	75
	2,295	2,061

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following band is as follows:

	2016	2015
HK$1,000,001 to HK$1,500,000	**2**	2

During the years ended 31 December 2016 and 2015, no directors, supervisors, chief executive or any 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, supervisors, chief executive 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.

9. INCOME TAX

The Company and a subsidiary were entitled to a preferential income tax rate of 15% for the years ended 31 December 2016 and 2015, and they will continue to benefit from this preferential income tax policy until 31 December 2020 under "the tax incentives of western development".

9. INCOME TAX (continued)

Three other 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 2017 in accordance with the PRC Corporate Income Tax Law.

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 for the years ended 31 December 2016 and 2015.

	2016 ***RMB'000***	2015 *RMB'000*
Current income tax – Mainland China	**85,979**	66,470
Deferred income tax *(note 16)*	**521**	3,868
Tax charge for the year	**86,500**	70,338

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 years ended 31 December 2016 and 2015 is as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Profit before tax	**553,571**	525,512
Income tax charge at the statutory income tax rate of 25%	**138,393**	131,378
Effect of preferential income tax rate for some entities	**(42,944)**	(46,993)
Super-deduction of research and development costs	**(9,911)**	(18,470)
Expenses not deductible for tax	**1,298**	3,929
Income not subject to tax	**(1,106)**	(980)
Others	**770**	1,474
Tax charge at the effective rate	**86,500**	70,338

10. DIVIDENDS

The dividends for the years ended 31 December 2016 and 2015 are set out below:

	Notes	2016 RMB'000	2015 RMB'000
Declared:			
Dividend declared to owners of the parent		**60,795**	69,898
Special dividends declared to owners of the parent	*(i)*	**–**	298,170
		60,795	368,068
Proposed:			
Final dividend – RMB0.16 (2015: RMB0.04) per share	*(ii)*	**243,181**	60,795

Notes:

(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 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. Furthermore, another special dividend of RMB182.6 million was approved by the shareholders of the Company on 16 November 2015, which represents an amount equal to the retained profits of the Group attributable to the owners as at 31 March 2015.

(ii) The board of directors of the Company proposed, on 28 February 2017, a final dividend of RMB0.16 per share in respect of the year ended 31 December 2016. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,519,884,000 (2015: 1,011,300,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**467,071**	456,235

	Numbers of shares	
	2016	2015
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,519,884**	1,011,300

12. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
Listed equity investments, at fair value	**224,214**	240,422

The movements in the fair value of available-for-sale investments are as follows:

	2016 ***RMB'000***	2015 *RMB'000*
At 1 January	**240,422**	227,395
Recognised in other comprehensive income	**(16,208)**	13,027
At 31 December	**224,214**	240,422

As at 31 December 2016, there was no impairment recognised in respect of available-for-sale investments (2015: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery, production equipment, and measurement and experimental equipment *RMB'000*	Vehicles *RMB'000*	Structures and other equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
2016						
Cost:						
At 1 January 2016	759,380	462,755	33,578	143,356	11,772	1,410,841
Additions	–	14,973	1,221	1,520	49,605	67,319
Transfers from construction in progress	–	113	–	1,834	(1,947)	–
Transfers to other intangible assets *(note 15)*	–	–	–	–	(402)	(402)
Disposals	–	(2,726)	–	(336)	–	(3,062)
At 31 December 2016	759,380	475,115	34,799	146,374	59,028	1,474,696
Accumulated depreciation and impairment:						
At 1 January 2016	(116,518)	(266,512)	(26,532)	(54,010)	–	(463,572)
Depreciation charge for the year	(20,586)	(31,670)	(2,660)	(12,110)	–	(67,026)
Disposals	–	2,572	–	197	–	2,769
At 31 December 2016	(137,104)	(295,610)	(29,192)	(65,923)	–	(527,829)
Net carrying amount:						
At 31 December 2016	622,276	179,505	5,607	80,451	59,028	946,867
At 1 January 2016	642,862	196,243	7,046	89,346	11,772	947,269

