



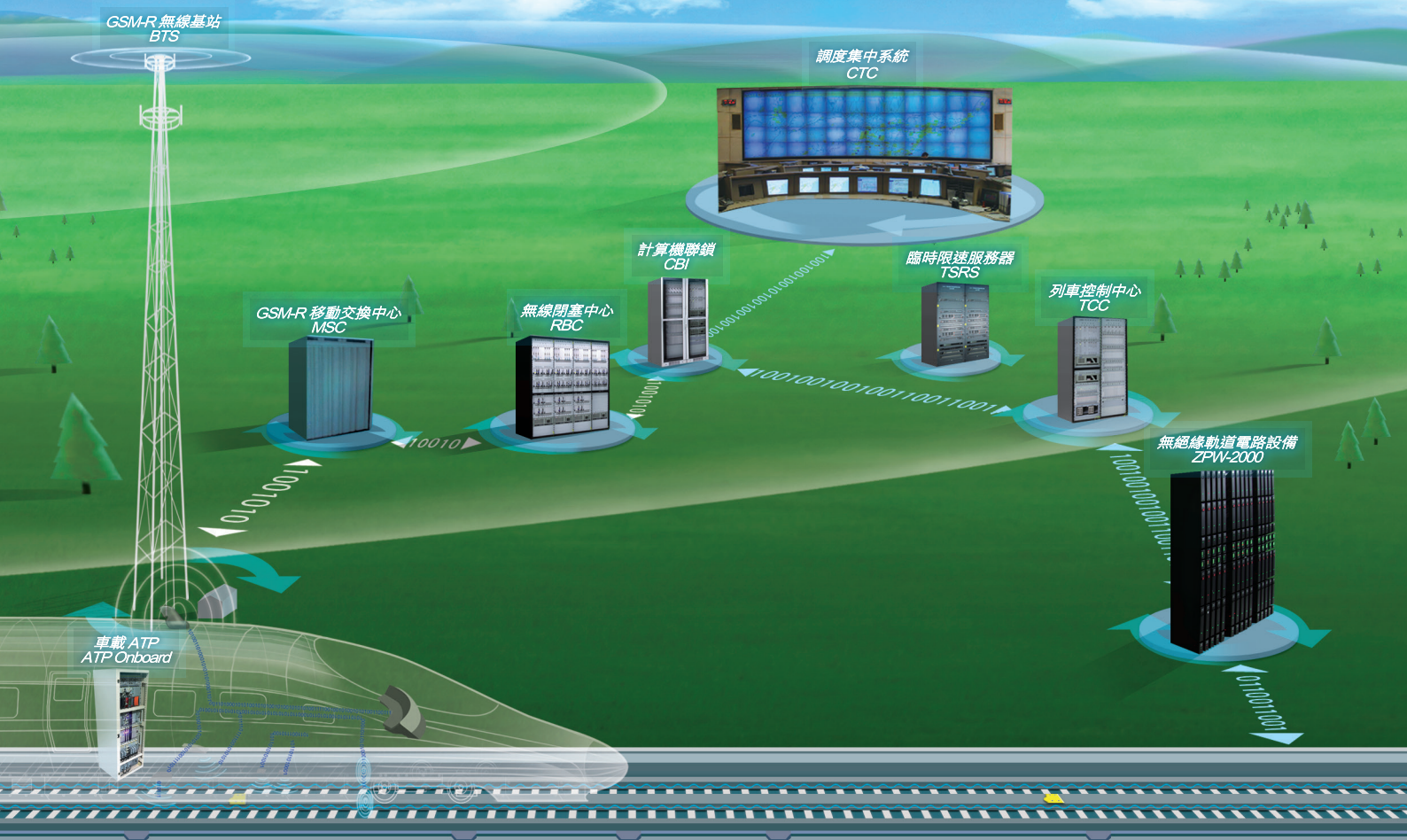
中国通号

China Railway Signal & Communication Corporation Limited\*

中國鐵路通信信號股份有限公司

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

Stock code : 3969



# 2017 Annual Report

\*For identification only

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# CHAIRMAN'S STATEMENT

Dear Shareholders,

First of all, I would like to express my sincere gratitude on behalf of the Board of CRSC towards all Shareholders and the society for their continuous care and support to the Company.

In 2017, CRSC seriously implemented the decisions and deployments made by the SASAC. CRSC never forgot why it started and kept the mission in mind and made unremitting efforts to preserve and increase the value of state-owned assets. CRSC also implemented reforms and innovations and overcame difficulties, and constantly carried out explorations for the safe operation of national rail transportation, achieving remarkable results in various tasks.

The Company's operating results continued to grow steadily. During the year, the Company achieved the total value of RMB60.73 billion for newly signed contracts, a year-on-year increase of 22.7%; operating revenue of RMB34.43 billion, a year-on-year increase of 17.1%; net profit of RMB3.51 billion, a year-on-year increase of 10.1%. The Company won a Grade A rating for operating performance appraisal on responsible persons of central enterprises for 2016 granted by the SASAC. This was one more time that CRSC was awarded such honour following the operating performance appraisal for 2015 and the "Double A" rating for tenure appraisal for 2013 - 2015.

The Company's market expansion continued to be enhanced. The operation of major railway projects progressed steadily and bids for projects such as Shanghai-Nantong, Nanchang-Ganzhou, Beijing-Zhangjiakou and Shangqiu-Hefei-Hangzhou were won successively. The metro automation control system continued to gain market leadership in Shanghai, Shenzhen, and Zhengzhou, etc. The Company's owned intellectual property, CBTC system, won the bids for Changsha Metro Route No.5 and Changchun Metro Beihu Line, achieving new breakthroughs. In the emerging business sector, the Company won the bids for the project of the modern special tram line for travel and passenger transportation in Dujiangyan and the modern tram project in Yuncheng, Shandong. It also achieved positive progress in the Smart City projects and entered into the Siping City underground integrated pipeline automation control system engineering project. It continued to advance in overseas markets, participated in the implementation of the Jakarta-Bandung High Speed Railway project and continued to participate in various national key overseas projects including Singapore-Malaysia High Speed Railway and Moscow-Kazan High Speed Railway.

The Company's technological innovative capabilities continued to be strengthened. In the traditional core business market, the C3 high-speed train operation and control system was supplied for the "Fuxing (復興號)" bullet trains to ensure that the Beijing-Shanghai line would operate at the constant speed of 350 km per hour. The R&D and testing for the CBTC system of Metro Line No. 5 in Chongqing were completed, signifying the formal arrival of the era of interconnecting urban transit railway systems; the self-developed CBTC signal system was completed and commenced operation smoothly on Metro Line No. 17 in Shanghai; the maglev (magnetic levitation) train control system for Line S1 in Beijing commenced passenger operations; the automatic monitoring system supporting the driverless automated train for the South Island Line in Hong Kong commenced operation successfully; and the communication signal information technology project for the Mombasa-Nairobi Railway in Kenya with Chinese standard was completed. In the emerging product market, the "Pioneer (先鋒號)" modern tramcar with five modules and 100% low floor completed its global debut. In overseas markets, core products such as RBC, ATP, LEU and balise received the TSI certification by the European Union successively, overcoming key technical barriers in the international markets. In addition, the technical standards of rail switch equipment for railways were endorsed by the Technology Committee for Railway Applications of the International Organization for Standardization.

## CHAIRMAN'S STATEMENT

Quality and safety were monitored by the Company unremittingly. During the past year, the Company strictly scrutinized the responsibilities for safety and quality, prevented the occurrence of any incidents involving special equipment with responsibility at general level and above, prevented the occurrence of quality problems above significant level, prevented fire incidents with responsibility at general and above level, prevented occupational disease and occupational poisoning incidents, and prevented any environmental pollution incidents. The Company focused on process control, enhanced the management and control of protective capabilities, further enhanced the standardization and effectiveness of control over the changing process; strengthened closed-loop management, clarified issues on system, process, steps and methods, increased tracking, inspection and appraisal on incidents and quality problems; strengthened emergency management and enhanced its handling capabilities, and continued to reinforce the building of an emergency management and proposal system, using safety training and special activities as catalysts to continue strengthening the awareness of safety and quality.

Looking ahead, the mileage of new railway lines that commence operation in 2018 will reach 4,000 km (of which 3,500 km are high-speed railways), more than the mileage in the preceding year, generating continuous and stable growth in the demand for the Company's signal systems and related equipment. With the arrival of the overhaul period for high-speed railways, new points of profit growth will arise in the operational and maintenance area. The construction of intercity railways which was dominated by local investments also presents a rapid development trend. Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta will be the key regions for the development of the intercity railways. The Company's good operation record on automated driver control system for intercity railways has laid a good foundation for expansion in the intercity railway market. Urban transit presented a trend of accelerating development, more than 860 km of new lines were added in 2017, increased by more than 60% when compared with 2016. New forms of urban transit systems such as tramcars, light rail, medium and low speed magnetic levitations and air rails are warmly welcomed with vast market space. The urban transit automated control system owned by the Company will benefit significantly from the fast expansion in market size and will become a key point of growth that drives business development. Moreover, emerging business markets such as Smart City and overseas markets have also shown a booming trend, and the next few years will be the years for implementation, bringing good market opportunities for the implementation of the Company's emerging business.

The 19th National Congress of the Communist Party of China proposed the determination to finish building a moderately prosperous society, the grand vision of achieving great victory of socialism with Chinese characteristics in the new era, and outlined the magnificent blueprint of a beautiful China in future. The Company will adhere to the overall planning to "focus on safety, adjust the structure, capitalize on reforms, strengthen management and control, and facilitate the transformation", follow the overall concepts of strengthening, optimization, revitalization and maximization, accelerate the pace of technological innovations, speed up transformation and upgrading progress, capitalize on the advantages of integrating the industrial chain, focus on realizing strategic breakthrough in structural adjustments for industry and products, historical breakthrough in critical core technologies and international breakthrough in the standards and industry export of high-speed railways from China, enhance the management standard for modern enterprises constantly, assimilate into the global competitive landscape actively, develop into a global first class multinational industrial group characterized on railway transportation control technology, serve our society, generate returns for Shareholders and reward our staff with sustainable and sound operating results.

*Chairman*

**ZHOU Zhiliang**

29 March 2018



# CORPORATE INFORMATION

The basic information of the Company is set out as below:

## LEGAL NAME OF THE COMPANY

中國鐵路通信信號股份有限公司

## OFFICIAL ENGLISH NAME OF THE COMPANY

China Railway Signal & Communication Corporation Limited \*

## DIRECTORS

### Executive Directors

Mr. ZHOU Zhiliang (*Chairman*)  
Mr. FU Jianguo (*Vice Chairman*)<sup>Note</sup>  
Mr. YIN Gang (*President*)

### Independent Non-executive Directors

Mr. WANG Jiajie  
Mr. SUN Patrick  
Mr. CHEN Jin'en  
Mr. GAO Shutang

## SUPERVISORS

Ms. TIAN Liyan (*Chairwoman*)  
Mr. GAO Fan  
Ms. ZHAO Xiumei

## JOINT COMPANY SECRETARIES

Mr. HU Shaofeng  
Ms. NG Wing Shan (*FCIS, FCS*)

## AUTHORIZED REPRESENTATIVES

Mr. ZHOU Zhiliang  
Ms. NG Wing Shan (*FCIS, FCS*)

## BOARD COMMITTEES

### Strategy and Investment Committee

Mr. ZHOU Zhiliang (*Chairman*)  
Mr. FU Jianguo<sup>Note</sup>  
Mr. WANG Jiajie  
Mr. CHEN Jin'en  
Mr. GAO Shutang

### Remuneration and Evaluation Committee

Mr. GAO Shutang (*Chairman*)  
Mr. SUN Patrick  
Mr. CHEN Jin'en

### Audit and Risk Management Committee

Mr. SUN Patrick (*Chairman*)  
Mr. WANG Jiajie  
Mr. GAO Shutang

### Nomination Committee

Mr. CHEN Jin'en (*Chairman*)  
Mr. FU Jianguo<sup>Note</sup>  
Mr. WANG Jiajie

### Quality and Safety Committee

Mr. YIN Gang (*Chairman*)  
Mr. FU Jianguo<sup>Note</sup>  
Mr. GAO Shutang

\* For identification only.

Note: Mr. Fu Jianguo resigned on 26 June 2017.

# CORPORATE INFORMATION

## REGISTERED OFFICE <sup>Note</sup>

20/F, CRSC Building A  
1 Compound, Automobile Museum South Road  
Fengtai District  
Beijing, PRC

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

CRSC Building  
1 Compound, Automobile Museum South Road  
Fengtai District  
Beijing, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th Floor, Tesbury Centre  
28 Queen's Road East  
Wan Chai, Hong Kong

## STOCK ABBREVIATION AND STOCK CODE

CHINA CRSC (03969)

## H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wan Chai, Hong Kong

## COMPANY WEBSITE

[www.crsc.cn](http://www.crsc.cn)

## INVESTOR RELATIONS <sup>Note</sup>

Tel: +86-10-50809077  
Fax: +86-10-51846610  
Email: [ir@crsc.cn](mailto:ir@crsc.cn)

Address: CRSC Building , 1 Compound  
Automobile Museum South Road  
Fengtai District, Beijing, PRC

Postal Code: 100070

## LEGAL ADVISERS

### Hong Kong Legal Adviser

Clifford Chance  
27th Floor, Jardine House  
1 Connaught Place  
Central, Hong Kong

### PRC Legal Adviser

Zhong Lun Law Firm  
33, 36, 37/F, SK Tower  
A6 Jianguomenwai Avenue, Chaoyang District  
Beijing, China

## AUDITORS

Ernst & Young  
*Certified Public Accountants*  
22nd Floor, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

*Note: With effect from 16 November 2017, the Company has changed its registered address, postal code, and contact number for investors.*

# CORPORATE INFORMATION

## LANGUAGE AND MEANS OF RECEIPT OF CORPORATE COMMUNICATIONS

The Company provides Corporate Communications to the Shareholders based on their respective selected language version and means of receipt. The Shareholders have the following options:

- to read the online version of all Corporate Communications published on the Company's website by electronic means instead of reading the printed version and receive written notice for the publication of the Corporate Communications published on the Company's website;
- to receive printed English version of all Corporate Communications only;
- to receive printed Chinese version of all Corporate Communications only; or
- to receive both printed English and Chinese versions of all Corporate Communications.

The Shareholders may choose and/or change their choice on the language version of our Corporate Communications and/or the way to receive the Corporate Communications at any time. The Shareholders may notify the Company of their option by the following ways:

- by mail: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
- by email: [crsc.ecom@computershare.com.hk](mailto:crsc.ecom@computershare.com.hk)

For enquiry on the arrangement of selection of the language version and means of receipt of Corporate Communications, the Shareholders may contact the hotline at +852 2862 8688 at any time.

# FINANCIAL HIGHLIGHTS

Key financial information of the Group for the year is set out as follows:

Unit: RMB'000 (except for percentages)

	2017	2016	Increase (%)
Revenue	<b>34,433,683</b>	29,402,146	17.1
Profit attributable to equity owner of the Company	<b>3,310,045</b>	3,049,341	8.5
Basic earnings per share (RMB/share)	<b>0.38</b>	0.35	8.6
Diluted earnings per share (RMB/share)	<b>0.38</b>	0.35	8.6
Weighted average rate of return on net assets (%)	<b>14.7</b>	15.0	Decrease of 0.3 percentage point

	31 December 2017	31 December 2016	Increase (%)
Total assets	<b>61,244,644</b>	50,295,007	21.8
Total liabilities	<b>36,020,046</b>	27,604,536	30.5
Total equity attributable to equity owner of the Company	<b>24,019,051</b>	21,656,637	10.9



# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

In 2017, faced with complicated and uncertain economic conditions, the Group adhered to the overall basic objective of achieving stability with progress by focusing on the enhancement of development quality and core competitiveness, maintaining the strategic positioning, adhering to the development direction of “one core business with diversification into related businesses”(「一業為主、相關多元」) and innovating development driving strategies. The management and control of quality and safety were further strengthened, the standards for self-development and innovation in technology were enhanced, domestic and international markets were further expanded with dedicated efforts, industry and product chains were enriched and extended, and the corporate efficiency in production and operation maintained a stable but fast development trend.

During the reporting period, the Group continued to maintain the growth momentum of its operating results, and recorded an annual revenue of RMB34,433.7 million, an increase of RMB5,031.6 million or by 17.1% as compared to that in the previous year. Profit before tax was RMB4,285.7 million, an increase of RMB469.6 million or by 12.3% as compared to that in the previous year; profit attributable to equity Shareholders of the Company was RMB3,310.0 million, an increase of 8.5% as compared to that in the previous year. During the reporting period, there were no material changes to the composition or sources of the profit of the Group.

## FINANCIAL REVIEW

### I. Analysis on Principal Business

#### Analysis of changes in the relevant items of the income statement

Unit: RMB million (except for percentages)

	2017	2016	Increase/ (Decrease) (%)
Revenue	<b>34,433.7</b>	29,402.1	17.1
Cost of sales	<b>(26,043.3)</b>	(21,973.8)	18.5
Other income and gains	<b>380.5</b>	411.1	(7.4)
Selling and distribution expenses	<b>(692.6)</b>	(684.3)	1.2
Administrative expenses	<b>(3,415.5)</b>	(3,177.7)	7.5
Finance costs	<b>(51.8)</b>	(30.0)	72.7
Profit before tax	<b>4,285.7</b>	3,816.1	12.3
Income tax expense	<b>(772.6)</b>	(624.6)	23.7
Profit for the year	<b>3,513.1</b>	3,191.5	10.1

# MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group realized revenue of RMB34,433.7 million, increased by 17.1% as compared to the preceding year, with design and integration, equipment manufacturing, system implementation, construction contracting and other businesses accounting for 25.0%, 16.8%, 29.6%, 28.0% and 0.6%, respectively, in the total revenue. The increase in revenue of the Group's principal businesses was mainly due to: (i) further expansion in the scale of business by increasing the cultivation and promotion of new markets and new businesses continuously under the Group's strategic guidance of "one core business with diversification into related businesses" (「一業為主、相關多元」); and (ii) the corresponding increase in the Group's revenue as the PRC government increased investment efforts in the construction of intercity railways.

## *Analysis of orders*

During the reporting period, new orders signed by the Group amounted to RMB60,731.1 million, increased by 22.74% as compared to the preceding year. During the reporting period, the Group realized stable growth in new orders signed in respect of domestic railway business, the value of export orders signed for the year in overseas business was RMB2,700.2 million, decreased by 2.45% as compared to the preceding year.

## *Cost of sales*

During the reporting period, the cost of sales of the Group amounted to RMB26,043.3 million, increased by 18.5% as compared to the preceding year, which was mainly due to an increase in business volume that caused an increase in the cost of sales. Gross profit of the Group was RMB8,390.4 million, increased by 13.0% as compared to the preceding year. Gross profit margin was 24.4%, decreased by 0.9 percentage point as compared to the preceding year, which was mainly due to a change in the Group's structure of sales, so the overall gross profit margin of the Group declined slightly.

## *Other income and gains*

During the reporting period, other income and gains of the Group amounted to RMB380.5 million, decreased by 7.4% as compared to the preceding year. This was mainly due to a decrease in exchange gains caused by a fall in the RMB/HK\$ exchange rate.

## *Selling and distribution expenses, administrative expenses and finance costs*

During the reporting period, the three items of expenses of the Group amounted to RMB4,159.9 million, representing an increase of 6.9% or RMB267.9 million as compared to RMB3,892.0 million in the preceding year. The three items of expenses accounted for 12.1% of revenue, representing a decrease of 1.1 percentage points as compared to 13.2% in the preceding year, among which: (i) the selling and distribution expenses were RMB692.6 million, increased by 1.2% as compared to the preceding year, primarily due to an increase in selling and distribution expenses arising from business development; (ii) the administrative expenses were RMB3,415.5 million, increased by 7.5% as compared to the preceding year, primarily due to an increase in R&D investment and production safety expenses; (iii) the finance costs were RMB51.8 million, increased by 72.7% as compared to the preceding year, primarily due to an increase in finance costs on borrowings for ordinary production and operational use.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Profit before tax*

For the foregoing reasons, during the reporting period, the Group's profit before tax was RMB4,285.7 million, an increase of 12.3% as compared to the preceding year.

## *Income tax expense*

During the reporting period, the Group's income tax expense was RMB772.6 million, increased by 23.7% as compared to the preceding year. The effective tax rate of the Group was 18.0%, an increase of 1.6 percentage points as compared to the preceding year, primarily due to a faster increase in the operating profit of subsidiaries subject to an income tax rate of 25% for the year.

## *Net profit for the year*

For the foregoing reasons, during the reporting period, the Group's profit for the year was RMB3,513.1 million, an increase of 10.1% as compared to the preceding year.

## II. Segment Results

The table below sets forth the revenue and results on segments of the Group during the reporting period.