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings *RMB'000*	Machinery, production equipment, and measurement and experimental equipment *RMB'000*	Vehicles *RMB'000*	Structures and other equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
2015						
Cost:						
At 1 January 2015	759,412	455,029	33,710	143,510	19,723	1,411,384
Additions	70	11,628	2,325	1,565	10,644	26,232
Transfers from construction in progress	–	–	–	696	(696)	–
Transfers to other intangible assets *(note 15)*	–	–	–	–	(17,899)	(17,899)
Disposals	(102)	(3,902)	(2,457)	(2,415)	–	(8,876)
At 31 December 2015	759,380	462,755	33,578	143,356	11,772	1,410,841
Accumulated depreciation and impairment:						
At 1 January 2015	(95,834)	(236,280)	(25,002)	(43,595)	–	(400,711)
Depreciation charge for the year	(20,684)	(33,033)	(3,641)	(12,437)	–	(69,795)
Disposals	–	2,801	2,111	2,022	–	6,934
At 31 December 2015	(116,518)	(266,512)	(26,532)	(54,010)	–	(463,572)
Net carrying amount:						
At 31 December 2015	642,862	196,243	7,046	89,346	11,772	947,269
At 1 January 2015	663,578	218,749	8,708	99,915	19,723	1,010,673

13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2016, the Group was in the process of applying for the title certificates of certain of its buildings with an aggregate net carrying amount of approximately RMB21,286,000 (31 December 2015: RMB21,934,000). The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter would not have any significant impact on the Group's financial position as at 31 December 2016.

14. PREPAID LAND LEASE PAYMENTS

	2016 ***RMB'000***	2015 *RMB'000*
Carrying amount at 1 January	**433,345**	284,653
Additions	**18,335**	157,550
Amortisation	**(10,622)**	(8,858)
Carrying amount at 31 December	**441,058**	433,345
Portion classified as current assets	**(10,831)**	(10,464)
Non-current portion	**430,227**	422,881

15. OTHER INTANGIBLE ASSETS

	Office software *RMB'000*	Others *RMB'000*	Total *RMB'000*
2016			
Cost:			
At 1 January 2016	**33,552**	**6,869**	**40,421**
Additions	**3,376**	**–**	**3,376**
Transfers from construction in progress *(note 13)*	**402**	**–**	**402**
At 31 December 2016	**37,330**	**6,869**	**44,199**
Accumulated amortisation:			
At 1 January 2016	**(22,056)**	**(531)**	**(22,587)**
Amortisation for the year	**(9,485)**	**(936)**	**(10,421)**
At 31 December 2016	**(31,541)**	**(1,467)**	**(33,008)**
Net carrying amount:			
At 31 December 2016	**5,789**	**5,402**	**11,191**
At 1 January 2016	**11,496**	**6,338**	**17,834**

15. OTHER INTANGIBLE ASSETS (continued)

	Office software *RMB'000*	Others *RMB'000*	Total *RMB'000*
2015			
Cost:			
At 1 January 2015	19,018	1,006	20,024
Additions	1,897	601	2,498
Transfers from construction in progress *(note 13)*	12,637	5,262	17,899
At 31 December 2015	33,552	6,869	40,421
Accumulated amortisation:			
At 1 January 2015	(16,641)	(284)	(16,925)
Amortisation for the year	(5,415)	(247)	(5,662)
At 31 December 2015	(22,056)	(531)	(22,587)
Net carrying amount:			
At 31 December 2015	11,496	6,338	17,834
At 1 January 2015	2,377	722	3,099

16. DEFERRED TAX ASSETS/LIABILITIES

The movements in deferred tax assets/liabilities during the years are as follows:

Deferred tax assets:	**2016** *RMB'000*	2015 *RMB'000*
At 1 January	**19,163**	23,002
Deferred tax charged to profit or loss *(note 9)*	**(521)**	(3,868)
Deferred tax (charged)/credited to other comprehensive income	**(17)**	29
At 31 December	**18,625**	19,163

Deferred tax liabilities:	**2016** *RMB'000*	2015 *RMB'000*
At 1 January	**28,118**	26,164
Deferred tax (credited)/charged to other comprehensive income	**(2,431)**	1,954
At 31 December	**25,687**	28,118

16. DEFERRED TAX ASSETS/LIABILITIES (continued)

The deferred tax assets/liabilities are attributed to the following items:

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
Deferred tax assets:		
Unrealised gains arising from intra-group transactions	**8,144**	8,240
Provision for impairment of receivables	**5,434**	4,448
Accruals and provisions	**3,418**	4,659
Impairment of inventories	**1,194**	1,248
Government grants received not yet recognised as income	**435**	568
	18,625	19,163
Deferred tax liabilities:		
Fair value movement on available-for-sale investments	**25,687**	28,118

As at 31 December 2016 and 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.