Unit: RMB million (except for percentages)

Segment results	Revenue	Cost of sales	Gross profit margin (%)	Increase/ (Decrease) in revenue compared to preceding year (%)	Increase/ (Decrease) in cost of sales compared to preceding year (%)	Increase/ (Decrease) in gross profit margin compared to preceding year Percentage point
Rail transportation control system						
Design and integration	8,604.1	5,108.9	40.6	9.0	5.6	1.9
Equipment manufacturing	5,792.2	3,359.4	42.0	(18.9)	(24.8)	4.6
System implementation	10,200.7	8,901.3	12.7	22.0	20.4	1.2
Construction contracting	9,635.3	8,513.2	11.6	67.0	67.5	(0.3)
Other businesses	201.4	160.5	20.3	(13.7)	(14.0)	0.3
Total	<u>34,433.7</u>	<u>26,043.3</u>	<u>24.4</u>	<u>17.1</u>	<u>18.5</u>	<u>(0.9)</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

**Design and integration:** revenue from the design and integration business is mainly derived from the provision of engineering design and system integration services for rail transportation control system projects, and integrated solutions designed to achieve the functionality and performance of the control systems. During the reporting period, revenue from the design and integration business was RMB8,604.1 million, a year-on-year increase of 9.0%. Gross profit margin was 40.6%, a year-on-year increase of 1.9 percentage points, primarily due to: (i) an increase in gross profit margin caused by enhancement in corporate core competitiveness brought by an accelerated transfer of technological achievement and active progress in the R&D on commercialization of core products driven by innovations insisted by the Group; (ii) an increase in revenue from projects as the Group increased efforts for the settlement and clearance of completed system integration projects and cooperated actively with owners to allow compensation for contract changes and clearance by estimation; (iii) the continuous increase in business sales orders as a result of the enhancement in the Group's capacity to undertake ultra-significant projects through closely tracking changes in domestic and overseas markets and in the industry and by making timely adjustment to production and operation strategies to improve the marketing model.

**Equipment manufacturing:** revenue from the equipment manufacturing business is mainly derived from the manufacturing and sale of signal system products, communication information system products and other products. During the reporting period, revenue from the equipment manufacturing business was RMB5,792.2 million, a year-on-year decrease of 18.9%. Gross profit margin was 42.0%, a year-on-year increase of 4.6 percentage points, primarily due to: (i) a decrease in the Group's revenue from business as the demand in the railway market experienced a cyclical slowdown during the year and the sales of railway signal equipment dropped down; (ii) an increase in the gross profit margin of the equipment manufacturing segment ensured by strengthening the Group's cost-cutting and efficiency enhancement measures such as centralized procurement management, stringent control of costs and expenses and optimization in the allocation of remuneration.

**System implementation:** revenue from the system implementation business is mainly derived from the provision of construction, installation, testing and maintenance services for rail transportation control system projects. During the reporting period, revenue from the system implementation business was RMB10,200.7 million, a year-on-year increase of 22.0%. Gross profit margin was 12.7%, a year-on-year increase of 1.2 percentage points, primarily due to: (i) increase in business volume in system implementation segment due to the government's continuous increasing investment in the urban transit construction in China and continuous expansion in the market share of railway and urban transit services provided by enterprises in the system implementation business through seizing opportunities, enhancing corporate qualifications and leveraging on their strong comprehensive capabilities and branding influence; (ii) further enhancement in the gross profit margin of projects by strictly following standardized management, stringently controlling the quality and costs of projects, enhancing the standards of refined management and actively implementing the responsibility of cost management in the project implementation process.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Construction contracting:** revenue from construction contracting business is mainly derived from the provision of municipal engineering and related construction services. During the reporting period, revenue from construction contracting business was RMB9,635.3 million, a year-on-year increase of 67.0%, primarily due to continuous implementation of the Group's development strategy of "one core business with diversification into related businesses", active cooperation with local government and accelerated construction of municipal engineering projects such as municipal rail transportation ancillary projects, sponge cities, comprehensive pipe galleries, intelligent buildings and intelligent architecture led by local government, resulting in a rapid growth in the revenue of the construction contracting segment, to an extent ease the impact of slowdown in traditional business, which eased the impact of decline in traditional business to some extent.

**Other businesses:** revenue from other businesses is mainly derived from raw material trading and logistics. During the reporting period, revenue from other businesses was RMB201.4 million, a year-on-year decrease of 13.7%. Gross profit margin was 20.3%, a year-on-year increase of 0.3 percentage point, primarily due to a decrease in revenue from other businesses as the Group compressed and reduced the scale of trading business.

The table below sets forth the revenue of the various business lines of the Group during the reporting period.

Unit: RMB million (except for percentages)

	2017		2016		Increase/ (Decrease) (%)
	Revenue	Percentage (%)	Revenue	Percentage (%)	
Domestic market	33,650.6	97.7	28,686.6	97.6	17.3
Railway	16,606.2	48.2	16,762.3	57.1	(0.9)
Urban transit	7,207.7	20.9	5,920.4	20.1	21.7
Construction contracting	9,635.3	28.0	5,770.4	19.6	67.0
Other business	201.4	0.6	233.5	0.8	(13.7)
Sub-total	33,650.6	97.7	28,686.6	97.6	17.3
Overseas market	783.1	2.3	715.5	2.4	9.4
Total	34,433.7	100.0	29,402.1	100.0	17.1

During the reporting period, the Group's operating revenue from domestic market was RMB33,650.6 million, representing a year-on-year increase of 17.3%, primarily due to: (i) the Group's adherence to the development strategy of "one core business with diversification into related businesses" by expanding into emerging businesses such as the development of Smart Cities, sponge cities and urban comprehensive pipe galleries, driving up the revenue of the construction contracting segment significantly; and (ii) increasing the business volume in the domestic market due to persistent increase in investments for the construction of urban transit by the PRC government.

During the reporting period, the Group's operating revenue from overseas market was RMB783.1 million, representing a year-on-year increase of 9.4%, primarily due to the Group's active participation in the "One Belt, One Road" and "Go Global" strategies implemented by the PRC government, which resulted in higher business volume for the year.



# MANAGEMENT DISCUSSION AND ANALYSIS

## III. Analysis of Statement of Cash Flows

### Analysis of changes in the relevant items of the statement of cash flows

Unit: RMB million

	2017	2016
Net cash flow (used in)/generated from operating activities	<b>(886.0)</b>	2,935.1
Net cash flow (used in)/generated from investing activities	<b>(1,729.2)</b>	422.1
Net cash flow used in financing activities	<b>(140.2)</b>	(640.8)

During the reporting period, the Group's net cash flow used in operating activities was RMB886.0 million, as compared to a net cash flow of RMB2,935.1 million generated from operating activities during last year, primarily due to an increase in cash outflow from operating activities during the year as the Group's invested PPP projects entered into the construction stage for the main structure.

During the reporting period, the Group's net cash flow used in investing activities was RMB1,729.2 million, as compared to a net cash flow of RMB422.1 million generated from investing activities last year, primarily due to the increase in the Group's expenditures on purchase and construction of fixed assets and equity investments for the year, and the decrease in the maturity and recovery of some time deposits with maturity of more than three months of this year.

During the reporting period, the Group's net cash flow used in financing activities was RMB140.2 million, as compared to a net cash flow of RMB640.8 million used in financing activities during last year, primarily due to an increase in low-interest policy bank borrowings received during the year.

## IV. Financial Ratios

	2017	2016
Current ratio <sup>(1)</sup>	<b>142.5%</b>	157.6%
Quick ratio <sup>(2)</sup>	<b>132.8%</b>	145.3%
Gearing ratio <sup>(3)</sup>	<b>7.4%</b>	5.1%
Return on total assets <sup>(4)</sup>	<b>6.3%</b>	6.9%
Return on equity <sup>(5)</sup>	<b>14.7%</b>	15.0%

### Notes

- (1) Current ratio is calculated by dividing total current assets by total current liabilities as at the relevant date and multiplying by 100%.
- (2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the relevant date and multiplying by 100%.
- (3) Gearing ratio is calculated by dividing total debt by total equity as at the relevant date and multiplying by 100%. Total debt means the sum of long-term and short-term interest-bearing debts.
- (4) Return on total assets is calculated by dividing profit for the year by average balance of total assets at the beginning and at the end of the year and multiplying by 100%.
- (5) Return on equity is calculated by dividing profit for the year by average balance of the total equity at the beginning and at the end of the year and multiplying by 100%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## V. Liabilities

Unit: RMB million (except for percentages)

	31 December 2017		31 December 2016		
	Amount at the end of the year		Amount at the end of the year		Increase/ (Decrease)
	Amount	Proportion to total liabilities (%)	Amount	Proportion to total liabilities (%)	
Total current liabilities	<b>34,473.6</b>	<b>95.7</b>	26,398.6	95.6	30.6
Including: Interest-bearing					
bank and other borrowings	<b>1,328.8</b>	<b>3.7</b>	931.2	3.4	42.7
Trade and bills payables	<b>24,232.7</b>	<b>67.3</b>	15,645.2	56.7	54.9
Other payables and accruals	<b>5,199.4</b>	<b>14.4</b>	5,647.5	20.5	(7.9)
Amount due to contract customers	<b>3,244.8</b>	<b>9.0</b>	3,812.9	13.8	(14.9)
Total non-current liabilities	<b>1,546.4</b>	<b>4.3</b>	1,205.9	4.4	28.2
Including: Interest-bearing					
bank and other borrowings	<b>547.0</b>	<b>1.5</b>	220.5	0.8	148.1
Total liabilities	<b>36,020.0</b>	<b>100.0</b>	27,604.5	100.0	30.5

As at the end of the reporting period, short-term interest-bearing bank and other borrowings in the Group's current liabilities increased by 42.7% as compared to last year, mainly attributable to the increase in low-interest policy bank borrowings due to capital needs for normal business operations.

As at the end of the reporting period, trade and bills payables in the Group's current liabilities increased by 54.9% as compared to last year, primarily due to business development of the Group.

As at the end of the reporting period, other payables and accruals in the Group's current liabilities decreased by 7.9% as compared to last year, primarily due to the decrease in project payables, resulting from construction of properties, plant and equipment.

As at the end of the reporting period, amount due to contract customers in the Group's current liabilities decreased by 14.9% as compared to last year, primarily due to a decrease in the number of settled but uncompleted projects as the Group actively accelerated the construction progress of construction projects while fully assuring the quality of projects at the same time.

As at the end of the reporting period, long-term interest-bearing bank borrowings and other borrowings in the Group's non-current liabilities increased by 148.1% as compared to last year, primarily due to the increase in low-interest policy long-term borrowings of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Borrowings

As at the end of the reporting period, the Group had total interest-bearing bank and other borrowings of approximately RMB1,875.8 million, representing an increase of 62.9% from RMB1,151.7 million of last year, primarily due to the increased demand for low-interest policy borrowings to support normal production operations.

As at the end of the reporting period, the Group's total interest-bearing bank and other borrowings were denominated in RMB. As at the end of the reporting period, the long-term interest-bearing borrowings and short-term interest-bearing borrowings of the Group amounted to RMB547.0 million and RMB1,328.8 million, respectively. The table below sets forth the maturity profile of interest-bearing bank and other borrowings repayable by the Group as at 31 December 2017 and 31 December 2016:

Unit: RMB million

	<b>31 December 2017</b>	31 December 2016
Bank loans		
Within one year	<b>1,328.7</b>	931.1
In the second year	<b>417.0</b>	200.0
After five years	<b>109.7</b>	—
	<b>1,855.4</b>	1,131.1
Other borrowings		
Within one year	<b>0.1</b>	0.1
In the second to fifth years, inclusive	<b>20.3</b>	20.5
	<b>20.4</b>	20.6
Total	<b>1,875.8</b>	1,151.7

As at the end of the reporting period, the Group's total bank and other borrowings at floating interest rates amounted to RMB542.7 million, as compared to RMB945.0 million as at 31 December 2016.

As at the end of the reporting period, the total capitalized interest was nil.

As at the end of the reporting period, interest-bearing bank and other borrowings of the Group included guaranteed and pledged borrowings of RMB334.3 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Pledged assets

As at the end of the reporting period, certain assets of the Group with a total carrying value of RMB319.2 million (last year: RMB383.5 million) were pledged for issue of bank acceptance bills, security deposits for letters of guarantee and performance bonds. Such assets included bills receivable in the amount of RMB131.4 million (last year: RMB211.9 million) and bank deposits in the amount of RMB187.8 million (last year: RMB171.6 million).

## Liquidity

As at the end of the reporting period, the Group had credit facilities of approximately RMB45,600.0 million granted by commercial banks to the Group, of which approximately RMB41,987.2 million was unused and unrestricted. As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB12,879.4 million, of which RMB11,817.9 million was denominated in Renminbi, RMB112.2 million was denominated in US dollars, RMB14.7 million was denominated in Euros, RMB922.0 million was denominated in Hong Kong dollars and RMB12.6 million was denominated in rupees.

## VI. Capital Expenditures and Capital Commitments

As at the end of the reporting period, capital expenditures on cash basis of the Group amounted to RMB1,252.5 million, including property, plant and equipment of RMB1,088.7 million, prepaid land lease payments of RMB133.9 million and other intangible assets of RMB29.9 million.

As at the end of the reporting period, the Group had capital commitments of RMB737.2 million contracted for but not yet incurred, which would be mainly used for capital allocation to the PPP project company and investment in the construction of the CRSC Railway Transportation Research Center. The table below sets forth the commitments of the Group as at 31 December 2017 and 31 December 2016:

	Unit: RMB million	
	2017	2016
Contracted but not provided for:		
– Property, plant and equipment	188.0	1,219.8
Investment commitments	549.2	963.6
	<u>737.2</u>	<u>2,183.4</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## VII. Contingent Liabilities

As at the end of the reporting period, the Group had no material contingent liabilities.

## VIII. Employees and Remuneration Policies

As of the end of the reporting period, the Group had 18,314 full-time employees and its total staff costs for the year reached RMB4,027.6 million. The employee recruitment and retention policy reflects numerous factors including the market environment, business needs and expansion plans. The Group plans to recruit, nurture and retain professional talents by a series of procedures during the recruitment and training phases, together with attractive performance-based remuneration packages and development opportunities. The Group performs regular employee performance evaluation with the remuneration and bonus linked with performance. In addition, the Group implements training schemes according to different work requirements and believes that these measures will help enhance employees' productivity.

## IX. Business Outlook for 2018

### *Competition landscape and development trend of the industry*

Competition landscape: As the overall economy of China enters into a new normality, the general basic objective to achieve “stability with progress” continued to maintain. With continuous construction of national railways and urban transit transportation systems, the railway transportation market, in particular the communication signal market, has become a hot spot of attention, and market competition will become more intensive. However, the advantageous position of the Group will remain unchanged in the foreseeable future.

As of the end of the reporting period, in the Chinese high-speed train integration market featuring communications, signal, power and electrification, the Group boasted a mileage coverage ratio of winning bids of almost 60% for routes with a speed of 200 to 250 km/h, ranking the first with major competitors including CRCC, CREC and their subsidiaries; and CRSC achieved a mileage coverage ratio of winning bids of over 70% for routes with a speed of 300 to 350 km/h, ranking the first with major competitors including CRCC and its subsidiaries. For the core product market of China's high-speed railway control system, the Group has been participating in the provision of core products for high-speed railway core equipment including train control center, central dispatching system, radio block center, computer interlocking, track circuit and vehicle-mounted automatic protection system with a leading position by market shares in these areas.

As of the end of the reporting period, for the urban transit transportation market, the Group's core railway transportation control system products and services covered 20 provinces or autonomous regions in China and the four municipalities, namely Beijing, Shanghai, Tianjin and Chongqing; its market share in the urban transit signal system market by contract volume was almost 50%, enjoying a solid lead over competitors. With the CBTC systems independently developed by the subsidiary design institute of CRSC and by CRSC CASCO, the Group will continue to enjoy an absolute advantage in terms of market share in the future.



# MANAGEMENT DISCUSSION AND ANALYSIS

Development trend: In 2018, the fixed asset investment in railways will be less than RMB800 billion, a decrease as compared to the preceding year, but the mileage of new routes which will commence operation will reach 4,000 km (of which 3,500 km are high-speed railways), more than the mileage in 2017, which means the railway constructions under the 13th Five-Year Plan will begin to enter a concentrated delivery period, the growth in demand for the Group's signal system and related equipment will continue. Moreover, with the arrival of the overhaul period for high-speed railways, the high-speed railway reconstruction market also see opportunities for new movements, which will bring new points of profit growth in the operational and maintenance area, creating a better external environment for the stability and growth of the Group's railway business segment. The construction of intercity railways which was dominated by local investments also presents a rapid development trend. At present, the construction of more than 5,000 km of intercity railway network has been planned for China, with Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta to be the key regions for the development of the intercity railways. In 2017, more than 1,000 km in mileage across the nation commenced construction, the optimistic trend in construction is expected to continue in 2018. The Group's good operation record on automated driver control system for intercity railways has laid a good foundation for expansion in the intercity railway market. Urban transit presented a trend of accelerating development, more than 868 km of new lines were added in 2017, increased by 330 km or more than 60% when compared with 2016. In 2018, the bids for metro and tram equipment in urban transit transportation will continue to remain at high level. The urban transit automated control system owned by the Group will be benefited significantly from the fast expansion in market size and will become a key point of growth that drives business development of the Group. Moreover, emerging business markets such as Smart City have also shown a booming trend, more than 300 cities across the nation have made planning relating to Smart City. The next few years will be the years for implementation, this will bring good market opportunities for the implementation of the Group's Smart City solutions. Overseas markets continue to present good development momentum, many railway and metro projects are constructed busily under progress.

## *Development strategies of the Group*

The Group will adhere to the quality and safety as the first principle, and shoulder the mission of leading the national railway communication and signal industry in the "Going Global" process. The Group will expedite technological innovation, accelerate transformation and upgrading, take advantage of industry chain integration, and put an emphasis on making strategic breakthroughs in the structural adjustments to industry products, historical breakthroughs in core technologies, and international breakthroughs in high-speed train standards and industry export of China. The Group will continuously enhance our management standards as a modern enterprise and actively integrate into the global competitive landscape, building up a cross-national industry group of international standards featuring rail transportation control technology.

## *Operational plans*

Based on the "seven business sectors" confirmed by the medium and long term strategy, the Group accelerated technological innovation, transformation and upgrading, leveraging the advantages of industry chain integration and by way of investment and acquisition and merger as well as resources consolidation to strengthen the foundations of traditional businesses while developing emerging businesses. To achieve the operations targets, the Group will further strengthen its two-tier operation system and enhance its sales and marketing layout; step up sales and marketing efforts to increase market share; create innovative business and commercial models to explore emerging markets and businesses; and strengthen overseas market development to accelerate the progress of internationalization.

# MANAGEMENT DISCUSSION AND ANALYSIS

## X. Potential risks and risk management

The risks faced by the Group include risks arising from changes in macroeconomy and policies and risks associated with the Group's business. In response to these risks, the Group will endeavor to build a scientific and well-established risk management system and closely monitor, manage and prevent macro-level risks from aspects such as risk assessment, financial control, internal audit and legal risk control.

### *Macro-economic and policy risks*

At the macro environment level, the Group's future development is subject to a lot of uncertainties. Against a backdrop where the global economy faces a slow recovery and China's economy enters the new normal stage, factors such as foreign exchange control system, tax policies and infrastructure industry policies of China may be subject to adjustments with the changes in economic environment. All these may directly affect the infrastructure industry where the Group operates one of its main businesses and its implementation of overseas mergers and acquisitions.

The risks of the Group from fluctuations in market interest rates mainly arise from floating rate bank borrowings. The Group manages its interest rate risks by regularly examining the fixed rate and floating rate borrowings portfolio. During the reporting period, the Group did not use interest rate swaps to hedge interest rate risks.

The majority of the Group's businesses are transacted in Renminbi. Renminbi is not freely convertible into foreign currencies and conversion of Renminbi into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Yet as most of the Group's business operations are in Mainland China, the effect of the fluctuations in the exchange rates of Renminbi against foreign currencies on the Group's results of operations is therefore minimal and as at the end of the reporting period, the Group has not entered into any hedging transactions to reduce the Group's exposure to foreign currency risk in this regard.

### *Business risks*

Unstable macro environment in the economy, policies and other aspects of the target countries; the risk of unable to pass the merger and acquisition review conducted by the country in which the subject for acquisition is located; the difficulty in consolidating resources and integrating corporate culture after the acquisition. Furthermore, the intellectual property risks of the Group are inseparable from the Company's production and operation activities, affecting the whole process of the Company's operation, mainly manifested in the risks of intellectual property being infringed in areas such as corporate names, patented technologies, propriety technologies, registered trademarks, commercial secrets and product packages and decorations. Meanwhile, the Company also faces the risk of infringing the intellectual property of others and being involved in intellectual property disputes and inappropriate competitive acts.

The overseas markets of the Group keep on expanding, yet the operational experience on overseas legal matters is limited. The export business of the Group is therefore facing legal risks concerning the intellectual property rights and applicable laws.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Credit risks*

The change in the financing environment may pose a risk of failing to meet the cash demand for production operations and investment activities; the change in the product market may pose a risk of failing to satisfy capital demand for production operations due to imbalanced production volume and higher capital demand during the peak production season of the Group; under the impact of the economic environment, the operations of certain customers may suffer considerably due to the volatile market, making it more difficult for the Company to collect its accounts receivables.

Credit risks of the Group mainly arise from cash and cash equivalents, pledged deposits, trade and bills receivables, financial receivables, available-for-sale investments and financial assets included in prepayments, deposits and other receivables. The Group has formulated 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. 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.

## *Liquidity risks*

Domestic market competition is becoming more intensive, and the strict control of the scale of local debt regarding the development of urban transit by local authorities has resulted in a tendency to adopt a PPP model for rail transportation projects such as metro projects, resulting in longer investment duration, higher occupied capital and increased investment risks, which may cause the risk of failure to meet the funds necessary for production and operation.

The liquidity risk of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. The Group has made use of a wide range of bank loans of varying repayment schedules as well as other loans to ensure a consistently abundant capital supply with flexibility while guaranteeing that the obligation of outstanding loans of the Group does not pose material repayment risk in any given year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Core competitiveness

### 1. *Strong technological innovation and system integration capabilities*

CRSC, boasting a leading technological position in the railway communication and signal industry in China, engages itself in the setting of industry standards and specifications of the Chinese railway communication and signal industry. With strong technological innovation capabilities, the Company developed the C3 train control system technology and the CBTC system technology with proprietary intellectual property rights and has strong system integration capabilities.

### 2. *A whole industry chain comprehensive advantage*

CRSC has set up a relatively complete and professional industry chain, and is capable of providing one-stop services including capital operation, research and design, construction contracting, system integration, products manufacturing, technological services, as well as operational maintenance.

### 3. *Leading technical professionals within the industry*

During the long period of project practice, CRSC has built up a hard-working team that always rises up to challenges and lives up to its expectations. Our communication and signal technical professionals, in particular, demonstrate outstanding capabilities and have major influence in the industry.

### 4. *Excellent customer relationship*

CRSC has undertaken a large number of key state projects over the years and accumulated rich technological experience. Through business operations and engineering practice, CRSC has built up a solid customer base and excellent cooperation resources.

### 5. *High quality assets and sufficient room for financing*

With good operations results in the past few years, CRSC has maintained sound business development. With a low gearing ratio that is at a good industry standard, the Company has high quality assets and good financing capability featuring multiple channels and low costs, which can well support the transformation and upgrading needs of the Company in its development.

# REPORT OF THE DIRECTORS

The Board hereby presents this report of the Directors, annual announcement as well as the Group's audited consolidated financial statements for 2017 prepared in accordance with the IFRS to the Shareholders.

## CORPORATE INFORMATION AND INITIAL PUBLIC OFFERING

The Company was incorporated as a joint stock Company in the PRC with limited liability on 29 December 2010. The H Shares of the Company have been listed on the Main Board of the Hong Kong Stock Exchange since 7 August 2015.

Basic information about the Company is set out in "Corporate Information" on pages 4 to 6 of this report.

## BUSINESS REVIEW

The Company is a rail transportation control system solution provider offering specialized one-stop solutions that cover design and integration, equipment manufacturing and system implementation services for rail transportation control systems to its customers. Through its "three-in-one" business model, the Company has become a rail transportation control system solution provider that is capable of independently providing an entire suite of products and services across the whole market chain.

The Company is principally engaged in the following four business lines:

- *Design and integration*: mainly includes engineering design and system integration services for rail transportation control system projects, and integrated solutions designed to achieve functionality and performance of control system;
- *Equipment manufacturing*: mainly includes manufacturing and sale of signal system products, communication information system products and other products;
- *System implementation*: includes construction, installation, testing and maintenance services for rail transportation control system projects; and
- *Construction contracting*: mainly includes the contracting of municipal projects and related construction services.

The discussion and analysis of the Group's performance for the year and the key factors and future development affecting its results and financial position are set out in "Financial Highlights" and "Management Discussion and Analysis" on pages 7 to 21, this "Report of the Directors", and "Significant Events" on pages 48 to 49 of this report.

Details of the major subsidiaries, joint ventures and associates of the Company will be set out in note 1 to the financial statements.



# REPORT OF THE DIRECTORS

## ENVIRONMENTAL POLICIES AND PERFORMANCE OF THE COMPANY

In 2017, the Group continuously paid close attention to energy conservation and environmental protection, striving to create a green, safe and comfortable working environment. The Group achieved remarkable results in building a paperless office by establishing various means to handle work via electronic means, including the construction of an IT-oriented platform. Meanwhile, the Group also endeavoured to raise energy conservation awareness and to minimize the consumption of water, electricity, coal, gas and other resources through management of energy conservation and consumption reduction in its office areas. In addition, the Group encouraged its staff to convene meetings in the form of teleconference to reduce the use of vehicles and to avoid travel, so as to minimize carbon emission and energy consumption arising from business trips.

Details of the environmental policies and performance of the Company are set out in the “Environmental, Social and Governance Report” to be published within 3 months of the date of the 2017 annual report of the Company.

## COMPLIANCE WITH LAWS AND REGULATIONS

As the Group’s main businesses are to provide specialized one-stop solution of design and integration, equipment manufacturing and system implementation services for rail transportation control systems to our customers, the Group is subject to relevant PRC policies, laws and regulations, including the Railway Law of the People’s Republic of China and the Production Safety Law of the People’s Republic of China and are under supervision of other government authorities. Such laws, regulations and policies mainly govern the operation and management of railway industry. In addition, all our business operations in the PRC are subject to the laws and regulations regarding quality, safety production, environmental protection, intellectual property and labor. Besides, any violation of those laws and regulations may result in sanctions, including warnings, penalties and remedies, which will have an adverse impact on the Group’s business operation and future development.

In addition, the Group is required to obtain and maintain valid permits, licenses, certificates and approvals from various governmental authorities or institutions under relevant laws and regulations for our businesses of design and integration, equipment manufacturing and system implementation services. The Group must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain the Group’s permits, licenses, certificates and approvals. Should the Group fail to comply with any of the regulations or meet any of the conditions required for the maintenance of the Group’s permits, licenses, certificates and approvals, such permits, licenses, certificates and approvals could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely impact our Group’s business, financial condition and results of operations.

As an H share company incorporated in the PRC with limited liabilities and listed on the Hong Kong Stock Exchange, the Company is governed by various applicable domestic laws and regulations including the Company Law, the Production Safety Law of the People’s Republic of China (《中華人民共和國安全生產法》), the Standards for Corporate Governance of Listed Companies (《上市公司治理準則》) promulgated by the CSRC, the Guideline on Comprehensive Risk of Central Enterprises (《中央企業全面風險指引》) promulgated by the SASAC, as well as the Hong Kong Listing Rules and the Securities and Futures Ordinance.

# REPORT OF THE DIRECTORS

The Group has implemented internal control measures to ensure its compliance with such laws and regulations. Having reviewed the business performance of the Group, the Board is of the view that the Group has been in compliance with the requirements of relevant laws and regulations in all material respects.

The discussion and analysis of legal risks exposed to the Company are set out in “Management Discussion and Analysis” on pages 8 to 21 of this report.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company has been listed on the Main Board of the Hong Kong Stock Exchange since 7 August 2015. The net proceeds (net of Stock Exchange trading fee, SFC transaction levy, registration fee of Computershare Hong Kong Investor Services and fees charged by the receiving bank) from the Company’s initial public offering of new Shares for the purpose of its listing on the Stock Exchange and issue of new Shares upon partial exercise of the over-allotment option amounted to approximately HK\$11,274.7 million, which were intended to be utilized for the proposed use as set out in “Future Plans and Use of Proceeds” of the Prospectus of the Company dated 28 July 2015.

The actual use of proceeds from the Company’s initial public offering of new Shares for the purpose of its listing on the Stock Exchange and issue of new Shares upon partial exercise of the over-allotment option is as follows:

As at the end of the reporting period, total usage of the proceeds raised amounted to RMB5,389.4 million. Of which, RMB1,330.7 million was used in the construction of the CRSC Railway Transportation Research Center; RMB2,533.7 million was used in the technical overhaul of CRSC Xi’xin, our subsidiary, Zhengzhou Industrial Park, Changsha Industrial Park, Jishou Ganyuan Industry Park Project and Siping Comprehensive Pipe Gallery Project; RMB625.0 million was used in the Tianshui Tramcar Project; and RMB900.0 million was used in replenishing liquidity. The Company confirmed that the aforesaid use of proceeds is consistent with the use of proceeds as disclosed in the Prospectus.

Save for the use of proceeds mentioned above, the Company’s remaining amount of proceeds was approximately HK\$1,059.5 million, and RMB2,858.0 million remained unused and was deposited in the special account maintained by the Company in the bank.

The Company confirmed that during the year none of the aforesaid proceeds nor other funds raised through the Hong Kong Stock Exchange was used directly or indirectly to finance or assist (i) any activities or business in connection or carried out with any sanctioned subjects, or any activities or business in connection or carried out with any countries sanctioned by the United States, European Union, Hong Kong, Australia or United Nations or located in such countries, or (ii) any activities or business in connection with CRSC International Holdings Company Ltd., a subsidiary of the Company, considering the amount of annual income of CRSC International Holdings Company Ltd. from projects relating to Iran during the track record period. In addition, the Company also confirmed that the Company did not carry out any sanctioned transaction during the year which may lead the relevant person or the Group to face the risk of being sanctioned. To ensure compliance with the undertakings made to the Hong Kong Stock Exchange, the Group will continue to monitor and evaluate our business and adopt measures to protect the interests of the Group and the Shareholders.

# REPORT OF THE DIRECTORS

## PERFORMANCE AND DISTRIBUTION

The performance of the Group for the year ended 31 December 2017 is set out in the audited consolidated statement of profit and loss and other comprehensive income on page 93. The financial position of the Group for the year ended 31 December 2017 is set out in the consolidated statement of financial position on pages 94 to 95 of this report.

According to the “2016 Profit Distribution Proposal” considered and approved by the Shareholders of the Company at the 2016 annual general meeting held on 19 May 2017, the Company distributed the payment of cash dividend of RMB0.10 per Share (tax inclusive) as final dividend for 2016 to Shareholders whose names appeared in the register of members of the Company on 31 May 2017. The 2016 final dividend distributed was denominated and declared in RMB, in respect of which domestic Shareholders were paid in RMB and H Shareholders were paid in Hong Kong dollars. The exchange rate of Hong Kong dollars was calculated in accordance with the average central parity rate (i.e. RMB0.88212 to HK\$1.00) published by the PBOC on three business days (including the day of declaring dividend, i.e. from 17 May 2017 to 19 May 2017) prior to the annual general meeting, therefore the amount of dividend payable for each H Share would be HK\$0.11336 (tax inclusive). For details, please refer to the announcement of the Company dated 19 May 2017. The final dividend was paid on 17 July 2017.

# REPORT OF THE DIRECTORS

## DISTRIBUTION PLAN AND POLICY OF FINAL DIVIDEND

### Final Dividend

According to the “Resolution in Relation to the Profit Distribution Policy of the Company” passed at the 2015 second general meeting held on 21 May 2015 and the dividend policy as set out in the Prospectus of the Company, the Company will distribute cash dividends under the circumstances that the profit and accumulated undistributed profit of the year are both positive and the cash reserve is abundant. The profit to be distributed in cash every year will be no less than 15% of the distributable profit of the realized consolidated financial statement of the year (the lower of the audit results of the accounting rules of the PRC and the IFRS).

The Board has proposed to distribute 2017 final dividend to the domestic Shareholders and H Shareholders whose names appear on the register of members of the Company on Wednesday 6 June 2018 by declaring a cash dividend of RMB0.15 (tax inclusive) per share. The 2017 final dividend to be distributed will be denominated and announced in RMB, of which domestic Shareholders will be paid in RMB and H Shareholders will be paid in HK dollars. The exchange rate of HK dollars will be calculated in accordance with the average central parity rate published by the PBOC of the three working days before the day the dividend distribution announcement is made (inclusive of the day of the dividend distribution announcement). It is expected that the final dividend will be distributed on 25 July 2018. The above profit distribution plan is subject to approval at the 2017 annual general meeting of the Company.

Details of closure of register of members as required due to distribution of dividend are set out in “Significant Events” on page 48 to page 49.

### Final dividend income tax applicable to overseas Shareholders

#### ***Withholding and Payment of EIT on behalf of Overseas Non-Resident Enterprise Shareholders***

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and its implementing rules and the requirements under the Notice on the Issues Concerning Withholding and Payment of the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation (國家稅務總局《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)), the Company will withhold and pay EIT at the rate of 10% when it distributes the final dividend to overseas non-resident enterprise holders of H Shares (including any H Shares of the Company registered in the name of HKSCC Nominees Limited, but excluding any H Shares of the Company registered in the name of HKSCC Nominees Limited which are held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder on behalf of investors who invest in the H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect).

#### ***Withholding and Payment of Individual Income Tax on behalf of Overseas Individual Shareholders***

Pursuant to the applicable provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementing rules, the Tax Notice, the Notice of the State Administration of Taxation on Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) and other relevant laws, regulations and requirements under normative documents, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on behalf of the overseas individual H Shareholders:

# REPORT OF THE DIRECTORS

- For individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these individual H Shareholders in the distribution of the final dividend;
- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of these individual H Shareholders in the distribution of the final dividend. If relevant individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice. Qualified Shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to the competent tax authorities and, after their examination and if and when approved, the Company will assist in refunding the excess amount of tax withheld and paid;
- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these individual H Shareholders in the distribution of the final dividend; and
- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these individual H Shareholders in the distribution of the final dividend.

Final dividend income tax applicable to Shareholders in Mainland China investing in H Shares of the Company through Southbound Trading Link

### ***Withholding and Payment of Individual Income Tax on behalf of Domestic Individual Shareholders Investing through Southbound Trading Link***

- **Shanghai-Hong Kong Stock Connect:** Pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), for domestic individual Shareholders who invest in H Shares of the Company through Shanghai-Hong Kong Stock Connect (such H shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the final dividend. For domestic Shareholders who are securities investment funds investing in H Shares of the Company through Shanghai-Hong Kong Stock Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the final dividend.



# REPORT OF THE DIRECTORS

- **Shenzhen-Hong Kong Stock Connect:** Pursuant to the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), for domestic individual Shareholders who invest in H Shares of the Company through Shenzhen-Hong Kong Stock Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the final dividend. For domestic Shareholders who are securities investment funds investing in H Shares of the Company through Shenzhen-Hong Kong Stock Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the final dividend.

## ***No Withholding and Payment of EIT on behalf of Domestic Enterprise Shareholders Investing through Southbound Trading Link***

- **Shanghai-Hong Kong Stock Connect:** Pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), for domestic enterprise Shareholders who invest in H Shares of the Company through Shanghai-Hong Kong Stock Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will not withhold or pay EIT on their behalf in the distribution of the final dividend, and the domestic enterprise Shareholders shall report and pay the relevant taxes payable by themselves. Any dividend received in respect of H Shares of the Company which have been continuously held by a domestic enterprise Shareholder for 12 months shall be exempted from EIT.
- **Shenzhen-Hong Kong Stock Connect:** Pursuant to the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), for domestic enterprise Shareholders who invest in H Shares of the Company through Shenzhen-Hong Kong Stock Connect (such H Shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder), the Company will not withhold or pay EIT on their behalf in the distribution of the final dividend, and the domestic enterprise Shareholders shall report and pay the relevant taxes payable by themselves. Any dividend received in respect of H Shares of the Company which have been continuously held by a domestic enterprise Shareholder for 12 months shall be exempted from EIT.

H Shareholders of the Company are recommended to consult their own tax advisors on the relevant tax impact in China, Hong Kong and other countries (regions) on the possession and disposal of H Shares of the Company.

The time arrangement such as record date and the cash payment date of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect investors is in line with H Shareholders of the Company.



# REPORT OF THE DIRECTORS

## ISSUED SHARE CAPITAL

As of 31 December 2017, the total share capital of the Company was RMB8,789,819,000, divided into 8,789,819,000 Shares with a nominal value of RMB1.00 each. Details of the change of the share capital of the Company during the reporting period are set out in note 33 to the financial statements.

## REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor the Group repurchased, sold or redeemed any of the Company's listed securities during the reporting period.

## PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group for 2017 are set out in note 13 to the financial statements.

At the end of the reporting period, the Group had no investment properties or properties held for development and/or sale with one or more of the percentage ratios (as defined under Rule 14.04 (9) of the Hong Kong Listing Rules) exceeding 5%.

## TAXATION

Details of the taxation of the Group for 2017 are set out in note 9 to the financial statements.

## EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date of the Group are set out in note 45 to the financial statements.

## CAPITAL RESERVE, SURPLUS RESERVE AND SPECIAL RESERVE

Details of the capital reserve, surplus reserve and special reserve of the Group for 2017 are set out in note 34 to the financial statements.

## DISTRIBUTABLE RESERVE

As at 31 December 2017, the distributable reserve (retained earnings) of the Company amounted to RMB6,892.0 million.

Pursuant to Article 212 of the Articles of Association of the Company, "the financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the overseas place where the shares of the Company are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, explanations shall be made in the notes to financial statements. When the Company is to distribute its profit after taxation, the lower of the profit after taxation as shown in the two financial statements shall be adopted."

There is no discrepancy between the net assets at the end of 2017 as calculated in accordance with the accounting rules of the PRC and the IFRS. The distributable reserve of the Company as of 31 December 2017 is set out in note 34 to the financial statements.

# REPORT OF THE DIRECTORS

The Board proposes to set aside 10% of the profit after tax as the statutory surplus reserve in accordance with the Company Law and the Articles of Association of the Company, and not to set aside discretionary reserve. This proposal will be submitted to the 2017 annual general meeting for consideration and approval.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, total sales to the Company's five largest customers represented approximately 11.0% of total revenue for the year, among which total sales to the largest customer accounted for approximately 3.0% of total revenue for the year.

For the year ended 31 December 2017, total purchase from the Company's five largest suppliers represented approximately 6.7% of total cost of sales for the year, among which total purchase from the largest supplier accounted for approximately 1.8% of total cost of sales for the year.

In 2017, none of the Directors, close associates of the Directors or Shareholders of the Company (who, to the knowledge of the Directors, holds more than 5% of the issued share capital of the Company) had interests in the five largest customers or the five largest suppliers of the Group.

In terms of customer, the Group mainly provides rail transportation control system design and integration, equipment manufacturing and system implementation services to domestic and overseas customers to construct and upgrade the rail transportation control systems for railways and urban transit. In the railway sector, the majority of the Group's customers are China Railway Corporation affiliated entities. The Group generally wins purchase orders for railway control system products and services from the customers affiliated with China Railway Corporation through their public bidding processes. In the urban transit sector, the Group's customers are mostly metro construction companies and operation companies controlled by the local governments. The Group also regularly participates in industry exhibitions organized by China Railway Corporation, the PRC Communications and Transportation Association (中國交通協會) and the PRC Metro Committee (中國城市軌道交通專業委員會), through demonstrating our corporate strength and image, to advertise and promote our products to professional customers.

In terms of suppliers, the Group have multiple sources for most of our components and raw materials to reduce possible interruptions to our business operations and reliance on single supplier. This helps the Group to maintain stability of components and raw materials procurement. Therefore, quality or delivery problems with respect to any single supplier generally will not lead to a material adverse effect on the Group's business operations. The Group has maintained business relationships with various major suppliers for five years or more, and entered into legally binding, long-term supply framework agreements.

During the reporting period, the Group maintained good co-operation relationships with its major customers and suppliers. The Group kept contact with its customers and suppliers and maintained communication with them via various channels, such as telephone, email and physical meetings in order to receive feedback and suggestions.

With the expansion of the scale and the addition of the business structure types of the Company, the supplier management mode and management level of the subsidiaries newly established in recent years varied greatly. The Group will strengthen the dynamic management of suppliers, reinforce the credit evaluation of suppliers and improve the group-level unified supplier classification system, evaluation system and whole-life-cycle monitoring system. The appraisal results of suppliers are used in the procurement process to cultivate and develop long-term supplier strategic partners.

# REPORT OF THE DIRECTORS

## STAFF

Staff is the key for the Group's sustainable development. Details of the staff of the Group are set out in "Directors, Supervisors, Senior Management and Employees-Employees" on pages 86 to 87.

## BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group as of 31 December 2017 are set out in note 29 to the financial statements.

## ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

As of 31 December 2017, the Company had no entrusted deposits with financial institutions in China, or term deposits which were overdue but unrecovered.