17. INVENTORIES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Raw materials and parts and components	**635,039**	603,541
Materials in transit	**190,274**	116,388
Work in progress	**390,385**	411,028
Finished goods	**262,468**	238,782
	1,478,166	1,369,739
Provision for impairment	**(7,961)**	(8,321)
	1,470,205	1,361,418

Movements in the provision for impairment losses are as follows:

	2016 RMB'000	2015 RMB'000
Impairment:		
At 1 January	**8,321**	9,764
Reversal of impairment losses *(note 6)*	**(360)**	(1,443)
At 31 December	**7,961**	8,321

18. 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 major 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.

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
Trade receivables	**2,259,753**	1,675,706
Provision for impairment	**(36,259)**	(29,444)
Trade receivables, net	**2,223,494**	1,646,262
Bills receivable	**328,853**	37,888
	2,552,347	1,684,150

The Group has no pledged bills receivable to guarantee for bills payable (2015: RMB11,300,000).

18. TRADE AND BILLS RECEIVABLES (continued)

An ageing analysis of trade and bills receivables, based on the billing date and net of provision for impairment of trade receivables, as at the end of the reporting period is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within 6 months	2,220,760	1,404,426
6 months to 1 year	111,646	131,597
1 to 2 years	164,908	69,165
2 to 3 years	28,359	66,301
Over 3 years	26,674	12,661
	2,552,347	1,684,150

Movements in the provision for impairment losses are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	29,444	32,159
Impairment/(reversal of impairment) losses *(note 6)*	6,835	(2,715)
Written off	(20)	–
At 31 December	36,259	29,444

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB13,039,000 (2015: RMB6,777,000) with an aggregate carrying amount before provision of RMB261,507,000 (2015: RMB188,370,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in interest and/or in principal payments and only a portion of the receivables are expected to be recovered.

18. TRADE AND BILLS RECEIVABLES (continued)

The ageing analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
Neither past due nor impaired	**1,894,407**	1,179,030
Past due but not impaired:		
Less than 6 months past due	**–**	5,184
Over 6 months past due	**–**	152
	1,894,407	1,184,366

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 31 to the financial statements.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Deposits and other receivables	**29,639**	19,910
Provision for impairment of deposits and other receivables	**(220)**	(210)
	29,419	19,700
Prepayments	**65,242**	41,978
Deductible input VAT	**14,859**	106
	109,520	61,784
Less: Long-term prepayments	**(20,645)**	(20,623)
Current portion	**88,875**	41,161

The movements in provision for impairment of deposits and other receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**210**	282
Impairment/(reversal of impairment) losses *(note 6)*	**10**	(32)
Written off	**–**	(40)
At 31 December	**220**	210

No provision for individually impaired deposits and other receivables is included in the above provision as at 31 December 2016 (2015: Nil).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

An ageing analysis of the deposits and other receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Neither past due nor impaired	**17,803**	15,513
Past due but not impaired:		
Less than 6 months past due	**11,085**	–
Over 6 months past due	**–**	2,928
	28,888	18,441

None of the balances, except for the deposits and other receivables above, is either past due or impaired as they relate to balances for whom 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 31 to the financial statements.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Cash	**2**	4
Bank balances	**1,207,181**	1,672,602
Pledged deposits	**–**	299,684
	1,207,183	1,972,290
Less: Pledged deposits for guarantees of bills payable	**–**	(299,684)
Cash and cash equivalents in the consolidated statements of financial position and cash flows	**1,207,183**	1,672,606

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("**RMB**") amounted to RMB1,205,158,000 (2015: RMB1,972,120,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, 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 balance with a related party included in cash and cash equivalents and pledged deposits are set out in note 31 to the financial statements.

21. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Within 1 year	**968,943**	1,281,036
1 to 2 years	**137,153**	41,004
2 to 3 years	**22,579**	676
Over 3 years	**1,532**	1,080
	1,130,207	1,323,796

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 31 to the financial statements.

22. OTHER PAYABLES AND ACCRUALS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Advances from customers	**81,092**	64,684
Accrued salaries, wages and benefits	**1,207**	14,153
Dividend payable to non-controlling shareholders	**–**	587
Other tax payables	**97,115**	56,995
Other payables	**44,587**	53,664
	224,001	190,083

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 31 to the financial statements.

23. PROVISIONS

	2016 RMB'000	2015 RMB'000
Provisions for product warranties:		
At 1 January	**9,670**	8,453
Additional provision, net *(note 6)*	**9,434**	11,020
Amounts utilised during the year	**(10,011)**	(9,803)
At 31 December	**9,093**	9,670

The Group provides approximately one year warranties to its customers on certain products, under which faulty products will be repaired or replaced. The amount of the provisions 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.

24. GOVERNMENT GRANTS

	2016 RMB'000	2015 RMB'000
At 1 January	**24,038**	28,964
Recognised as income	**(4,926)**	(4,926)
At 31 December	**19,112**	24,038
Portion classified as current liabilities	**(4,926)**	(4,926)
Non-current portion	**14,186**	19,112

25. ISSUED CAPITAL

	31 December 2016 RMB'000	31 December 2015 RMB'000
Issued and fully paid:		
1,519,884,000 (2015: 1,519,884,000) ordinary shares	**1,519,884**	1,519,884

The amounts of the Group's issued capital and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

27. CONTINGENT LIABILITIES

At 31 December 2016, the Group did not have any contingent liabilities not provided for in the financial statements (2015: Nil).

28. PLEDGE OF ASSETS

Details of the Group's assets pledged for guarantees of bills payable are disclosed in note 18 and note 20 to the financial statements.

29. OPERATING LEASE ARRANGEMENTS

As lessor

At the end of the reporting period, the Group had the following total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Within one year	**1,965**	1,965
In the second to third years, inclusive	**982**	2,947
	2,947	4,912

As lessee

At the end of the reporting period, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Within one year	**212**	817
In the second to third years, inclusive	**1,400**	275
	1,612	1,092

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments as at the end of the reporting period:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**96,189**	13,485
Other intangible assets	**1,144**	857
	97,333	14,342

31. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the years ended 31 December 2016 and 2015:

	2016 *RMB'000*	2015 *RMB'000*
Sales of machines*:		
Fellow subsidiaries	**26,714**	52,363
Sales of parts and components*:		
Fellow subsidiaries	**3,330**	2,872
Railway line maintenance services provided to*:		
Fellow subsidiaries	**14,753**	18,102
Other income and gains*:		
A fellow subsidiary	**1,300**	–
Rental expenses paid to*:		
A subsidiary of CRCCG	**126**	126
A fellow subsidiary	**359**	–
	485	126
Bills payables issuance fees paid to*:		
A fellow subsidiary	**55**	–
Interest income received from*:		
A fellow subsidiary	**4,352**	1,947

The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

* These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

31. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	31 December 2016 RMB'000	31 December 2015 RMB'000
Cash and cash equivalents:		
Deposits in a fellow subsidiary	**167,069**	468,937
Pledged deposits:		
Deposits in a fellow subsidiary *(note)*	–	170,000
Trade and bills receivables:		
Due from fellow subsidiaries	**69,028**	109,021
Prepayments, deposits and other receivables:		
Due from fellow subsidiaries	**11,085**	2,928
Trade and bills payables:		
Due to fellow subsidiaries	**196,436**	652
Other payables and accruals:		
Due to fellow subsidiaries	**5,989**	2,440
Due to CRCC	–	4
Dividends payable to a fellow subsidiary	–	587
	5,989	3,031

Note:

As at 31 December 2016, the Group had no pledged deposits in a fellow subsidiary to guarantee for bills payable (2015: RMB170,000,000).

31. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	**12,903**	11,908
Pension scheme contributions	**457**	505
	13,360	12,413

Further details of directors', supervisors' and chief executive's remuneration are included in note 8 to the financial statements.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets	31 December 2016 RMB'000	31 December 2015 RMB'000
Available-for-sale financial investments:		
Available-for-sale investments	**224,214**	240,422
Loans and receivables:		
Trade and bills receivables	**2,552,347**	1,684,150
Financial assets included in prepayments, deposits and other receivables	**29,419**	19,700
Pledged deposits	**–**	299,684
Cash and cash equivalents	**1,207,183**	1,672,606
	4,013,163	3,916,562

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	31 December 2016 RMB'000	31 December 2015 RMB'000
Financial liabilities at amortised cost:		
Trade and bills payables	**1,130,207**	1,323,796
Financial liabilities included in other payables and accruals	**44,587**	54,251
	1,174,794	1,378,047

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Financial assets:				
Available-for-sale investments	**224,214**	240,422	**224,214**	240,422

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 approximate to their carrying amounts largely due to the short term maturities of these instruments.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department 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 the audit committee twice a year for interim and annual 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 measured at fair value as at the end of the 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 year, there were no transfers 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 (2015: Nil).

34. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2016, the Group endorsed certain bills receivable accepted by banks and customers in Mainland China (the "**Endorsed Bills**") with a carrying amount of RMB138,825,000 (2015: Nil) to certain of its suppliers in order to settle trade payables and other payables due to such suppliers (the "**Endorsement**"). In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to the undue Endorsed Bills, and accordingly, the Group continued to recognise the full carrying amounts of such Endorsed Bills and the associated trade payables and other payable settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables and other payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB138,825,000 as at 31 December 2016 (2015: Nil).

34. TRANSFERS OF FINANCIAL ASSETS (continued)

Transferred financial assets that are derecognised in their entirety

At 31 December 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognised Bills**") to certain of its suppliers with a carrying amount in aggregate of RMB33,707,000 (2015: RMB39,670,000) in order to settle the trade payables due to such suppliers. The Derecognised Bills had a maturity of less than one year at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have the 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 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 year ended 31 December 2016, 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 year or cumulatively. The endorsement has been made evenly throughout the year.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for 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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 2016 and 2015, no borrowings were kept by the Group. A general increase/decrease in the market interest rates thus would have no effect on the Group's consolidated pre-tax profit and the consolidated equity. 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.

(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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Foreign currency risk (continued)

Details of the Group's cash and cash equivalents and pledged deposits at the end of the reporting period are disclosed in note 20 to the financial statements.

The following tables indicate the changes in the Group's net profit in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure. The sensitivity analysis is on bank deposits in United States dollars and Hong Kong dollars.

Effects on net profit

	Increase/ (decrease) in foreign exchange rate	Increase/(decrease) in net profit 2016 *RMB'000*	2015 *RMB'000*
If USD strengthens against RMB	10%	172	–
If USD weakens against RMB	(10%)	(172)	–
If HKD strengthens against RMB	10%	–	14
If HKD weakens against RMB	(10%)	–	(14)

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and has applied the exposure to foreign currency risk to bank deposits denominated in United States dollars and Hong Kong dollars in existence at that date.

(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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk (continued)

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.

As disclosed in note 4 to the financial statements, 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 18 and 19 to the financial statements.

(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 the reporting period based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

31 December 2016

	Within 1 year *RMB'000*
Trade and bills payables	**1,130,207**
Financial liabilities included in other payables and accruals	**44,587**
	1,174,794

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk (continued)

31 December 2015

	Within 1 year *RMB'000*
Trade and bills payables	1,323,796
Financial liabilities included in other payables and accruals	54,251
	1,378,047

(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 investments classified as available-for-sale investments (note 12) as at 31 December 2016. The Group's listed investment is listed on the Hong Kong Stock Exchange and is valued based on quoted market prices after considering non-liquidity discount effect at the end of each reporting period.

The market equity index 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 its respective highest and lowest points during the reporting period were as follows:

	31 December 2016	**High/low**	**31 December 2015**	**High/low**
Hong Kong – Hang Seng Index	**22,001**	**24,364 /18,279**	21,914	28,589 /20,368

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Equity price risk (continued)

The following table demonstrates the sensitivity to every 10% change in the fair value of the equity investments, with all other variables held constant, based on their carrying amounts at the end of each reporting period. For the purpose of this analysis, for the available-for-sale equity investments, 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 profit or loss.