## EXTERNAL DONATIONS

In 2017, the Company donated a total of RMB0.74 million to various organizations including local charities and governments of impoverished counties.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets out the information on the Directors, the Supervisors and Senior Management of the Company in 2017.

Name	Position held in the Company	Date of appointment
<b>Directors</b>		
Mr. ZHOU Zhiliang	Chairman and executive Director	31 January 2012
Mr. YIN Gang	Executive Director and president	21 May 2015
Mr. WANG Jiajie	Independent non-executive Director	21 May 2015
Mr. SUN Patrick	Independent non-executive Director	21 May 2015
Mr. CHEN Jin'en	Independent non-executive Director	21 May 2015
Mr. GAO Shutang	Independent non-executive Director	21 May 2015
Mr. FU Jianguo	(Resigned as an executive Director and vice chairman on 26 June 2017)	
<b>Supervisors</b>		
Ms. TIAN Liyan	Chairwoman of the Supervisory Committee	21 May 2015
Mr. GAO Fan	Supervisor	21 May 2015
Ms. ZHAO Xiumei	Employee representative Supervisor	21 May 2015
<b>Senior Management</b>		
Mr. YIN Gang	President and executive Director	22 May 2015
Mr. KONG Ning	Vice president	27 July 2016
Mr. HU Shaofeng	Chief accountant and Board secretary	27 July 2016
Mr. CHEN Hong	Vice president	18 April 2013
Mr. HUANG Weizhong	Vice president	18 April 2013

# REPORT OF THE DIRECTORS

## CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. FU Jianguo has resigned as Executive Director, Vice Chairman and member of Board committees, including member of the Strategy and Investment Committee, member of the Nomination Committee and member of the Quality and Safety Committee of the Company, due to personal job changes, his resignation took effect on 26 June 2017.

On 29 March 2018, the Supervisory Committee elected Mr. Wu Zuowei as a Supervisor of second session of the Supervisory Committee of the Company as nominated by the Supervisory Committee of the Company. His term of office shall commence from the date on which the resolution is passed at the Shareholders' general meeting and end upon expiry of the term of the incumbent Supervisory Committee. At the expiry of his term, Mr. Wu may continue to serve as such if re-elected in accordance with the Company's Articles of Association. Due to personal job arrangement, Mr. Gao Fan has resigned as a Supervisor of the Company, and his resignation shall take effect upon the commencement of Mr. Wu's term of office.

Save as disclosed above, as at the Latest Practicable Date, there had not been other changes in Directors, Supervisors or Senior Management.

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and Senior Management are set out on pages 80 to 85 of this report.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company, the principal particulars of which comprise: (a) the term being from the date of appointment and until the date of the expiration of the incumbent Board/the incumbent Supervisory Committee; and (b) termination provisions in accordance with their respective terms.

Save as disclosed above, none of the Directors or Supervisors has entered into or intends to enter into a service contract with any member of the Group (other than contracts expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation)).

## REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Remuneration of the Directors and Supervisors are paid in the form of fees, salaries, pension-defined contribution, discretionary bonuses, housing allowances and other allowances and benefits in kind.

Details of the Directors, Supervisors and five highest paid individuals of the Company are set out note 8.

During the reporting period, the remuneration of the Senior Management members (except for Ms. NG Wing Shan, one of the joint company secretaries of the Company, who serves as the assistant vice president of SW Corporate Services Group Limited) whose biographical details are set out in "Biographies of Directors, Supervisors and Senior Management" of this report is disclosed in the corporate governance report of this report.

# REPORT OF THE DIRECTORS

## INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

During the reporting period, the Group did not participate in, directly or indirectly, concluding transactions, arrangements and contracts of significance in which the Director or the Supervisor or any entity which he or she was related to was materially interested, and related to the businesses of the Company and were subsisting during or by the end of the year.

## INTERESTS OF DIRECTORS IN COMPETING BUSINESSES

During the reporting period, save as disclosed in this report, none of the Directors or any of their respective associates had any competing interests in the businesses which, directly or indirectly, competed or were likely to compete with the Company.

## DIRECTORS AND SUPERVISORS SERVING IN COMPETING BUSINESSES

The businesses of the Group are partially competing with those of CRSC Corporation Group and its subsidiaries. The Company's executive Directors, Mr. ZHOU Zhiliang and Mr. YIN Gang, devote most of their time into the management of the Company's daily operations.

The following table summarizes the particulars of the Director of the Company serving in CRSC Corporation Group and its subsidiaries:

<b>Name</b>	<b>Main Position in the Group</b>	<b>Main Position in CRSC Corporation Group and its subsidiaries</b>
Mr. ZHOU Zhiliang	Chairman and executive Director of the Company	Chairman of CRSC Corporation Group
Mr. YIN Gang	Executive Director and president of the Company	Director and general manager of CRSC Corporation Group

Save as disclosed above, none of the Directors, the Supervisors or their respective associates had any interests in the businesses which competed or were likely to compete with the Group, or any other conflict of interests with the Group.

The Company further confirms that, save as disclosed above, as at the Latest Practicable Date, members of the Senior Management of the Company have not involved in the daily operations of the businesses of CRSC Corporation Group and its subsidiaries which compete with the Group's businesses.

# REPORT OF THE DIRECTORS

## **DIRECTORS', SUPERVISORS' AND THE COMPANY'S CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at 31 December 2017, none of the Directors, the Supervisors or chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code"), to be notified to the Company and the Stock Exchange.

## **DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

None of the Directors or Supervisors or any of their respective associates was granted by the Company or its subsidiaries any right to acquire the shares or debentures of the Company or any other corporate body, or had exercised any such right.

## **FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS**

As at the Latest Practicable Date, there were no financial, business or family relationships among the Directors, Supervisors and Senior Management members of the Company.

## **DIRECTORS' INSURANCE**

As at the latest Practicable Date, the Company maintained effective directors' insurance for the Directors of the Company.

## **INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES**

For the shareholdings of substantial Shareholders in the Company, please refer to "Changes in Share Capital and Information of Shareholders — Interests and Short Positions of Substantial Shareholders in Share and Underlying Shares" on pages 51 to 52.

## **ARRANGEMENTS FOR SHARE PRE-EMPTIVE RIGHT AND STOCK OPTION**

In 2017, no arrangement for Share pre-emptive right and stock option was made by the Company, as there are no specific provisions under the China laws or the Articles of Associations of the Company regarding Share pre-emptive right.



# REPORT OF THE DIRECTORS

## COMPLIANCE OF CRSC CORPORATION GROUP WITH THE NON-COMPETITION UNDERTAKING

The Company has received the confirmation letter from CRSC Corporation Group, which confirms that, in 2017, CRSC Corporation Group was in compliance with all undertakings as set out in its “Letter of Non-competition Undertaking” issued to the Company.

## PUBLIC FLOAT

According to the information publicly available to the Company, and to the knowledge of the Directors of the Company, the public held no less than 22.40% of shares issued by the Company as at the Latest Practicable Date, which is in compliance with the waiver regarding public float obtained by the Company when Listing. For details, please refer to the Prospectus and the Company’s announcement dated 30 August 2015 in relation to partial exercise of over-allotment option.

## CONNECTED TRANSACTIONS

During the reporting period, the Group has conducted the following connected transactions:

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions of the Group have been entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, such continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

#### Property Leasing Framework Agreement between CRSC Corporation Group and the Company

The Company entered into a property leasing framework agreement (the “Property Leasing Framework Agreement”) with CRSC Corporation Group on 19 July 2015, pursuant to which, the Group and CRSC Corporation Group and/or its associates may lease properties, including land and buildings, from each other according to actual demands.

The principal terms of the Property Leasing Framework Agreement include: (1) rental pricing policy (see below); (2) that the Group and CRSC Corporation Group and/or its associates must enter into specific agreements to stipulate specific terms and conditions, including property rental, payment method and other usage fees, in respect of the relevant leasing property and facilities based on the principles as set out in the Property Leasing Framework Agreement; and (3) that the Property Leasing Framework Agreement will have a term of three years commencing from the Listing Date and may be renewed with mutual consent after negotiation.

According to the pricing policy of the Property Leasing Framework Agreement, the rental price shall be determined at arm’s length negotiations between relevant parties and by reference to the prevailing market price of local properties with similar size and quality.

The Property Leasing Framework Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

# REPORT OF THE DIRECTORS

Since the Property Leasing Framework Agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has renewed the Property Leasing Framework Agreement with CRSC Corporation Group on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020 (“New Property Leasing Framework Agreement”). The New Property Leasing Framework Agreement has been entered into on normal commercial terms. According to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are below 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **General Services Framework Agreement between CRSC Corporation Group and the Company**

The Company entered into a general services framework agreement (the “CRSC Corporation Group General Services Framework Agreement”) with CRSC Corporation Group on 19 July 2015, pursuant to which, CRSC Corporation Group and/or its associates may provide integrated services, such as logistics, to us according to actual needs.

The principal terms of the CRSC Corporation Group General Services Framework Agreement include: (1) pricing policy of service fee (see below); (2) except for public tender, both parties must confirm the service demand plan for the next year or the service adjustment plan of the current year on a stipulated date of each year; (3) the Group and CRSC Corporation Group and/or its associates must enter into specific agreements to stipulate specific terms and conditions, including specific scope of service, form of service and payment method, in respect of the relevant services based on the principles as set out in the CRSC Corporation Group General Services Framework Agreement; and (4) the CRSC Corporation Group General Services Framework Agreement will have a term of three years commencing from the Listing Date and may be renewed with mutual consent after negotiation.

According to the pricing policy of the CRSC Corporation Group General Services Framework Agreement, the provision of logistics service to the Group by CRSC Corporation Group and/or its associates is priced at the cost of the service without making any profit to ensure the service fee is fair and reasonable or more favorable to the Group than being available from Independent Third Parties.

The CRSC Corporation Group General Services Framework Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

Since the CRSC Corporation Group General Services Framework Agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has renewed the CRSC Corporation Group General Services Framework Agreement with CRSC Corporation Group on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020 (“New CRSC Corporation Group General Services Framework Agreement”). The New CRSC Corporation Group General Services Framework Agreement has been entered into on normal commercial terms.

According to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are below 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **Domain Name Usage Licensing Agreement between CRSC Corporation Group and the Company**

The Company entered into a domain name usage licensing agreement (the “Domain Name Usage Licensing Agreement”) with CRSC Corporation Group on 19 July 2015, pursuant to which, CRSC Corporation Group has agreed to authorize the Group to use the domain names “crtc.cn”, “crtc.com.cn” and “crtc.中國” owned by it at nil consideration. The licensing period of domain name usage will commence from the Listing Date for a term of ten years.

The Domain Name Usage Licensing Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **Service Agreement between CRSC CASCO and ALSTOM IC**

CRSC CASCO and ALSTOM IC entered into a service agreement (the “Service Agreement”) on 27 April 2015, pursuant to which, ALSTOM IC would designate personnel to CRSC CASCO for the provision of supportive service, and CRSC CASCO would pay an annual service fee and annual bonus for the designated personnel to ALSTOM IC. The agreement shall remain valid during the operation period of CRSC CASCO. The Service Agreement will be effective from 1 June 2015.

According to the pricing policy of the Service Agreement, during the period from 1 March 2006 to 31 March 2007, the annual service fee under the Service Agreement was RMB1,650,165, and the amount of annual fee in subsequent years would be adjusted after negotiation between the parties according to the actual expenses incurred for the provision of this service by ALSTOM IC. The annual bonus for deployed personnel under the Service Agreement shall be determined by the chairman and vice chairman of CRSC CASCO.

The Service Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 1%. The transaction above constitutes a connected transaction under the Listing Rules only because it involves a connected person at the subsidiary level, therefore, according to Rule 14A.76(1) (b) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

# REPORT OF THE DIRECTORS

## **U888 Technology Transfer Framework Agreement between CRSC CASCO and ALSTOM Transport S.A.**

CRSC CASCO and ALSTOM Transport S.A. entered into the U888 technology transfer framework agreement (the “U888 Technology Transfer Framework Agreement”) on 10 September 2008, pursuant to which, ALSTOM Transport S.A. agreed to transfer the relevant technology to CRSC CASCO and CRSC CASCO agreed to accept such technology for application in URBALIS 888 solutions and for the production and sales of UNIVIC and 2oo3 Platform. For this purpose, ALSTOM Transport S.A. granted the right to use relevant technology to CRSC CASCO which is non-transferable and cannot be sub-licensed. The agreement will remain valid until 4 March 2023.

According to the pricing policy of the U888 Technology Transfer Framework Agreement, based on the value of the transferred technology, the required product assembly, inspection and testing, maintenance, training as well as other services that will be provided by ALSTOM Transport S.A. during the transferring process, a price quotation will be provided by ALSTOM Transport S.A. and the final price will be determined at arm’s length negotiation between both parties.

The U888 Technology Transfer Framework Agreement was entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 1%. The transaction above constitutes a connected transaction under the Listing Rules only because it involves a connected person at the subsidiary level, therefore, according to Rule 14A.76(1) (b) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **Services Framework Agreements on Mutual Provision of Support among the Company, ALSTOM Transport S.A. and Alstom Transport Holdings**

The Company entered into the general services framework agreement (the “Alstom General Services Framework Agreements”) with ALSTOM Transport S.A. and Alstom Transport Holdings B.V. (the “Alstom Transport Holdings”), respectively, on 13 July 2015. The ALSTOM General Services Framework Agreements shall be effective from the Listing Date for a term of three years. They are subject to renewal after mutual negotiation. Under the Alstom General Services Framework Agreements, we may engage in mutual supply of technical services with ALSTOM Transport S.A. and Alstom Transport Holdings and/or their respective subsidiaries.

According to the pricing policy of the Alstom General Services Framework Agreements, with respect to technical services required by the Company, the Company generally selects suppliers through tender process, the price will be determined on the basis of the specific competitive bidding in the market and by considering various factors comprehensively, such as, among others, the quality of service provided by ALSTOM, work load and labour cost. With respect to the technical services provided by the Company to ALSTOM, the price will be determined by considering comprehensively the prevailing conditions, scale, needs of the project, and the costs of labour, materials, transportation and logistics, together with the market competition in bidding for the project.

The Alstom General Services Framework Agreements were entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 1%. The transaction above constitutes a connected transaction under the Listing Rules only because it involves a connected person at the subsidiary level, therefore, according to Rule 14A.76(1) (b) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

# REPORT OF THE DIRECTORS

Since the Alstom General Services Framework Agreements will expire after three years commencing from the Listing Date, their corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreements after 31 December 2017, therefore, the Company has renewed the Alstom General Services Framework Agreements with ALSTOM Transport S.A. and Alstom Transport Holdings on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020 (“New Alstom General Services Framework Agreements”). The New Alstom General Services Framework Agreements have been entered into on normal commercial terms. According to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are below 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **Sales Services Framework Agreements among the Company, ALSTOM Transport S.A. and Alstom Transport Holdings**

The Company entered into the Alstom General Services Framework Agreements with ALSTOM Transport S.A. and Alstom Transport Holdings, respectively, on 13 July 2015. The ALSTOM General Services Framework Agreements shall be effective from the Listing Date for a term of three years. They are subject to renewal after mutual negotiation. Under the Alstom General Services Framework Agreements, we may sell our products to ALSTOM Transport S.A. and Alstom Transport Holdings and/or their respective subsidiaries.

According to the pricing policy of the Alstom General Services Framework Agreements, price will be determined by considering comprehensively the project conditions, scale, demands and costs of labour, materials, transportation and logistics, together with market supply and demand conditions.

The Alstom General Services Framework Agreements were entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are less than 1%. The transaction above constitutes a connected transaction under the Listing Rules only because it involves a connected person at the subsidiary level, therefore, according to Rule 14A.76(1) (b) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

Since the Alstom General Services Framework Agreements will expire after three years commencing from the Listing Date, their corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreements after 31 December 2017, therefore, the Company has renewed the Alstom General Services Framework Agreements with ALSTOM Transport S.A. and Alstom Transport Holdings on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020 (“New Alstom General Services Framework Agreements”). The New Alstom General Services Framework Agreements have been entered into on normal commercial terms. According to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are below 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.



# REPORT OF THE DIRECTORS

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions of the Group have been entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, these continuing connected transactions are subject to the requirements of reporting, annual review, announcement and (as the case may be) independent Shareholders' approval under Chapter 14A of the Listing Rules.

### Purchases and Sales Framework Agreement between the Company and CRSC Corporation Group

The Company entered into a purchases and sales framework agreement (the "CRSC Corporation Group Purchases and Sales Framework Agreement") with CRSC Corporation Group on 19 July 2015, pursuant to which, the Group and CRSC Corporation Group and/or its associates may purchase or sell, among others, materials, equipment, parts and accessories and related products (including the provision of relevant third party processing business) to each other. The principal terms of CRSC Corporation Group Purchases and Sales Framework Agreement include: (1) pricing policy (see below); (2) that except for public tender, both parties must confirm the demand schedule for the next year or the demand adjustment schedule of the current year on a stipulated date of each year; (3) that the Group and CRSC Corporation Group and/or its associates must enter into specific agreements to stipulate specific terms and conditions, including specific scope of business, quality standards, specific fees and payment method, in respect of the relevant business based on the principles as set out in the CRSC Corporation Group Purchases and Sales Framework Agreement; and (4) that the CRSC Corporation Group Purchases and Sales Framework Agreement will have a term of three years commencing from the Listing Date and may be renewed with mutual consent after negotiation.

According to the pricing policy of the CRSC Corporation Group Purchases and Sales Framework Agreement, the pricing will be determined on the basis of market price, together with purchasing costs of materials, labour costs, management costs, transportation and packaging costs incurred by sales, tax burden and profitability standards. The pricing of products provided by the Group to CRSC Corporation Group and/or its associates will be by reference to and subject to the contractual terms agreed between CRSC Corporation Group and the contractual party of the Overseas Project. CRSC Corporation Group will purchase products from the Group at the price agreed between itself and the contractual party of the Overseas Project and supply the same to the contractual party of the Overseas Project without making any profit.

The Company applied to the Stock Exchange for exemption of the aforesaid connected transaction from the announcement requirement under Chapter 14A of the Listing Rules, on condition that the aggregate amount of non-exempt continuing connected transactions in each of 2015, 2016 and 2017 will not exceed the respective annual caps set out in the Prospectus. The Stock Exchange approved the above-mentioned exemption.

During the reporting period, the exempt caps of the purchases/sales of this connected transaction approved by the Stock Exchange for 2017 were RMB127,648 thousand and RMB46,367 thousand respectively. The actual total transaction amounts of purchases/sales by the Group and CRSC Corporation Group under the aforesaid agreements were RMB85,783 thousand and RMB14,572 thousand, respectively.



Since the CRSC Corporation Group Purchases and Sales Framework Agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has renewed the Property Leasing Framework Agreement with CRSC Corporation Group on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020 (“New CRSC Corporation Group Purchases and Sales Framework Agreement”). According to the New CRSC Corporation Group Purchases and Sales Framework Agreement, for the years ending 31 December 2018, 2019 and 2020, the maximum annual transaction amount of purchases by the Group from CRSC Corporation Group shall not exceed RMB99,000 thousand, RMB110,000 thousand and RMB120,000 thousand, respectively; and the maximum annual transaction amount of sales by the Group to CRSC Corporation Group shall not exceed RMB42,000 thousand, RMB32,000 thousand and RMB17,000 thousand, respectively. Please refer to the announcement published by the Company on the website of the Stock Exchange dated 20 December 2017.

## **General Services Framework Agreement between the Company and CRSC Corporation Group**

Pursuant to the CRSC Corporation Group General Services Framework Agreement entered into between the Company and CRSC Corporation Group on 19 July 2015, the Group may provide integrated services, such as property entrustment management and technical services, to CRSC Corporation Group and/or its associates. The principal terms of the CRSC Corporation Group General Services Framework Agreement include: (1) pricing policy of service fee (see below); (2) except for public tender, both parties must confirm the service demand plan for the next year or the service adjustment plan of the current year on a stipulated date of each year; (3) the Group and CRSC Corporation Group and/or its associates must enter into specific agreements to stipulate specific terms and conditions, including specific scope of service, form of service and payment method, in respect of the relevant services based on the principles as set out in the CRSC Corporation Group General Services Framework Agreement; and (4) the CRSC Corporation Group General Services Framework Agreement will have a term of three years commencing from the Listing Date and may be renewed with mutual consent after negotiation.

According to the pricing policy of the CRSC Corporation Group General Services Framework Agreement, the service fees of property entrustment service will be determined at arm’s length negotiations between the relevant parties by reference to the market rate of service fees required by local properties with similar size and quality. The pricing of technical services provided by the Group to CRSC Corporation Group and/or its associates shall comply with the terms of agreement between CRSC Corporation Group and the contractual party of the project. CRSC Corporation Group will purchase technical services from the Group at the price agreed between itself and the contractual party of the project and then supply the same to the contractual party of the project, without making any profit.

The Company applied to the Stock Exchange for exemption of the aforesaid connected transaction from the announcement requirement under Chapter 14A of the Listing Rules, on condition that the aggregate amount of non-exempt continuing connected transactions in each of 2015, 2016 and 2017 will not exceed the respective annual caps set out in the prospectus. The Stock Exchange approved the above-mentioned exemption.

During the reporting period, the exempt caps of this connected transaction approved by the Stock Exchange for 2017 was RMB25,000 thousand. During the reporting period, the Group provided general service transactions in total amount of RMB0 to CRSC Corporation Group and/or its associates under the aforesaid agreement.

# REPORT OF THE DIRECTORS

Since the CRSC Corporation Group General Services Framework Agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has renewed the CRSC Corporation Group General Services Framework Agreement with CRSC Corporation Group on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020 (“New CRSC Corporation Group General Services Framework Agreement”). The New CRSC Corporation Group General Services Framework Agreement has been entered into on normal commercial terms. According to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are below 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## **General Services Framework Agreements among the Company, ALSTOM Transport S.A. and Alstom Transport Holdings**

The Company entered into the general services framework agreement (“Alstom General Services Framework Agreements”) with ALSTOM Transport S.A. and Alstom Transport Holdings, respectively, on 13 July 2015. The ALSTOM General Services Framework Agreements shall be effective from the Listing Date for a term of three years. They are subject to renewal after mutual negotiation. Under the Alstom General Services Framework Agreements, we may purchase products from ALSTOM Transport S.A. and Alstom Transport Holdings and/or their respective subsidiaries.

According to the pricing policy of the Alstom General Services Framework Agreements, with respect to products required by the Company, the Company generally selects suppliers through tender process, the price will be determined by considering comprehensively, among others, the specific competitive bidding in the market, price quotation from ALSTOM, specific conditions of the project and product cost. If the tender process will not be carried out, then the price will be determined by reference to historical price and through negotiations and communications between the parties.

The Company applied to the Stock Exchange for exemption of the aforesaid connected transaction from the announcement requirement under Chapter 14A of the Listing Rules, on condition that the aggregate amount of non-exempt continuing connected transactions in each of 2015, 2016 and 2017 will not exceed the respective annual caps set out in the Prospectus. The Stock Exchange approved the above-mentioned exemption.

During the reporting period, the exempt caps of this connected transaction approved by the Stock Exchange for 2017 was RMB91,640 thousand. The actual total amount of purchases from Alstom Transport Holdings and/or its subsidiaries under the aforesaid agreement was RMB54,319 thousand.

# REPORT OF THE DIRECTORS

Since the Alstom General Services Framework Agreements will expire after three years commencing from the Listing Date, their corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreements after 31 December 2017, therefore, the Company has renewed the Alstom General Services Framework Agreements with ALSTOM Transport S.A. and Alstom Transport Holdings on 20 December, 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020 (“New Alstom General Services Framework Agreements”). The New Alstom General Services Framework Agreements have been entered into on normal commercial terms. According to Chapter 14A of the Listing Rules, all relevant annual “applicable percentage ratios” of the relevant transactions are below 0.1%. Pursuant to Rule 14A.76(1) (a) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

## CONFIRMATION BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the Company have reviewed the aforesaid continuing connected transactions and have confirmed that they have been entered into: in the ordinary and usual course of the Group’s business; on normal or better commercial terms; on conditions no less favorable to the Company than those offered to or by (as the case may be) Independent Third Parties, if it was not practical to make such judgement based on comparable transactions as to whether such transactions have been carried out on normal commercial terms; and in accordance with relevant agreements whose terms are fair and reasonable and in the interest of the Shareholders of the Company as a whole.

## AUDITOR’S LETTER

In accordance with Rule 14A.56 of the Listing Rules, the Company has engaged its auditor, Ernst & Young, to report on the Group’s continuing connected transactions in accordance with Hong Kong Standards on Assurance Engagements 3000 “Hong Kong Standard on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accounts. Based on its work, Ernst & Young has provided the Board with a letter confirming that, with respect to the aforesaid continuing connected transactions:

- (a) nothing has come to Ernst & Young’s attention that causes it to believe that the aforesaid continued connected transactions have not been approved by the Board;
- (b) in relation to the transactions involving products or services supplied by the Group, nothing has come to Ernst & Young’s attention that causes it to believe that the transactions have not followed the Group’s pricing policy in any material aspect;
- (c) nothing has come to Ernst & Young’s attention that causes it to believe that the transactions have not been carried out in any material way in accordance with the relevant agreements;
- (d) in relation to the aggregate amounts for each of the aforesaid continuing connected transactions, nothing has come to Ernst & Young’s attention that causes it to believe that the actual transaction amount of any of the aforesaid continuing connected transactions has not exceeded the cap determined by the Company for the year.

# REPORT OF THE DIRECTORS

## RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with the relevant parties considered to be “related parties” pursuant to applicable accounting standards during the reporting period. Details of the related party transactions entered into by the Group during the reporting period are disclosed in note 40 to the financial statements. Save as those disclosed in the section “Report of the Directors – Connected Transactions” in this annual report, the connected transactions disclosed in note 40 were either not considered to be connected transactions or be exempted from the reporting, announcement and Shareholders’ approval requirements of the Hong Kong Listing Rules.

## NON-EXEMPT CONNECTED TRANSACTIONS

Save as disclosed above, there were no non-exempt connected transactions entered into by the Company with its connected persons during the reporting period.

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has reviewed the annual results and the annual report of the Company for 2017 as well as the financial statements for the year ended 31 December 2017 prepared in accordance with IFRS.

## ACCOUNTING POLICIES

The principal accounting policies adopted by the Company for the preparation of its audited consolidated financial statements for 2017 are consistent with those adopted for the preparation of its audited consolidated financial statements for the year ended 31 December 2016.

## AUDITORS

Beijing Branch of Deloitte Touche Tohmatsu LLP served as the auditor of the Company’s annual financial statements for 2012 and 2013 prepared under the CASBE.

In November 2014, the Board decided to appoint Ernst & Young Hua Ming LLP as the auditor of the Company’s consolidated financial statements for 2014 prepared under CASBE.

In December 2014, the Board decided to appoint Ernst & Young as the reporting accountants and independent auditor of the Company for preparation of listing and public offering.

In July 2015, the Board decided to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company’s consolidated financial statements for 2015 prepared under IFRS and CASBE, respectively.

In March 2016, the Board proposed to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company’s financial statements for 2016 to be prepared under IFRS and CASBE, respectively. Their terms of appointment, which were proposed to be effective upon the conclusion of the 2015 annual general meeting of the Company and until the conclusion of 2016 annual general meeting of the Company, and this proposal has been effective upon approval at the 2015 annual general meeting of the Company.

## REPORT OF THE DIRECTORS

In March 2017, the Board proposed to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company's financial statements for 2017 to be prepared under IFRS and CASBE, respectively. Their terms of appointment, which was effective upon the conclusion of the 2016 annual general meeting of the Company and until the conclusion of 2017 annual general meeting of the Company, is subject to approval at the 2016 annual general meeting of the Company.

In January 2018, the Board proposed to appoint Ernst & Young as the auditor of the Company's financial statements for 2018 to be prepared under IFRS and Ernst & Young Hua Ming LLP as the auditor of the Company's financial statements for 2018 to be prepared under CASBE, respectively. Their terms of appointment, which were proposed to commence upon conclusion of the 2017 annual general meeting of the Company until the conclusion of 2018 annual general meeting of the Company, are subject to approval at the 2017 annual general meeting of the Company.

By order of the Board

**China Railway Signal & Communication Corporation Limited**



**ZHOU Zhiliang**

*Chairman*

# REPORT OF SUPERVISORY COMMITTEE

In 2017, the Supervisory Committee of the Company abode by the principle of good faith, conscientiously performed its supervisory duties and effectively safeguarded the legitimate rights and interests of the Company, its Shareholders and employees based on the principle of accountability to all the Shareholders of the Company, in strict compliance with relevant rules and regulations such as the Company Law, the Articles of Association and the Rules of Procedure of the Supervisory Committee. The work report of the Supervisory Committee was as follows:

## 1. MEETINGS

In 2017, Supervisory Committee of the Company has held two meetings as follows:

- (1) On 27 March 2017, the fourth meeting of the second session of the Supervisory Committee was convened onsite at the headquarters of the Company by the Supervisory Committee of the Company. 3 Supervisors were entitled to be present at the meeting and 3 Supervisors attended the meeting. The procedures for convening and holding these meetings were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Supervisory Committee. The meeting considered and approved the following resolutions: Resolution in Relation to the 2016 Annual Result Announcement and Annual Report, Resolution in Relation to the 2016 Financial Report (Draft), Resolution in Relation to the 2016 Profit Distribution Proposal (Draft) and Resolution in Relation to the 2016 Work Report of the Supervisory Committee.
- (2) On 25 August 2017, the fifth meeting of the second session of the Supervisory Committee was convened onsite at the headquarters of the Company by the Supervisory Committee of the Company. 3 Supervisors were entitled to be present at the meeting and 3 Supervisors attended the meeting. The procedures for convening and holding these meetings were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Supervisory Committee. The meeting considered and approved Resolution in Relation to the 2017 Interim Result Announcement.

## 2. ATTENDANCE OF IMPORTANT MEETINGS

In 2017, the Supervisors attended one general meeting pursuant to regulations and attended six Board meetings as non-voting delegates. Moreover, the chairperson of the Supervisory Committee also regularly attended the office meeting of the president as a non-voting attendee. By attending these important meetings as non-voting attendees, the Supervisors not only understood the operation and management of the Company, but also actively participated in the consideration and discussion of the resolutions and put forward their opinions and suggestions in a responsible manner, thus having effectively supervised the procedures for convening these meetings and the discussion of issues.

## 3. ROUTINE INSPECTION AND RESEARCH

The Supervisory Committee placed emphasis on combining meeting supervision with routine inspection to improve the work style, and proactively took advantage of various opportunities to carry out research, inspection and guidance tasks at the grass-roots level. During the reporting period, the Supervisors were able to combine the tasks with the work of the Supervisory Committee by participating in the supervision of internal audit, supervision of legal matters, the internal control and compliance review, etc., to promptly alert the risks and problems that may arise in the production and operation, financial management and internal control of the Company and put forward reasonable suggestions, in order to enhance the supervision over the operation of the Company in accordance with the law.



# REPORT OF SUPERVISORY COMMITTEE

## 4. INDEPENDENT OPINION AND SPECIAL EXPLANATION

- (1) Having monitored the performance of duties of Directors and Senior Management of the Company and the legality of the operation of the Company, the Supervisory Committee was of the view that the Board of the Company was able to make decisions according to the law and in strict compliance with requirements such as the Company Law and the Articles of Association and the major business decision-making procedures of the Company were lawful and valid; that the Company disclosed significant information about the Company in a timely manner pursuant to the securities regulatory requirements such that the information was disclosed in a regulated manner and the securities trading system for the informed parties of insider information was conducted well; that the Directors and Senior Management members were able to implement conscientiously and thoroughly relevant laws and regulations, the Articles of Association and the resolutions of the general meetings and the Board during the execution of the duties of the Company in a faithful, pioneering and aggressive manner; and that no Directors or Senior Management members of the Company were found to have acts which violated laws, regulations or the Articles of Association or harmed the interests of the Company and the rights and interests of Shareholders during the execution of their duties.
- (2) By communicating with the accounting firms in charge of the audit and review services for the Company, the Supervisory Committee examined the Company's financial statements, considered its periodic reports and the audit report of the accounting firm, regularly listened to the report of the internal audit department of the Company on the commencement of internal audit work, and carried out effective supervision and inspection on the Company's financial management and operation by means of on-site inspection, research, etc. The Supervisory Committee was of the view that the Company had a sound financial system, regulated management practices and reasonable spending of fees during 2017. The Company's 2017 financial report was audited by Ernst & Young (special general partnership) and Baker Tilly (special general partnership) which issued a standard audit report with an unqualified opinion that the 2017 annual financial report prepared by the Company fairly reflected the Company's financial status and operating results.
- (3) The Supervisory Committee monitored the utilization of the proceeds by the Company. The Supervisory Committee was of the view that the Company was able to manage and utilize the proceeds in accordance with national laws and regulations as well as the commitments made by it in the Prospectus. The Supervisory Committee will continue to oversee and inspect the utilization of the proceeds.
- (4) The Supervisory Committee monitored the related party transactions or connected transactions carried out by the Company. It was of the view that the Company's related party (connected) transactions were conducted in accordance with the Company Law, the Listing Rules as well as the Company's Articles of Association and Rules Governing Related Party (Connected) Transactions, and that the pricing of these related party (connected) transactions was fair, without violating the principles of openness, fairness and impartiality, and without identifying any acts which harmed the interests of the Company and its minority Shareholders.
- (5) The Supervisory Committee made a special explanation of the Company's internal control. The Supervisory Committee was of the view that in 2017, the internal control system of the Company continued to improve, the internal control system can cover each aspects of the operation, production and management of the Company with operability and execution being further strengthened, and the overall level of the internal control was continued to improve to so that the Company was able to give a reasonable assurance that the internal control objective would be achieved.

# SIGNIFICANT EVENTS

## CONVENING THE 2017 ANNUAL GENERAL MEETING

The 2017 annual general meeting of the Company will be convened at 9:30 a.m. on Friday, 25 May 2018 at Meeting Room 1945, Building A, CRSC Building, 1 Compound, Automobile Museum South Road, Fengtai District, Beijing, PRC. The notice of convening the 2017 annual general meeting has been despatched on 10 April 2018.

## CLOSURE OF REGISTER OF MEMBERS

### 2017 annual general meeting

In order to ascertain the entitlements of the Shareholders to attend the 2017 annual general meeting, the register of members of the Company will be closed from Wednesday, 25 April 2018 to Friday, 25 May 2018 (both days inclusive), during which period no transfer of shares of the Company will be effected. To be eligible to attend and vote at the 2017 annual general meeting, all transfer documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares no later than 4:30 p.m. on Tuesday, 24 April 2018.

### Final dividend

In order to ascertain the entitlements of the Shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Friday, 1 June 2018 to Wednesday, 6 June 2018 (both days inclusive), during which period no transfer of shares of the Company will be effected. To be eligible to receive the proposed final dividend, all transfer documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares no later than 4:30 p.m. on Thursday, 31 May 2018.

Details of the distribution of final dividend are set out in "Report of the Directors – Distribution plan and policy for final dividend" on pages 26 to 28.

## EVENTS OF MAJOR LITIGATION, ARBITRATION AND GENERALLY QUESTIONED BY THE MEDIA

During the reporting period, the Group was not involved in any incidents of major litigation, arbitration and events questioned by the general media. The Directors were also not aware of any pending or potential significant litigations or claims.

## CAPITAL BEING MISUSED AND SETTLEMENT PROGRESS DURING THE REPORTING PERIOD

During the reporting period, the Company was not involved with any incidents of misuse of its capital and settlement progress.

## **BANKRUPTCY AND RESTRUCTURING**

During the reporting period, the Company did not engage in any events of bankruptcy and restructuring.

## **TRANSACTIONS OF ASSETS AND MERGERS OF ENTERPRISES**

During the reporting period, the Company was not involved in any transactions of assets and mergers of enterprises.

## **EQUITY INCENTIVES OF THE COMPANY AND ITS IMPACT**

During the reporting period, the Company was not involved in any events of equity incentives.

## **SIGNIFICANT CONTRACTS**

Save as disclosed in “Report of the Directors – Connected Transactions” in this report, the Company or any of its subsidiaries had not entered into any significant contracts with Controlling Shareholders or any of their subsidiaries outside of the Group, and the Group did not have any significant contracts of service provision for Controlling Shareholders or any subsidiaries outside of the Group.

## **EQUITY RIGHTS HELD IN OTHER LISTED COMPANIES**

During the reporting period, the Company was not involved in any events of equity rights held in other listed companies.

## **DEALINGS IN THE SHARES OF OTHER LISTED COMPANIES**

During the reporting period, the Company was not involved in any events of dealings in the shares of other listed companies.

## **EXPOSURE TO RISKS OF SUSPENSION AND TERMINATION OF LISTING**

During the reporting period, the Company was not involved in any circumstances which may lead to suspension or termination of Listing, nor involved in any detailed arrangement and planning of investor relations management as a result of suspension or termination of Listing.

## **SIGNIFICANT SUBSEQUENT EVENTS**

As the business registration place of the Company was changed on 16 November 2017, the name of “China Railway Signal Communication Corporation (中國鐵路通信信號集團公司)”, one of the promoters of the Company, was changed to “China Railway Signal & Communication Corporation Limited (中國鐵路通信信號集團有限公司)” on 7 December 2017, and the general requirements of party building and legal works issued by the SASAC of the State Council are required to be included in the Articles of Association of the Company, the Company intends to amend the Articles of Association. The resolution in relation to the amendment of the Articles of Association was approved by the Board on 23 January 2018 and was to be submitted to the general meeting for consideration.

Save as disclosed above, from 1 January 2018 to the Latest Practicable Date, there were no significant subsequent events.

# CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

## CHANGES IN SHARE CAPITAL

Upon approval from the vetting department authorized by the State Council, the Company issued 4,500,000,000 Shares to its promoters upon its establishment on 29 December 2010, representing 100% of the total issuable ordinary Shares of the Company, among which, CRSC Corporation Group held 4,357,540,000 Shares (96.8343%), SINOMACH held 41,900,000 Shares (0.9311%), China Chengtong Holdings Group Ltd. held 41,900,000 Shares (0.9311%), CRHC held 41,900,000 Shares (0.9311%) and CICC Jiacheng held 16,760,000 Shares (0.3724%).

On 6 December 2013, the Company issued 2,500,000,000 ordinary Shares to its original Shareholders by way of capital increase on a pro-rata basis, whereby the Company's total number of shares was changed to 7,000,000,000 ordinary Shares, among which, CRSC Corporation Group held 6,778,390,000 Shares (96.8343%), SINOMACH held 65,180,000 Shares (0.9311%), China Chengtong Holdings Group Ltd. held 65,180,000 Shares (0.9311%), CRHC held 65,180,000 Shares (0.9311%) and CICC Jiacheng held 26,070,000 Shares (0.3724%).

Upon approval by the CSRC under Zheng Jian Xu Ke [2015] No.1630 (證監許可[2015]1630號文), the Company initially issued to foreign investors 1,789,819,000 overseas-listed foreign ordinary Shares (including an over-allotment of 39,819,000 overseas-listed foreign ordinary Shares), which were listed on the Main Board of the Hong Kong Stock Exchange. Pursuant to the Provisional Measures for the Administration of the Reduction of the Holding of State-Owned Shares in Order to Raise Social Security Funds (《減持國有股籌集社會保障資金管理暫行辦法》) and relevant regulations of the State Council, the Company's state-owned Shareholders, simultaneously with the issuance of the overseas-listed foreign Shares, transferred 178,982,000 state-owned Shares held by it into the possession of the National Council for Social Security Fund, which were converted into overseas-listed foreign Shares. Upon completion of the afore-said issuances, the Company had the total share capital of 8,789,819,000 shares, consisting of a total of 8,789,819,000 ordinary Shares, of which 6,821,018,000 Shares were domestic Shares, accounting for 77.6% of the Company's total issued ordinary Shares; and 1,968,801,000 Shares were overseas-listed foreign Shares (including the overseas-listed foreign shares held by the Social Security Fund), accounting for 22.4% of the Company's total issued ordinary Shares.

There was no change in the share capital of the Company during the reporting period.

As of 31 December 2017, the Company's total share capital was RMB8,789,819,000, divided into 8,789,819,000 Shares with a nominal value of RMB1.00 each, of which, 6,821,018,000 Shares were domestic Shares and 1,968,801,000 Shares were H Shares.

# CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

## DIRECTORS', SUPERVISORS' AND THE COMPANY'S CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, none of the Directors, Supervisors or chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, so far as is known to the Directors, the following persons (other than the Directors, the Supervisors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and, which were entered in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of Shares in the relevant class of Shares of the Company (%)	Approximate percentage of Shares in the total issued Shares of the Company (%)
China Railway Signal & Communication Corporation Limited	Domestic Shares	Beneficial owner	6,604,426,424 (Long position)	96.82%	75.14%
China Shipping (Group) Company <sup>(1)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Shipping (Hong Kong) Holdings Co., Limited <sup>(1)</sup>	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
Shanghai Zhenhua Heavy Industries Co., Ltd. <sup>(2)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%

# CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of Shares in the relevant class of Shares of the Company (%)	Approximate percentage of Shares in the total issued Shares of the Company (%)
Shanghai Zhenhua Port Machinery (Hong Kong) Company Limited <sup>(2)</sup>	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
National Council for Social Security Fund of the PRC	H Shares	Beneficial owner	178,982,000 (Long position)	9.09%	2.04%
China Railway Group Investment (Hong Kong) Limited <sup>(3)</sup>	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
China Railway Engineering Corporation <sup>(3)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Railway Group Limited <sup>(3)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Railway International Group Co., Limited <sup>(3)</sup>	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%

Notes:

As at 31 December 2017, the number of issued Shares of the Company was 8,789,819,000 Shares, of which 1,968,801,000 Shares were H Shares and 6,821,018,000 Shares were domestic Shares.