	Increase/ (decrease) in carrying amount of equity investments	Increase/(decrease) in equity 2016 *RMB'000*	Increase/(decrease) in equity 2015 *RMB'000*
Investments listed in Hong Kong:			
Available-for-sale	10%	19,058	20,436
	(10%)	(19,058)	(20,436)

(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 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 changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes trade and bills payables, financial liabilities represents in other payables and accruals, less cash and cash equivalents and pledged deposits. Capital represents the equity attributable to owners of the parent stated in the consolidated statement of financial position.

35. 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 the reporting periods were as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Trade and bills payables *(note 21)*	**1,130,207**	1,323,796
Financial liabilities included in other payables and accruals	**44,587**	54,251
Cash and cash equivalents *(note 20)*	**(1,207,183)**	(1,672,606)
Pledged deposits *(note 20)*	**–**	(299,684)
Net debt	**(32,389)**	(594,243)
Equity attributable to owners of the parent	**5,534,697**	5,142,105
Net debt and equity attributable to owners of the parent	**5,502,308**	4,547,862
Gearing ratio	**(1%)**	(13%)

36. EVENTS AFTER THE REPORTING PERIOD

As disclosed in note 10 to the financial statements, the board of directors of the Company proposed, on 28 February 2017, a final dividend of RMB0.16 per share (including applicable taxes) in respect of the year ended 31 December 2016. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**770,216**	471,676
Available-for-sale investments	**224,214**	240,422
Property, plant and equipment	**813,781**	821,780
Prepaid land lease payments	**253,675**	241,806
Other intangible assets	**5,413**	11,089
Long-term prepayments	**19,152**	19,152
Deferred tax assets	**7,401**	8,438
Total non-current assets	**2,093,852**	1,814,363
CURRENT ASSETS		
Prepaid land lease payments	**6,283**	5,916
Inventories	**924,260**	967,748
Trade and bills receivables	**2,154,946**	1,613,401
Prepayments, deposits and other receivables	**99,177**	62,119
Pledged deposits	**–**	290,000
Cash and cash equivalents	**1,179,353**	1,647,875
Total current assets	**4,364,019**	4,587,059

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
CURRENT LIABILITIES		
Trade and bills payables	**794,160**	1,084,211
Other payables and accruals	**270,076**	131,943
Tax payable	**13,362**	9,614
Defined benefit obligations	**650**	820
Provisions	**4,100**	5,106
Government grants	**4,871**	4,871
Total current liabilities	**1,087,219**	1,236,565
NET CURRENT ASSETS	**3,276,800**	3,350,494
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,370,652**	5,164,857
NON-CURRENT LIABILITIES		
Defined benefit obligations	**720**	1,350
Government grants	**12,442**	17,313
Deferred tax liabilities	**25,687**	28,118
Total non-current liabilities	**38,849**	46,781
Net assets	**5,331,803**	5,118,076
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**1,519,884**	1,519,884
Reserves *(note)*	**3,811,919**	3,598,192
Total equity	**5,331,803**	5,118,076