1. China Shipping (Group) Company was interested in such Shares through China Shipping (Hong Kong) Holdings Co., Limited.
2. Shanghai Zhenhua Heavy Industries Co., Ltd. was interested in such Shares through Shanghai Zhenhua Port Machinery (Hong Kong) Company Limited.
3. China Railway Engineering Corporation was interested in such Shares through China Railway Group Limited, China Railway International Group Co., Limited and China Railway Group Investment (Hong Kong) Limited.

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any persons (other than Directors, Supervisors, or the Company's chief executives) who had interests and/or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and which were entered in the register required to be kept by the Company pursuant to section 336 of the SFO.



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company strives to maintain high standards of corporate governance to safeguard the interests of its Shareholders and to enhance corporate value and accountability.

In order to ensure that the Company is able to fully perform its obligations under the Listing Rules, the Company has established an effective corporate governance structure and, from time to time, reviews and improves its internal control and corporate governance mechanism.

The Company also operates in strict compliance with the Articles of Association of the Company, Operating Procedures for Board committees, the Company Law and the requirements of the applicable laws, regulations and regulatory documents, as well as the relevant rules and regulations of the Hong Kong Stock Exchange in relation to corporate information disclosure and investors' relations management and services.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules. The Board is of the view that the Company has complied with all the code provisions as set out in the Corporate Governance Code for the year ended 31 December 2017.

## SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the code of conduct for securities transactions of the Company carried out by all the Directors and Supervisors. The Company has made specific enquiries to all the Directors and Supervisors, and all the Directors and Supervisors have confirmed that they have complied with the standards as set out in the Model Code for the year ended 31 December 2017.

## BOARD

The Board currently consists of two executive Directors and four independent non-executive Directors. As at 31 December 2017, the composition of the Board was as follows:

### Executive Directors

Mr. ZHOU Zhiliang (*Chairman*)

Mr. YIN Gang (*President*)

### Independent non-executive Directors

Mr. WANG Jiajie

Mr. SUN Patrick

Mr. CHEN Jin'en

Mr. GAO Shutang

# CORPORATE GOVERNANCE REPORT

Mr. FU Jianguo, due to personal job changes, has tendered his resignation to the Board of the Company on 26 June 2017 to resign as an executive Director of the Company, vice chairman of the Board and as members of the Strategy and Investment Committee, Nomination Committee and Quality and Safety Committee under the Board, his resignation took effect on the same date. After the resignation of Mr. FU Jianguo, the number of members in the Strategy and Investment Committee, Nomination Committee and Quality and Safety Committee under the Board fell below the minimum number of members as prescribed in their respective terms of reference. The Company will appoint a suitable Director and members for the aforesaid Board committees as soon as possible.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) among the members of the Board, especially between the chairman and the president.

Biographies of the Directors are set out in “Directors, Supervisors, Senior Management and Employees” of this report.

According to the requirements of Article 130 of the Articles of Association of the Company (“Articles of Association”), every Director shall be elected or replaced by the Shareholders’ general meeting and serve a term of three years. At the expiry of their terms, Directors may continue to serve as such if re-elected. The term of office of a Director shall commence from the date on which the resolution is passed at the Shareholders’ general meeting and end upon expiry of the term of the incumbent Board. If an election is not held in a timely manner upon the expiry of the term of service of a Director, the incumbent Director shall continue to perform his or her duties as a Director in accordance with laws and the Articles of Association until the incoming Director assumes his or her position.

A code provision of the Corporate Governance Code requires Directors to disclose to the issuer the number and nature of offices held in public companies or organisations and other significant commitments as well as the natures of such companies or organisations and the time involved in such offices, each Director has agreed to disclose their commitments to the Company in a timely manner.

## **Independent non-executive Directors**

For the year ended 31 December 2017, the Board had complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has appointed a sufficient number of independent non-executive Directors in to compliance with Rule 3.10A of the Hong Kong Listing Rules which requires the number of independent non-executive Directors represent at least one third of the Board.

The Company has received the annual confirmation on independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules.

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND PRESIDENT

The roles, duties and responsibilities of the chairman and the president of the Company are held by different individuals and are explicitly defined in writing.

Mr. ZHOU Zhiliang serves as the chairman of the Company, while Mr. YIN Gang acts as the president of the Company. The positions of chairman and president are held by different individuals to maintain independence as well as the balance of views and judgments.

According to Article 147 of the Articles of Association, the chairman of the Board is entitled to the following powers:

- (1) to preside over general meetings and to convene and preside over Board meetings;
- (2) to supervise and check on the implementation of resolutions of the Board;
- (3) to supervise and check on the work of each special committee;
- (4) to listen to the regular or non-regular work reports of the president and other Senior Management members of the Company and provide guidance on the execution of the resolutions of the Board;
- (5) to exercise special rights over the Company's affairs that are in line with the requirements under the laws and the interests of the Company when the chairman of the Board is unable to convene a Board meeting in time in the event of force majeure, critical crisis or situations resulting in significant effect to the production and operation of the Company and report to the Board and Shareholders' general meeting afterwards;
- (6) to nominate candidates for secretary to the Board of the Company;
- (7) to sign the share certificates, corporate bonds and other securities certificates issued by the Company;
- (8) to sign the significant documents of the Board and to represent the Company in signing with third parties important documents that are legally-binding;
- (9) to organize the formulation of various rules and regulations for the operation of the Board and coordinate the Board's work;
- (10) to review and approve the plan for using funds of the Board;
- (11) to exercise the duties and powers as the legal representative;
- (12) to exercise other duties and powers provided for in laws and regulations or the Articles of Association and those granted by the Board.

# CORPORATE GOVERNANCE REPORT

According to Article 162 of the Articles of Association, the Company shall have one president, several vice presidents and one chief accountant.

According to Article 164 of the Articles of Association, the president of the Company shall be accountable to the Board and exercise the following powers:

- (1) to lead the Company's production, operation and management, to organize the implementation of the resolution of the Board and to report to the Board;
- (2) to organize the implementation of the Company's annual plan and investment plan;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to draft the Company's basic management system;
- (5) to formulate the specific rules and regulations of the Company;
- (6) to propose to the Board the appointment or dismissal of vice presidents and chief accountant of the Company;
- (7) to appoint or dismiss other management members of the Company other than those required to be appointed or dismissed by the Board in accordance with relevant principles and procedures;
- (8) to exercise other powers conferred by the Articles of Association or the Board.

The chairman is responsible for the management of the operations of the Board, while the president is responsible for the operations of the Company. The chairman is required to keep close communication with the president and all Directors to keep them fully informed of all substantive matters relating to the Company's business development, and is also responsible for building and maintaining a highly efficient administrative support team to support him to discharge the assigned duties in this position.

## TERM OF OFFICE FOR DIRECTORS

Each of the Directors has entered into a service contract with the Company. The principal particulars of these service contracts comprise, among other things, (a) the term of office of three years commencing from the date when their respective appointments are approved by the Shareholders, and (b) termination provisions in accordance with their respective terms.

## NOMINATION, APPOINTMENT AND REMOVAL OF DIRECTORS

The procedures and processes for appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the structure, number of members and composition of the Board, advising on any changes made by the Board in response to the Company's strategies, and reviewing the independence of the independent non-executive Directors.

# CORPORATE GOVERNANCE REPORT

## DUTIES OF THE BOARD

According to Article 141 of the Articles of Association, duties of the Board shall include the exercise of the following functions and powers:

- (1) to convene general meetings and to report on its work to Shareholders' general meeting;
- (2) to implement the resolutions of Shareholders' general meeting;
- (3) to decide on the business plans and investment plans of the Company;
- (4) to formulate the annual financial budgets and final accounts of the Company;
- (5) to formulate the profit distribution plans and plans for making up losses of the Company;
- (6) to formulate plans for the increase or reduction of the registered capital of the Company;
- (7) to formulate plans for the issuance of corporate bonds, any class of shares, warrants and other similar securities;
- (8) to formulate plans for significant acquisition by the Company, repurchase of shares of the Company or merger, division, reorganization or dissolution of the Company and changes in the corporate form of the Company;
- (9) to decide on the provision by the Company of any external guarantee other than those to be approved by Shareholders' general meeting as required by Article 63 of the Articles of Association;
- (10) to decide on significant acquisition or disposal within one year by the Company of assets not more than 30% of the latest audited total assets of the Company;
- (11) to decide on connected transactions other than those to be approved by Shareholders' general meeting as required by laws and regulations and regulatory rules in the place where shares of the Company is listed;
- (12) to decide on significant investment projects of the Company with the single amount not more than 30% of the latest audited net assets of the Company;
- (13) to decide on entrusted wealth management and asset mortgages or pledges with the accumulated amount not more than 30% of the latest audited net assets of the Company;
- (14) to decide on extra costs and expenses with the single amount not more than 10% of the latest audited net assets of the Company;
- (15) to decide on plans of external donation and sponsorship of the Company with the single amount not more than RMB5 million;
- (16) to formulate amendments to the Articles of Association, the Rules of Procedure for the general meeting and the Rules of Procedure for the Board;
- (17) to engage or dismiss the Company's president and secretary to the Board; to engage or dismiss vice presidents and the chief accountant of the Company, as proposed by the president, and decide on matters relating to their remuneration, rewards and punishments;

# CORPORATE GOVERNANCE REPORT

- (18) to decide on the establishment of the Company's internal management organization;
- (19) to decide on the establishment of special committees under the Board and to consider and approve resolutions proposed by each special committee under the Board;
- (20) to formulate the basic management systems of the Company;
- (21) to formulate development strategies, long and medium term development plans and corporate culture development plans, and to monitor the implementation of such plans;
- (22) to decide on the Company's risk management system, including risk evaluation, financial control, internal audit and legal risk control, and to monitor the implementation of such systems;
- (23) to propose to Shareholders' general meeting the appointment, removal or termination or reappointment of an accounting firm;
- (24) to listen to the work reports of the Company's president and inspect the work of the president and other Senior Management members;
- (25) to perform duties of corporate governance and to evaluate and improve the corporate governance of the Company regularly in accordance with the regulatory rules in the place where Shares of the Company are listed;
- (26) to formulate share option incentive scheme;
- (27) to manage the Company's information disclosure matters;
- (28) other functions and powers provided in laws and regulations, regulatory rules in the place where shares of the Company are listed or specified in the Articles of Association or granted by Shareholders' general meeting.

Resolutions by the Board on the matters referred to in the preceding paragraph shall, be passed by the affirmative vote of more than one half of all of the Directors with the exception of resolutions on the matters referred to in items(6), (7), (8), (16) and (26), which shall require the affirmative vote of at least two-thirds of all of the Directors for adoption. When considering matters referred to in item (9), in addition to the affirmative vote of more than one half of all of the Directors, the affirmative vote of at least two-thirds of all the Directors present is required for adoption.

The abovementioned functions and powers of the Board as well as any transaction or arrangement of the Company shall be proposed to Shareholders' general meeting for approval as prescribed by the regulatory rules in the place where shares of the Company is listed.

## CORPORATE GOVERNANCE FUNCTION

The Board shall be jointly responsible for the fulfilment of the following corporate governance responsibilities:

- (1) to formulate, review and make recommendations on the corporate governance policies and practices of the Company;
- (2) to review and monitor the training and continuous professional development of Directors and Senior Management;



# CORPORATE GOVERNANCE REPORT

- (3) to review and monitor the Company's policies and practices on compliance with laws and regulatory requirements;
- (4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (5) to review the Company's compliance with the Corporate Governance Code and disclosures made in the Corporate Governance Report of the annual report of the Company.

The Board and the Audit and Risk Management Committee have reviewed and approved the disclosures made in the Corporate Governance Report. The Board has also reviewed the Company's compliance with the corporate governance policies, practices, laws and regulatory requirements, and monitored and organised the training courses designed for Directors and Senior Management.

## DIRECTORS' TRAINING

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Company provides information and professional developing opportunities to Directors on an on-going basis. Each Director also learns and understands on an on-going basis the updates of relevant statutory and regulatory regime and the business environment as provided to them. They also participate in the courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online resources or reading relevant materials.

During the reporting period, the Board focused on the continuing professional development of the Directors by encouraging them to take part in and organizing training for them. All members of the Board continue to learn all kinds of regulatory information and the latest regulatory requirements during daily duty performance, including corporate governance, listing rules and other relevant laws and regulations and regulatory documents, and read industry and professional books and publications, update knowledge and skills, and enhance the ability to perform duties to ensure that their contributions to the Board remains informed and relevant. In addition, the executive Directors of the Company also received training on cross-border mergers and acquisitions provided by legal advisors of the Company, training on regulated governance and risk control of listed companies provided by legal advisors of the Company and training on financial management provided by the Company's auditors. Independent non-executive Directors, Mr. SUN Patrick, also received a number of professional training sessions provided by the Hong Kong Stock Exchange and the Shanghai Stock Exchange, and independent non-executive Directors, Mr. WANG Jiajie, Mr. CHEN Jin'en and Mr. GAO Shutang received a number of professional training sessions provided by the SASAC, the Hong Kong Institute of Chartered Secretaries and other relevant domestic institutions.

# CORPORATE GOVERNANCE REPORT

## BOARD MEETINGS

Board meetings include regular meetings and extraordinary meetings of the Board. The Company shall deliver a written meeting notice to all of the Directors and Supervisors of the Company by hand, mail, fax or other means permitted by the regulatory rules in the place where shares of the Company are listed 14 days prior to the date of a regular meeting or 5 days prior to an extraordinary meeting. If service is made indirectly, confirmation shall additionally be made by telephone and the appropriate record thereof shall be made.

In the event of emergencies where an extraordinary Board meeting needs to be convened as soon as possible, such notice may be served via telephone or by other verbal means, provided that an explanation shall be made at the meeting by the convener and the same is entered into the meeting minutes.

According to Article 156 of the Articles of Association, if any Director has connection with or significant interest in the enterprise involved in the resolution made at a Board meeting, the said Director shall not vote on the said resolution for himself or on behalf of other Director. The aforesaid Board meeting may be held when more than half of the Directors without connection or significant interest attend the meeting. The resolution of the said Board meeting shall be passed by more than half of the unrelated or non-interested Directors. If the number of unrelated or non-interested Directors attending the meetings is less than three, the matter shall be submitted to Shareholders' general meeting for consideration.

Agenda of the Board meeting together with all appropriate, complete and reliable information are sent to all Directors and/or members of the respective Board Committee at least three days before each Board meeting or Board Committee meeting to keep the Directors and/or members of the respective Board Committee apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the Senior Management where necessary.

Draft minutes are circulated to the Directors for review within a reasonable time after each meeting and final versions are open for Directors' inspection.

# CORPORATE GOVERNANCE REPORT

## Directors' Attendance at Meetings

For the year ended 31 December 2017, the Board held a total of six meetings to address various matters including the review and approval of items including results for the year ended 31 December 2016, interim results and financial statements for the six months ended 30 June 2017 and final financial accounts, distribution of profits, overall budget and material investments.

For the year ended 31 December 2017, the Directors' attendance records of the Board meetings and Shareholders' general meetings are set out as follows:

<b>Name of Director</b>	<b>Number of Board meetings attended/Number of Board meetings held during their respective tenures</b>	<b>Number of Shareholders' general meetings attended/Number of Shareholders' general meetings held during their respective tenures</b>
Mr. ZHOU Zhiliang	6/6	0/1
Mr. FU Jianguo (resigned on 26 June 2017)	3/3	0/1
Mr. YIN Gang	5/6	1/1
Mr. WANG Jiajie	6/6	1/1
Mr. SUN Patrick	6/6	1/1
Mr. CHEN Jin'en	6/6	0/1
Mr. GAO Shutang	6/6	0/1

## Delegation by the Board

The duties and power of the Board and the management have been defined in the Articles of Association. The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

# CORPORATE GOVERNANCE REPORT

In strict accordance with the Articles of Association and the authorization of general meetings, the Board takes and fulfills its decision-making responsibilities seriously, supervises management's implementation of the resolutions of the Board to ensure their effective implementation, and implements the resolutions of Shareholders' general meetings and reports the work to Shareholders' general meetings.

The day-to-day management, administration and operation of the Company are delegated to the president and the Senior Management.

## BOARD COMMITTEES

The Board has delegated certain of its duties to various committees. In accordance with the relevant PRC laws and regulations and the corporate governance practice prescribed in the Hong Kong Listing Rules and the Articles of Association, the Company has established five Board committees, namely the Strategy and Investment Committee, the Nomination Committee, the Remuneration and Evaluation Committee, the Audit and Risk Management Committee and the Quality and Safety Committee.

### Nomination Committee

The Company has established the Nomination Committee with written terms of reference. The Nomination Committee of the Company currently consists of 2 Directors, namely Mr. CHEN Jin'en, an independent non-executive Director, and Mr. WANG Jiajie, an independent non-executive Director. Mr. CHEN Jin'en, an independent non-executive Director, currently serves as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, but are not limited to, the following:

- (1) reviewing the structure, number of members and composition of the Board, and advising on any changes made by the Board in response to the Company's strategies;
- (2) studying and advising on the standards, procedures and methods for the election of Directors, president and other Senior Management members;
- (3) evaluating the eligibility of candidates for Directors and Senior Management members, reporting to the Board its opinions and advising on the relevant appointment to the Board;
- (4) searching for qualified candidates for Directors and Senior Management members;
- (5) reviewing the independence of the independent non-executive Directors;
- (6) advising to the Board on the appointment or re-appointment of Directors and Senior Management, as well as the succession plan for Directors and Senior Management (especially chairman and president);
- (7) reporting its decisions or opinions to the Board, unless otherwise restricted by laws or regulations; and
- (8) other duties authorized by the Board.

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2017, the Nomination Committee held one meeting, with Directors' attendance records set out as follows:

<b>Name of Director</b>	<b>Number of meetings attended/ Number of meetings held</b>
Mr. CHEN Jin'en	1/1
Mr. FU Jianguo (resigned on 26 June 2017)	0/0 (held in December 2017)
Mr. WANG Jiajie	1/1

For the year ended 31 December 2017, the Nomination Committee had reviewed the nomination, appointment and removal of leaders on the general manager assistant level of the Company, and believed that the system of the nomination, appointment and removal of such leaders is in compliance with relevant procedures. The Committee had also procured the human resources department to further study the selection methods of senior managements and put forward reasonable suggestions.

## Diversity Policy of Board Members

The Company believes that a diversified Board is highly beneficial to the performance of the Company, therefore the Nomination Committee has formulated the "Diversity Policy of Board Members" in relation to the nomination and appointment of new Directors. It states that the Nomination Committee can consider Board diversity from various aspects, including but not limited to gender, age, cultural and educational background, race, professional experience, skills, knowledge and years of service. After taking into account the above relevant factors, the Nomination Committee can submit final nomination recommendations to the Board based on the candidates' advantages and potential contributions to the Board. The composition details of the Board (including the gender, age and years of service) will be disclosed in the annual reports every year.

The Nomination Committee will consider and adopt the above criteria when considering the composition of the Board. Since 26 June 2017, Mr. FU Jianguo has resigned as an executive Director, a vice chairman of the Board, a member of the strategy and investment committee, nomination committee, and quality and safety committee of the Board of the Company due to the personal job change. Following the resignation of Mr. Fu Jianguo, the number of members of the Board and each of the strategy and investment committee, the nomination committee and the quality and safety committee of the Board do not meet the minimum number requirement under the relevant terms of references. The Company will appoint a suitable Director and members of the aforesaid Board committees as soon as possible. Save as disclosed above, after evaluating the capabilities and experiences of every Director and their suitability to the business of the Company, the Nomination Committee considers that the existing structure of the Board during the reporting period is reasonable and is in line with the requirements of the "Diversity Policy of Board Members", therefore no adjustments are needed.

# CORPORATE GOVERNANCE REPORT

## Remuneration and Evaluation Committee

The Company has established the Remuneration and Evaluation Committee with written terms of reference. The Remuneration and Evaluation Committee of the Company consists of 3 independent non-executive Directors, namely Mr. GAO Shutang, Mr. SUN Patrick and Mr. CHEN Jin'en. Mr. GAO Shutang currently serves as the chairman of the Remuneration and Evaluation Committee. The primary duties of the Remuneration and Evaluation Committee include, but are not limited to, the following:

- (1) advising to the Board on the overall remuneration policy and framework for Directors and Senior Management members, and on the establishment of standardized and transparent remuneration policy formulation procedures;
- (2) studying assessment criteria, performance evaluation procedures, remuneration and rewards and punishment policies for Directors and Senior Management members and submitting it to the Board for approval;
- (3) reviewing the performance of duties by and conducting performance appraisal and evaluation over Directors and Senior Management members;
- (4) reviewing and approving proposals on Senior Management's remuneration in accordance with the Company's guidelines and targets approved by the Board of Directors;
- (5) formulating and advising to the Board the remuneration packages for Directors and Senior Management members;
- (6) reviewing and approving the compensation for the loss or termination of the office or appointment of the executive Directors and Senior Management members;
- (7) reviewing and approving the compensation arrangements with regard to the dismissal or removal of Directors due to their misconduct;
- (8) ensuring any Director or their associates not to determine by themselves, or be involved in determining, their remuneration;
- (9) supervising the implementation of the Company's remuneration policies;
- (10) studying and advising to the Company's equity incentive proposal;
- (11) reporting to the Board on their decisions or recommendations, unless as restricted by laws or regulations; and
- (12) other duties authorized by the Board.



# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2017, no meetings were held by the Remuneration and Evaluation Committee.

## Remuneration of Directors and Senior Management

The remuneration of the Directors, Supervisors and Senior Management of the Company is determined with reference to factors including the salaries paid by comparable companies, time commitment and responsibilities of the Directors, Supervisors and Senior Management, employment conditions of other positions in the Company and desirability of performance-based remuneration. The Remuneration and Evaluation Committee of the Company is responsible for reviewing and examining the remuneration policies and plans for the Directors, president and other Senior Management of the Company from time to time.

The Company has established formal and transparent procedures for formulating policies on remuneration of Senior Management of the Group.

The biographies of the Senior Management are disclosed in “Directors, Supervisors, Senior Management and Employees” in this report. Remuneration paid to the Senior Management (excluding the Directors) by band during the reporting period is set out below:

<b>Remuneration band</b>	<b>Number of individuals</b>
RMB500,000 to RMB800,000	4

# CORPORATE GOVERNANCE REPORT

## Audit and Risk Management Committee

The Company has established the Audit and Risk Management Committee with written terms of reference. The Audit and Risk Management Committee of the Company currently consists of 3 independent non-executive Directors, namely Mr. SUN Patrick, Mr. WANG Jiajie and Mr. GAO Shutang. Mr. SUN Patrick currently serves as the chairman of the Audit and Risk Management Committee. The primary duties of the Audit and Risk Management Committee include, but are not limited to, the following:

- (1) advising to the Board on the appointment, renewal, change or dismissal of external auditors, approving and reviewing audit fees and appointment terms of external auditors, handling any issues related to the resignation or dismissal of external auditors, taking appropriate measures to supervise the work of external auditors and reviewing the report of external auditors;
- (2) reviewing and supervising the independence and objectivity of the external auditors and the effectiveness of the audit procedures, and discussing issues related to the nature, category and reporting responsibility of auditing with external auditors before the auditing work starts according to applicable standards;
- (3) formulating and implementing policies of non-audit services provided by external auditors, reporting and advising to the Board the actions they deem necessary and matters to be improved;
- (4) reviewing and supervising the completeness of the Company's financial statements, annual reports and accounts, interim reports and quarterly reports (if any), and reviewing the important opinions on the financial reporting recorded in the financial statements and financial reports;
- (5) reviewing the Company's financial control, internal control and risk management system and monitoring the implementation of such system on an on-going basis, and ensuring that the effectiveness of the Group's risk management and internal control system is reviewed at least once a year;
- (6) reviewing the compliance of the Company with the applicable corporate governance code and the disclosure of corporate governance report as required by the regulatory rules at the place where the Shares are listed;
- (7) discussing on the risk management and internal control system with the management of the Company to ensure the establishment of an effective internal control system, supervising the effective implementation of internal control and the self-assessment of internal control, and coordinating internal control audit and other related matters;

# CORPORATE GOVERNANCE REPORT

- (8) ensuring coordination between the internal audit departments and external auditors, ensuring that the internal audit department is adequately resourced and has appropriate standing within the Company, and reviewing and supervising the effectiveness of the internal audit department;
- (9) examining the Company's financial and accounting policies and practices;
- (10) reviewing the Explanatory Letter of Review Matters issued by the external auditor to the Company's management, any material queries raised by the external auditor to management about accounting records, financial accounts or internal control system and management's response;
- (11) confirming the list of the Company's related/connected parties and reporting to the Board and the Supervisory Committee; conducting a preliminary review of the related/connected transactions to be submitted to the Board for consideration; and reviewing the reasonableness and necessity of major related transactions;
- (12) reporting to the Board annual report on the Company's overall risk management, and reviewing the risk management strategies and material risks of the Company, and managing resolution proposals;
- (13) reviewing internal control valuation report reported by the internal audit department;
- (14) supervising and controlling the risks that the Company is affected by the overseas sanction laws to ensure a timely, complete and accurate disclosure of information related to transactions subject to sanctions in accordance with such laws; and
- (15) other duties authorized by the Board.

For the year ended 31 December 2017, the Audit and Risk Management Committee held three meetings, with Directors' attendance records set out as follows:

<b>Name of Director</b>	<b>Number of meetings attended/ Number of meetings held</b>
Mr. SUN Patrick	3/3
Mr. WANG Jiajie	3/3
Mr. GAO Shutang	3/3

During the year, the Audit and Risk Management Committee has reviewed results for the year ended 31 December 2016, the unaudited interim results of the Group for the six months ended 30 June 2017. The Audit and Risk Management Committee has also discussed the accounting policies and practices adopted by the Company, internal control and financial reporting matters with the Senior Management of the Company, and has reviewed the effectiveness of the accounting policies and practices adopted by the Company, the risk management and internal control system, and the internal audit function of the Group as well as the 2017 audit plan. In addition, the Audit and Risk Management Committee had three meetings with external auditors.

# CORPORATE GOVERNANCE REPORT

The Audit and Risk Management Committee has also listened to the special report on major risk assessment and major risk measures of the Company in 2017, conducted special audit in this regard and proposed dynamic tracking of the implementation of major risk control measures, to ensure the efficiency and effectiveness of risk control measures.

The Audit and Risk Management Committee has reviewed the internal audit of the Company and believed that it is still effective.

## Strategy and Investment Committee

The Company has established the Strategy and Investment Committee with written terms of reference. The Strategy and Investment Committee of the Company currently consists of 4 Directors, including an executive Director, Mr. ZHOU Zhiliang, and 3 independent non-executive Directors, namely Mr. GAO Shutang, Mr. CHEN Jin'en and Mr. WANG Jiajie. Mr. ZHOU Zhiliang, an executive Director, currently serves as the chairman of the Strategy and Investment Committee. The primary duties of the Strategy and Investment Committee include, but are not limited to, the following:

- (1) establishing the basic framework for the Company's strategy-making procedures, studying and advising on the Company's medium and long-term strategic development plan;
- (2) studying and advising on major financing and investment plans which, according to the Articles of Association, should be approved by the Board or at a Shareholders' general meeting;
- (3) auditing and advising on the Company's annual business plan;
- (4) conducting study and advising on major capital operation and asset management project which are required to be approved by the Board or at a Shareholders' general meeting according to the Articles of Association;
- (5) studying and advising on the plans for corporate reorganization, mergers and acquisitions, equity transfer, restructuring, organizational restructuring which, according to our Articles of Association, should be approved by the Board or at a Shareholders' general meeting, and making suggestions;
- (6) studying and advising on other major events which may have influence in the Company's development;
- (7) supervising the implementation of the above matters; and
- (8) other duties authorized by the Board.

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2017, the Strategy and Investment Committee held one meeting, with Directors' attendance record set out as follows:

<b>Name of Director</b>	<b>Number of meeting attended/ Number of meeting held</b>
Mr. ZHOU Zhiliang	1/1
Mr. FU Jianguo (resigned on 26 June 2017)	0/0 (held in August 2017)
Mr. GAO Shutang	1/1
Mr. CHEN Jin'en	1/1
Mr. WANG Jiajie	1/1

For the year ended 31 December 2017, the Strategy and Investment Committee had reviewed the CRSC "13th Five-Year" Law Compliance Plan and the CRSC "13th Five-Year" Science and Technology Development Plan.

## Quality and Safety Committee

The Company has established the Quality and Safety Committee with written terms of reference. The Quality and Safety Committee of the Company currently consists of 2 Directors, including an executive Director, Mr. YIN Gang, and Mr. GAO Shutang, an independent non-executive Director. Mr. YIN Gang, an executive Director, currently serves as the chairman of the Quality and Safety Committee. The primary duties of the Quality and Safety Committee include, but are not limited to, the following:

- (1) studying and advising to the Board on the Company's quality and safety management plan;
- (2) studying and advising to the Board on the annual quality and safety guidelines and objectives;
- (3) studying the targets and measures for the construction of long-term quality and safety mechanism;
- (4) supervising the establishment, implementation and maintenance of the Company's integrated management system of quality, environment and occupational health and safety, supervising and guiding the establishment and operation of the safety guarantee system;
- (5) supervising and guiding the Company's control of major hazard sources, and organizing the formulation of emergency management plan for production safety;
- (6) evaluating the severe quality and safety accidents, failures and quality issues, and providing guidance to handling the related issues; and
- (7) other duties authorized by the Board.

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2017, the Quality and Safety Committee held one meetings, with Directors' attendance record set out as follows:

<b>Name of Director</b>	<b>Number of meeting attended/ Number of meeting held</b>
Mr. YIN Gang	1/1
Mr. FU Jianguo (resigned on 26 June 2017)	0/0 (held in December 2017)
Mr. GAO Shutang	1/1

For the year ended 31 December 2017, the Quality and Safety Committee had reviewed the report on the safety and quality works in 2017 and the key safety and quality works arrangement in 2018 of the Company.

## SUPERVISORY COMMITTEE

The Supervisory Committee of the Company consists of 3 members, namely Ms. TIAN Liyan, Mr. GAO Fan and Ms. ZHAO Xiumei. Ms. TIAN Liyan currently serves as the chairwoman. The Supervisory Committee is made up of representatives of the Shareholders and an appropriate proportion of representatives of the Company's staff. The actual proportion shall be stipulated in the Articles of Association, provided that the proportion of representatives of the Company's staff shall not be less than one-third. Representatives of the Company's staff at the Supervisory Committee shall be democratically elected by the Company's staff at the staff representative assembly, general staff meeting or otherwise.

Each term of office of a Supervisor is 3 years and he or she may serve consecutive terms if re-elected. A Supervisor shall continue to perform his or her duties in accordance with the laws, administrative regulations and the Company's Articles of Association until a duly re-elected Supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of Supervisors results in the number of Supervisors being less than the quorum.



# CORPORATE GOVERNANCE REPORT

The Supervisory Committee shall be accountable to Shareholders' general meeting and may exercise the following powers:

- (1) to review the Company's financial position;
- (2) to supervise the Directors, president and other members of Senior Management in their performance of their duties of the Company and to propose the removal of Directors and the Senior Management who have violated laws, regulations, the Articles of Association of the Company or resolutions of Shareholders' general meeting;
- (3) when the acts of a Director, president or any other member of Senior Management are detrimental to the Company's interests, to require him/her to correct such acts;
- (4) to propose the convening of extraordinary general meetings and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meeting according to laws;
- (5) to put forward proposals to Shareholders' general meetings;
- (6) to review and issue written review comments on the periodical reports prepared by the Board;
- (7) to initiate proceedings against Directors and the Senior Management in accordance with the requirements of applicable laws;
- (8) to initiate investigations into any irregularities identified in the operation of the Company and, where necessary, to engage professional institutions, such as an accounting firm and a law firm, to assist their work; and
- (9) other duties authorized by the Articles of Association or Shareholders' general meeting.

For the year ended 31 December 2017, the Supervisory Committee held two meetings, with Supervisors' attendance record set out as follows:

<b>Name of Supervisor</b>	<b>Number of meeting attended/ Number of meeting held</b>
Ms. TIAN Liyan	2/2
Mr. GAO Fan	2/2
Ms. ZHAO Xiumei	2/2

During the reporting period, Supervisors had during the year monitored Directors and managers' performance of functions and lawful operation of the Company, reviewed periodical reports of the Company prepared by the Board, reviewed the financial statements of the Company and conducted daily supervision and paid close attention to possible risks that may occur during the Company's operation.

# CORPORATE GOVERNANCE REPORT

## ACCOUNTABILITY AND AUDIT

Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2017 of the Company. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements which are put to the Board for approval.

## RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

### 1. Risk Management and Internal Control Management Responsibilities

The Board of Directors of the Company is responsible for determining the overall risk management objectives, risk tolerance, major risk management solutions and internal control construction implementation plans of the Company and is accountable to the general meeting for the effectiveness of overall risk management and internal control. The management of the Company is responsible for organizing and establishing the Company's overall risk management and internal control system. The legal compliance department of the Company is responsible for the construction and overall operation of the overall risk management and internal control system as well as the organization, coordination and centralized management of overall risk management and internal control. The Audit Department of the Company is responsible for evaluating the effectiveness of overall risk management and internal control, conducts internal control audits and supervision. Such risk management and internal control management are designed to manage rather than eliminating the risk of failure to meet business objectives and to only provide a reasonable, but not absolute, assurance that there will be no material misrepresentations or losses.

## 2. Risk Management and Internal Control Management Systems and Procedures

The Company has formulated the “Measures for the Administration of Overall Risk Management and Internal Control of The Company” and the “Measures for the Administration of Risk Evaluation of The Company”. In accordance with the regulations, the legal compliance department of the Company conducts a comprehensive risk evaluation on the whole system of the Company at the beginning of each year to examine the effectiveness of overall risk management and control in the previous year and identify the major risks that will be faced in the next year and the countermeasures taken by it. The audit department of the Company conducts an internal control assessment at the beginning of each year to assess the effectiveness of internal control of the whole system, identify any internal control defects and implement the rectification of internal control defects. The legal compliance department and audit department of the Company report to the Audit and Risk Management Committee of the Board of Directors on risk management and internal control, including but not limited to the effectiveness and defects of internal control of the Company, overall risk evaluation results and management and control measures.

## 3. Non-compliance Report Policy and Procedure

The discipline inspection and supervision department of the Company is responsible for accepting reports on corrupt practices of internal staff of the Company, the violation of the Company’s rules and regulations, the dereliction of duty or malfeasance, and carries out investigation and handling in accordance with the “Interim Provisions on Handling the Violation of Discipline and Non-compliance by Staff of The Company”. Employees, customers, suppliers and other stakeholders of the Company can obtain the report telephone number from the official website of CRSC. In accordance with the “Implementation Measures for Handling Complaints about Tender and Bidding of The Company”, it takes the lead in forming an investigation team to conduct investigations into complaints about the tender and bidding of equipment and materials of CRSC and their handling, and makes decisions on handling and gives replies, etc. according to law pursuant to permissions.

## 4. Key Business Risks and Internal Control

In accordance with the requirements of the “Guidelines for Overall Risk Management of Central Enterprises” of SASAC, the Company implements risk management in the operation of all its businesses and effectively manages and controls its business activities through the internal control system and the internal control process. In accordance with the “Measures for the Administration of Rules and Regulations of The Company”, the legal compliance department of the Company is responsible for the construction and improvement of the internal control system and evaluates and improves the effectiveness, operability and system coordination of the Company’s internal rules and regulations each year. In accordance with the “Interim Measures for Investment Management of The Company”, the “Interim Measures for Investment Management of Capital Operation Projects of The Company” and other regulations, the relevant business departments of the Company conduct special risk evaluations on important management activities such as investment and generate special risk evaluation reports as an important basis for decision making.

# CORPORATE GOVERNANCE REPORT

## 5. Overall Situation of Risk Management and Internal Control for 2017

In 2017, the legal compliance department and the audit department of the Company organized all functional departments and enterprises of all levels to conduct comprehensive risk evaluations, internal control assessments and rationalize and continue to improve the internal control system at the beginning of the year in accordance with the regulations and the requirements of the Board of Directors and management of the Company and organized special risk evaluations on and took countermeasures against each major project in order to improve the Company's overall risk management and internal control management system and ensure that the Company's risks are controllable, the internal control system and procedure continue to be effective and internal control measures are effectively implemented. For the year ended 31 December 2017, the Board of Directors has reviewed the Company's risk management and internal control system through the legal compliance department and the audit department and considers that the system is still effective and sufficient.

## HANDLING AND RELEASING INSIDER INFORMATION

In accordance with the Company's information disclosure management regulation, the Company has defined the scope of inside information and relevant staff, established a sensitive information submission and release approval mechanism and reviewed the content of the list on a regular basis so as to quickly identify and promptly report any material which may constitute insider information. When receiving any material which may constitute inside information, the information disclosure management department will immediately evaluate the information and monitor the information before the release of the information to ensure that only a small number of those who need to know the information receive such information and ensure that these persons are well aware of their confidentiality responsibility. If such material is judged to be insider information, the information disclosure management department will coordinate the release of inside information as soon as possible through the electronic publication system operated by the Stock Exchange.

## EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the remuneration paid/payable to the Company's independent auditors, Ernst & Young and Ernst & Young Hua Ming LLP, is set out below:

	<b>Amount (RMB'000)</b>
Interim review	1,400
Annual audit	7,100
Non-audit service	600
Total fees	9,100

Non-audit services mainly include provision of new revenue standard advisory services as well as information system advisory services to the Company.

# CORPORATE GOVERNANCE REPORT

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 23 January 2018, the Board of the Company considered and approved, among other things, the resolution in relation to amendments to the “Articles of Association of China Railway Signal & Communication Corporation Limited”, which is primarily for the amendments to the relevant articles concerning the address and the name of the promoter of the Company, the amendment to the relevant articles concerning the general requirements of Party building, and the addition of the relevant articles concerning the general counsel system. This resolution is subject to consideration and approval at the Shareholders’ general meeting of the Company by way of a special resolution. The revised Articles of Association shall become effective on the date of passing the relevant resolution at the general meeting of the Company. Prior to the passing of the relevant resolution at the general meeting, the prevailing Articles of Association of the Company shall remain valid. For details, please refer to the Company’s announcement dated 23 January 2018 published on the website of the Hong Kong Stock Exchange.

Save as disclosed above, for the year ended 31 December 2017, the Company did not make any significant changes to the Articles of Association.

## SHAREHOLDERS’ RIGHTS

To safeguard Shareholders’ interests and rights, the Company will propose a separate resolution for each substantially separate issue at Shareholders’ general meetings, including the election of individual Directors.

All resolutions put forward at Shareholders’ general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each Shareholders’ general meeting.

Shareholders who intend to put forward their enquiries to the Board could send their enquiries to the Company’s headquarters in the PRC at CRSC Building, 1 Compound, Automobile Museum South Road, Fengtai District, Beijing, PRC or by email to [ir@crsc.cn](mailto:ir@crsc.cn), or by fax at +86-10-51846610. H Shareholders may contact Computershare Hong Kong Investor Services Limited, the H Share Registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

# CORPORATE GOVERNANCE REPORT

## CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

According to Article 71 of the Articles of Association, where Shareholders request to hold an extraordinary general meeting or class meeting, the following procedures shall be followed:

- (1) Shareholders who individually or jointly hold 10% or more of the voting shares at the proposed meeting may make a proposal to the Board on holding an extraordinary general meeting or class meeting by signing one or several written requests with same contents in the same format and define the meeting agenda. The above Shareholders shall guarantee that the contents of the proposal shall be in compliance with the laws, regulations and the Articles of Association. The Board shall convene such meeting as soon as possible upon receipt of the aforesaid written request. The aforesaid number of shares shall be calculated as of the close of the date or, if it falls on a non-trading date, the prior trading date on which such Shareholders request to convene the meeting in writing; and
- (2) If the Board is unable to or fails to perform its duty of convening a Shareholders' general meeting or class meetings, the Supervisory Committee shall convene and preside over such meeting in a timely manner; if the Supervisory Committee cannot convene and preside over such meeting, Shareholders who individually or jointly hold more than 10% of the shares for more than 90 consecutive days may independently convene and preside over such meeting.

## PUTTING FORWARD PROPOSES AT SHAREHOLDERS' GENERAL MEETING

According to Article 77 of the Articles of Association, in the event the Company convenes a Shareholders' general meeting, the Board, the Supervisory Committee or Shareholders individually or jointly holding an aggregate of 3% or more of the Company's Shares with voting rights are entitled to submit proposals in writing to the Company. Shareholders individually or jointly holding 3% or more of the Company's Shares may submit ad hoc proposals to the convener of a Shareholders' general meeting in writing ten days prior to the Shareholders' general meeting. The convener shall issue a supplementary notice of the Shareholders' general meeting and announce the content of such ad hoc proposals within two days after receipt thereof. Except as provided in the preceding paragraph, the convener of a Shareholders' general meeting shall not amend the proposals set out in the notice of the Shareholders' general meeting or add any new proposals subsequent to the issue of the notice of the Shareholders' general meeting. The Shareholders' general meeting shall not carry out the voting and adopt resolutions on the proposals that are not stated in the notice of the Shareholders' general meeting or fail to meet the requirements under Article 75 of the Articles of Association.



# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers effective communication with Shareholders as essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions. Shareholders' general meetings of the Company provide a forum for face-to-face communication between the Board and the Shareholders. The chairman of the Board as well as chairmen of the Nomination Committee, the Remuneration and Evaluation Committee and the Audit and Risk Management Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, is available to answer questions at Shareholders' general meetings.

For the year ended 31 December 2017, the Company held a total of one Shareholders' general meeting for the consideration and approval of report of the Board for 2016, report of the Supervisory Committee for 2016, financial report for 2016, the audit report for 2016, profit distribution plan for 2016, remuneration plan for independent Directors for 2017, appointment of external auditor for 2017, general authorizations for the issuance of debt financing instruments and general authorizations for the issuance of shares.

To promote effective communication, the Company maintains its website and posts updates on the Company's business operations and developments, financial information, corporate governance practices and other information for public access. Shareholders who intend to put forward their enquires about the Company to the Board could email their enquires to [ir@csrc.cn](mailto:ir@csrc.cn).

## JOINT COMPANY SECRETARIES

The Company engages Ms. NG Wing Shan, the assistant vice president of SW Corporate Services Group Limited, as one of the joint company secretaries of the Company. Her primary contact person of the Company is Mr. HU Shaofeng, being the other joint company secretary of the Company. Ms. Ng and Mr. Hu undertook no less than 15 hours of relevant professional training during the year ended 31 December 2017.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

As at the date of this report, the Directors, Supervisors and Senior Management of the Company are as follows:

### Directors

Name	Age	Present Title	Roles and Responsibilities
ZHOU Zhiliang (周志亮)	53	Executive Director, Chairman	Overseeing the overall work of the Board, and formulating the Company's strategies
YIN Gang (尹刚)	55	Executive Director, President	Overseeing the management of the Company's daily production and operations
WANG Jiajie (王嘉杰)	67	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, the Company's business strategies, the nomination of the Directors and Senior Management of our Company, and auditing and risk management
SUN Patrick (辛定华)	59	Independent No-executive Director	Providing advices with regard to the corporate governance, connected transactions, remuneration of Directors and Senior Management of our Company, and auditing and risk management
CHEN Jin'en (陈津恩)	63	Independent No-executive Director	Providing advices with regard to the corporate governance, connected transactions, the Company's business strategies, nomination and remuneration of Directors and Senior Management of our Company
GAO Shutang (高树堂)	68	Independent No-executive Director	Providing advices with regard to the corporate governance, connected transactions, the Company's business strategies, remuneration of Directors and Senior Management, auditing and risk management, and production safety and product quality management

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## Supervisors

Name	Age	Present Title	Roles and Responsibilities
TIAN Liyan (田麗豔)	44	Chairwoman of the Supervisory Committee	Overseeing the overall work of the Supervisory Committee, organizing and supervising the management and the Board of Directors, and making relevant suggestions
GAO Fan (高帆)	42	Supervisor	Supervising operations and financial activities
ZHAO Xiumei (趙秀梅)	44	Supervisor (Employee Representative Supervisor)	Supervising operations and financial activities

## Senior Management

Name	Age	Present Title	Roles and Responsibilities
YIN Gang (尹剛)	55	President, Executive Director	Overseeing the management of the Company's daily production and operations
KONG Ning (孔寧)	53	Vice President	Assisting the president in daily production and operation
HU Shaofeng (胡少峰)	50	Chief Accountant, Board Secretary	In charge of the Company's financial work, in charge of information disclosure, investor relationship coordination, and preparation of Shareholders' general meetings and Board meetings
CHEN Hong (陳紅)	55	Vice President	Assisting the president in daily production and operation
HUANG Weizhong (黃衛中)	52	Vice President	Assisting the president in daily production and operation

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Executive Directors

**Mr. ZHOU Zhiliang**, aged 53, has been the Company's chairman since January 2012, and is mainly responsible for overseeing the overall work of the Board and formulating the Company's strategies. Mr. Zhou has been the chairman of CRSC Corporation Group since May 2017, and was the general manager of CRSC Corporation Group from January 2012 to May 2017. Mr. Zhou was a vice president of CRCC (listed on the Stock Exchange, stock code: 1186; listed on the Shanghai Stock Exchange, stock code: 601186) from October 2007 to January 2012, during which Mr. Zhou served as the chairman of China Railway Construction Investment Group Co., Ltd. (中國鐵建投資有限公司) from March 2011 to January 2012. From December 2004 to October 2007, Mr. Zhou was a deputy general manager of China Railway Construction Corp. (中國鐵道建築總公司). From November 2001 to December 2004, Mr. Zhou was the director of China Railway No.4 Survey & Design Group Co., Ltd. (鐵道部第四勘察設計院). From January 2000 to November 2001, Mr. Zhou served as the chairman of Labor Union of China Railway No.4 Survey & Design Group Co., Ltd. From November 1996 to January 2000, Mr. Zhou served as the director at No.2 Railway Survey and Design Department (第二勘测設計處) of China Railway No.4 Survey & Design Group Co., Ltd..

Mr. Zhou graduated from China University of Mining & Technology (中國礦業學院) in July 1985 with a bachelor's degree in engineering and majored in hydrogeology and engineering geology, and from Tsinghua University School of Economic and Management with an EMBA degree in January 2008. In December 2010, Mr. Zhou was conferred the title of Professor of Engineering by Technological Qualification Review Committee for Senior Engineers of CRCC (中國鐵建股份有限公司工程系列正高級專業技術職務任職資格評審委員會).

**Mr. YIN Gang**, aged 55, has been appointed as an executive Director and president of the Company since May 2015, and is mainly responsible for overseeing the management of the Company's daily production and operations. From December 2010 to May 2015, Mr. Yin was a vice president of the Company, during which, Mr. Yin served as the chairman of CRSCD from January 2012 to November 2012 and as the Board secretary of our Company from April 2011 to May 2013. Mr. Yin has been the general manager of CRSC Corporation Group since May 2017. From August 2001 to May 2015, Mr. Yin was the deputy general manager of CRSC Corporation Group. From December 1996 to August 2001, Mr. Yin successively served as deputy general manager and the general manager of Shenyang Railway Signal Factory (瀋陽鐵路信號工廠) (the predecessor of Shenyang Railway Communication Co., Ltd. (瀋陽鐵路信號有限責任公司)).

Mr. Yin graduated from Dalian Railway Institute (大連鐵道學院) in July 1983, with a bachelor's degree in engineering and majored in metal material and heat treatment. In December 1999, he was conferred the title of senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of China Railway Signal & Communication Company.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## Independent Non-executive Directors

**Mr. WANG Jiajie**, aged 67, has been appointed as the Company's independent non-executive Director since May 2015, and is mainly responsible for providing advice with regard to corporate governance, connected transactions, the Company's business strategies, nomination of the Directors and Senior Management of the Company and auditing and risk management. Mr. Wang is currently the arbitrator of China International Economic and Trade Arbitration Commission and the arbitrator of Beijing Arbitration Commission. Before joining our Company, Mr. Wang served in several positions in China General Technology (Group) Holding Co., Ltd. (中國通用技術 (集團) 控股有限責任公司), including serving as its general counsel from December 2004 to December 2010 and as the general manager of its legal department from July 1999 to December 2004. Mr. Wang also served in several positions in China National Technical Imp. & Exp. Corp. (中國技術進出口總公司), including serving as the general manager of its legal department from November 1998 to July 1999; and the vice general manager of its legal department from December 1991 to November 1998.

Mr. Wang graduated from the law school of Renmin University of China (中國人民大學) with a master's degree in laws in July 1987 and from the legal department of the second campus of Renmin University of China with a bachelor's degree in law in February 1983.

**Mr. SUN Patrick**, aged 59, has been appointed as the Company's independent non-executive Director since May 2015. Mr. Sun currently serves as the independent non-executive director of several companies listed on the Hong Kong Stock Exchange, including Trinity Limited (利邦控股有限公司), Sihuan Pharmaceutical Holdings Group Ltd. (四環醫藥控股集團有限公司), China NT Pharma Group Company (中國泰凌醫藥集團有限公司) and Kunlun Energy Company Limited (昆侖能源有限公司). Mr. Sun is also the independent non-executive director of several companies listed on both the Shanghai Stock Exchange and Hong Kong Stock Exchange, including CRRC Corporation Limited (中國中車股份有限公司) and CRCC. Mr. Sun is the vice chairman of the Chamber of Hong Kong Listed Companies and formerly served as the honorary secretary general of the Chamber (2013-2015).

Mr. Sun served as an independent non-executive director and non-executive chairman of Solomon Systech (International) Limited, a non-executive director of Renhe Commercial Holdings (人和商業控股有限公司), an executive director of Value Convergence Holdings Limited (滙盈控股有限公司) and Sunwah Kingsway Capital Holdings Limited (滙富金融控股有限公司) as well as an independent non-executive director of CREC (those are Hong Kong-listed companies), as well as the independent non-executive director of The Link Management Limited (the manager of The Link Real Estate Investment Trust (領匯房地產投資信託基金) in Hong Kong), senior country officer and head of investment banking for Hong Kong of JPMorgan Chase and group executive director and head of investment banking for Greater China of Jardine Fleming Holdings Limited (怡富控股有限公司). He was a member of the Takeovers & Mergers Panel and the Takeovers Appeal Committee, Deputy Convenor of the Listing Committee of the Stock Exchange and a council member of the Stock Exchange.

Mr. Sun obtained a bachelor's degree in economics from the Wharton School of University of Pennsylvania in 1981 and completed the Stanford Executive Program at Stanford Graduate School of Business in 2000. Mr. Sun has been a fellow of the Association of Chartered Certified Accountants, United Kingdom, and a fellow of the Hong Kong Institute of Certified Public Accountants.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. CHEN Jin'en**, aged 63, has been appointed as an independent non-executive Director since May 2015, and is mainly responsible for providing advice with regard to corporate governance, connected transactions, the Company's business strategies, nomination and remuneration of the Directors and Senior Management of the Company. Before joining our Company, from March 2010 to August 2013, Mr. Chen was the vice chairman of China Energy Conservation and Environmental Protection Group (中國節能環保集團公司). Mr. Chen also served as a non-executive director of Billion Industrial Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 2299) from September 2012 to March 2013. Mr. Chen also served several positions in China Energy Conservation Investment Co., Ltd. (中國節能投資公司), including serving as its deputy general manager from October 2004 to March 2010, its vice chairman from September 2001 to October 2004. From November 2000 to September 2001, Mr. Chen was the head of the working department of the supervisory committee of Central Work Committee for Enterprises (中央企業工委). From August 1998 to November 2000, Mr. Chen was the deputy director of General Administration Office of Special Inspector of Ministry of Personnel (人事部稽查特派員總署辦公室). From July 1988 to August 1998, Mr. Chen served as a deputy director, director and assistant supervisor of the Department of Title of Ministry of Personnel (人事部職稱司).

Mr. Chen graduated from City University of Macau with a master's degree in business administration in July 2000, and from Nanjing University of Aeronautics and Astronautics (南京航空航天大學), majoring in aircraft design in July 1978.

**Mr. GAO Shutang**, aged 68, has been appointed as an independent non-executive Director since May 2015, and is mainly responsible for providing advice with regard to corporate governance, connected transactions, the Company's business strategies, remuneration of Directors and Senior Management, auditing and risk management, and product quality and production safety management. Before joining in our Company, Mr. Gao served as a director of China Railway Engineering Corporation (中國鐵路工程總公司) from September 2006 to September 2007 and as chairman of the supervisory committee of CREC (listed on the Hong Kong Stock Exchange, stock code: 390; listed on the Shanghai Stock Exchange, stock code: 601390) from September 2007 to June 2009, during which periods, from September 2007 to December 2009, he served as the director of China Railway Group Limited Hongda Center (中鐵宏達中心). From May 2001 to September 2006, Mr. Gao was the deputy Party secretary and the secretary to the disciplinary committee of China Railway Engineering Corporation. Mr. Gao served as the chairman of China Railway Group Limited the Fifth Bureau Group (中鐵五局集團) from August 2002 to December 2003. He also served as the chairman of China Railway Electrification Engineering Group Co. (中鐵電氣化局集團有限公司) from December 2003 to January 2008. From July 2009 to July 2013, Mr. Gao was the chairman of the third session of the supervision committee of Beijing Public Company Association (北京上市公司協會).

Mr. Gao graduated from the Correspondence School of Party School of CPC Central Committee (中央黨校函授學院) in the PRC in December 1996, majored in economics and management.



# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## Supervisors

**Ms. TIAN Liyan**, aged 44, has been appointed as the chairwoman of the Supervisory Committee of our Company since May 2015, and is mainly responsible for overall work of the Supervisory Committee, organizing and supervising the management and the Board and making relevant suggestions. Ms. Tian has been the general counsel of the Company since September 2017. Ms. Tian has served several positions in CRSCD, including serving as its general counsel from August 2013 to July 2015, as one of its directors from February 2012 to July 2015 and as its chief accountant from February 2007 to July 2015. Ms. Tian has also been a director of Thales Transport Automation Control Systems (Beijing) Co., Ltd. (北京泰雷茲交通自動化控制系統有限公司) from October 2013 to July 2015. From June 2012 to October 2013, Ms. Tian was a supervisor of Thales Transport Automation Control Systems (Beijing) Co., Ltd. From November 2005 to February 2007, Ms. Tian was a deputy chief accountant and head of the asset and finance department of the CRSCD; from October 2005 to November 2005, Ms. Tian was an accountant and deputy head of the asset and finance department of CRSCD; from July 1999 to October 2005, Ms. Tian was also a manager of the audit department of Deloitte Touche Tohmatsu CPA Ltd. (Beijing Branch).

Ms. Tian graduated from the accounting department of Dongbei University of Finance (東北財經大學) with a master's degree in economics in April 1997, and graduated from the accounting department of Shanxi Finance and Economics College with a bachelor's degree in economics in July 1994. Ms. Tian obtained CPA certificate in January 2000 and was qualified as a senior accountant by the Senior Accountant Specialised Technique Qualification Evaluation Committee of Government Offices Administration of the State Council in May 2012.

**Mr. GAO Fan**, aged 42, has been appointed as a Supervisor since May 2015, and is mainly responsible for supervising operations and financial activities. Mr. Gao served as a managing director of China Merchants United Development Company Limited (招商局聯合發展有限公司) since July 2017. From March 2016 to July 2017, Mr. Gao has been the general manager of public equity department of CRHC. He was a deputy general manager of the investment development department of CRHC from July 2014 to March 2016 and was a deputy general manager of comprehensive business department of CRHC from January 2012 to October 2014. Mr. Gao also served as the general manager of business development department of Zhuhai Zhen Rong Company (珠海振戎公司) from February 2004 to December 2011 and a project manager of Zhen Rong International Petroleum Company Limited (振戎國際石油有限公司) from December 2001 to November 2006. From April 1999 to November 2001, Mr. Gao was also a project manager of corporate business department in the headquarters of the Bank of China Limited.

Mr. Gao graduated from the international finance department of Harbin Institute of Technology (哈爾濱工業大學) in August 1998, with a bachelor's degree in economics.

**Ms. ZHAO Xiumei**, aged 44, has been appointed as an employee representative Supervisor since May 2015, and is mainly responsible for supervising operations and financial activities. Ms. Zhao served as the head of the legal compliance department of CRSC International Holdings Company Ltd. (通號國際控股有限公司), a subsidiary of the Company since November 2017. Ms. Zhao has served as a supervisor of the legal department of our Company from December 2010 to November 2017. Ms. Zhao also served as a supervisor of the legal department of CRSC Corporation Group from December 2005 to December 2010, and a translator and an administrative supervisor of the general office of CRSC Corporation Group from May 2002 to December 2005. Ms. Zhao worked at CRSC Corporation Group Three Series System Control Communication Technology Co., Ltd. (中國通號集團三系程控通信技術公司) from August 1996 to June 2002, during which, Ms. Zhao served as a translator of the Committee of Railway Cooperation Organization (Warsaw, Poland) from May 1998 to April 2002.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Zhao graduated from Northern Jiaotong University (北方交通大學) with a bachelor's degree in arts and majored in Russian (Technology) in July 1996, and graduated from Renmin University of China (中國人民大學) with a master's degree in law and majored in economic law in January 2008. Ms. Zhao has obtained PRC enterprise legal adviser qualification certificate in October 2006 and PRC legal profession qualification certificate in March 2017.

## Senior Management

**Mr. YIN Gang**, aged 55, is the president of the Company. For biography of Mr. Yin, please see "Directors".

**Mr. KONG Ning**, aged 53, has been the Company's vice president since July 2016, and is mainly assisting the president in daily production and operation. He served as the Company's chief accountant from December 2010 to July 2016, and is mainly in charge of our financial work. Mr. Kong was the chief accountant of CRSC Corporation Group from November 2004 to May 2015, and served as head of finance department in the finance department of China Huanqiu Contracting & Engineering Corporation (中國寰球工程公司) and the chief accountant of HQCEC (HB) (華北規劃設計院) from August 2001 to November 2004; as the deputy chief of financial department of Medicament Joint Venture Company (安徽省醫藥聯合經營公司) in Anhui province (renamed as Anhui Hua Shi Medicament Co., Ltd. (安徽華氏醫藥有限公司)) from April 1996 to August 2001.

Mr. Kong graduated from Anhui Ma'anshan Business Technical College (安徽省馬鞍山商業專科學校) in July 1986, with a college diploma in business financial accounting; in June 2009, he graduated from Dongbei University of Finance and Economics (東北財經大學), with an EMBA degree. In November 2003, Mr. Kong was conferred the title of Senior Accountant by the Qualification Review Committee for Senior Accountant Professional Technology Positions of China National Nonmetallic Mineral Industry (Group) Corporation (中國非金屬礦工業(集團)總公司).

**Mr. HU Shaofeng**, aged 50, has been the Company's chief accountant since July 2016, and is mainly in charge of the Company's financial work. He has been the Company's Board Secretary since May 2013. Mr. Hu has been the director of CRSC Innovation Investment (創新投資) since August 2012. He served as the Company's deputy chief accountant from July 2012 to July 2016. Mr. Hu served as deputy general manager, chief accountant and general counsel of China Railway Construction Heavy Industry Co., Ltd. (中國鐵建重工集團有限公司) from December 2011 to July 2012. Mr. Hu served as the chief accountant of China Railway Track Systems Group Co., Ltd. (中鐵軌道系統集團有限公司) from May 2007 to December 2011. Mr. Hu served as deputy chief accountant of the China Railway No.4 Survey & Design Group Co., Ltd. (鐵道部第四勘察設計院) from February 2004 to October 2006, as the director of financial department of the China Railway No. 4 Survey & Design Group Co., Ltd. from February 2004 to April 2005, as the assistant to director and deputy director of financial department of the China Railway No. 4 Survey & Design Group Co., Ltd. from February 2002 to February 2004.

Mr. Hu graduated from Zhongnan University of Economics (中南財經大學) in July 1990, with a bachelor's degree in economics and majoring in industrial economics; in June 2007, Mr. Hu graduated from Wuhan University (武漢大學) with a Master's degree in software engineering (financial informatization major). In December 2005, Mr. Hu was conferred the title of Senior Engineer by Qualification Review Committee for Senior Accounting Professional Technical Positions of China Railway Construction Corporation.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. CHEN Hong**, aged 55, has been the Company's vice president since April 2013, and is mainly responsible for assisting the president in daily production and operation. Mr. Chen was an employee representative Director from December 2010 to May 2015, chairman of our labor union from April 2011 to April 2013, and assistant to president of our Company from February 2012 to April 2013. Mr. Chen was chairman of CRSCS from September 2013 to October 2014, chairman of CRSC Innovation Investment from August 2012 to February 2014. Mr. Chen was the chairman of labor union of CRSC Corporation Group from March 2007 to April 2013. Mr. Chen also served as office director of CRSC Corporation Group from November 2004 to March 2007. Mr. Chen successively served as deputy general manager of CRSCS from June 2000 to November 2004, and office manager, project manager and assistant to general manager of this company from June 1992 to June 2000.

Mr. Chen graduated from Luoyang Railway Electrical Engineering School (洛陽鐵路電務工程學校) as a secondary student majoring in railway communications in July 1981, and graduated from the Correspondence School of Party School of the CPC Central Committee (中央黨校函授學院) with a bachelor's degree in administrative management in December 2001. In December 2009, Mr. Chen was conferred the title of Senior Engineer by Technological Qualification Review Committee for Senior Engineers of CRSC Corporation Group.

**Mr. HUANG Weizhong**, aged 52, has been the Company's vice president since April 2013, mainly responsible for assisting the president in daily production and operation. Mr. Huang served as the chairman of CRSCD from November 2012 to September 2014, as the director and general manager of CRSCD from November 2010 to November 2012, as the vice president of CRSCD from January 2004 to November 