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Special reserve RMB'000	Surplus reserve RMB'000	Retained profits RMB'000	Available-for-sale investment revaluation reserve RMB'000	Defined benefit plan revaluation reserve RMB'000	Total RMB'000
As at 1 January 2015	766,518	–	144,315	629,359	148,260	(10,093)	1,678,359
Profit for the year	–	–	–	564,091	–	–	564,091
Other comprehensive income for the year:							
Changes in fair value of available-for-sale investment, net of tax	–	–	–	–	11,073	–	11,073
Re-measurement losses on defined benefit plan, net of tax	–	–	–	–	–	(169)	(169)
Total comprehensive income for the year	–	–	–	564,091	11,073	(169)	574,995
Dividends declared	–	–	–	(368,068)	–	–	(368,068)
Issue of shares	1,796,745	–	–	–	–	–	1,796,745
Share issue expenses	(83,839)	–	–	–	–	–	(83,839)
Capitalisation from reserve	797,192	–	(153,657)	(643,535)	–	–	–
Appropriation to statutory surplus reserve	–	–	56,410	(56,410)	–	–	–
Transfer to special reserve	–	5,750	–	(5,750)	–	–	–
Utilisation of special reserve	–	(5,750)	–	5,750	–	–	–
At 31 December 2015 and 1 January 2016	3,276,616	–	47,068	125,437	159,333	(10,262)	3,598,192
Profit for the year	**–**	**–**	**–**	**288,206**	**–**	**–**	**288,206**
Other comprehensive income for the year:							
Changes in fair value of available-for-sale investment, net of tax	**–**	**–**	**–**	**–**	**(13,777)**	**–**	**(13,777)**
Re-measurement gains on defined benefit plan, net of tax	**–**	**–**	**–**	**–**	**–**	**93**	**93**
Total comprehensive income for the year	**–**	**–**	**–**	**288,206**	**(13,777)**	**93**	**274,522**
Dividends declared	**–**	**–**	**–**	**(60,795)**	**–**	**–**	**(60,795)**
Appropriation to statutory surplus reserve	**–**	**–**	**28,820**	**(28,820)**	**–**	**–**	**–**
Transfer to special reserve	**–**	**5,882**	**–**	**(5,882)**	**–**	**–**	**–**
Utilisation of special reserve	**–**	**(5,882)**	**–**	**5,882**	**–**	**–**	**–**
At 31 December 2016	**3,276,616**	**–**	**75,888**	**324,028**	**145,556**	**(10,169)**	**3,811,919**

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 February 2017.

Basic Corporate Information

1	Name in Chinese	中國鐵建高新裝備股份有限公司
	Name in English	CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED
2	Authorised representatives	Yu Yuanlin (余園林) Law Chun Biu (羅振飆)
3	Joint company secretaries	Ma Changhua (馬昌華) Law Chun Biu (羅振飆)
	Registered office	No. 384, Yangfangwang Jinma Town, Kunming Yunnan Province, China
	Telephone	+86 871 63831988
	Fax	+86 871 63831000
	Website	http://www.crcce.com.cn
	Principal place of business in Hong Kong	23/F, Railway Plaza 39 Chatham Road South Tsim Sha Tsui Kowloon Hong Kong
4	Listing information	H Share The Stock Exchange of Hong Kong Limited Stock Code:1786 Stock Short Name: CRCCE
5	H share registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong

6	Legal advisers	Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
		Jia Yuan Law Offices F408, Ocean Plaza 158 Fuxing Men Nei Street Xicheng District Beijing, China
7	Auditor	Ernst & Young 22/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong

Glossary Definitions

"Aotongda Company"	Kunming Aotongda Railway Machinery Co., Ltd. (昆明奧通達鐵路機械有限公司), a wholly-owned subsidiary of our Company
"Articles"	the Articles of Association of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"Company" or "CRCCE"	CRCC High-Tech Equipment Corporation Limited, a joint stock company incorporated in the PRC
"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 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on 28 December 2013 to take effective on 1 March 2014
"CRCC"	China Railway Construction Corporation Limited (中國鐵建股份有限公司), controlling shareholder of our Company
"CRCCG"	China Railway Construction Corporation (中國鐵道建築總公司), indirect controlling shareholder of our Company
"Director(s)"	the director(s) of the Company
"Ernst & Young"	Ernst & Young (安永會計師事務所)
"Ernst & Young Hua Ming LLP"	Ernst & Young Hua Ming LLP (安永華明會計師事務所(特殊普通合夥))
"Group"	our Company and its subsidiaries
"Guangweitong Company"	Kunming Guangweitong Machinery Co., Ltd. (昆明廣維通機械設備有限公司), a wholly-owned subsidiary of our Company

Glossary Definitions

"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
"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 wholly-owned subsidiary of our Company
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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 wholly-owned subsidiary of our Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"PRC"	The People's Republic of China
"Ruiweitong Company"	Beijing Ruiweitong Engineering Machinery Co., Ltd., (北京瑞維通工程機械有限公司), a wholly-owned subsidiary of our Company
"Shareholder(s)"	holder(s) of shares of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Xinruitong Company"	Kunming China Railway Xinruitong Materials and Equipment Co., Ltd. (昆明中鐵鑫瑞通物資設備有限公司), a wholly-owned subsidiary of the Company

中國鐵建高新裝備股份有限公司
CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED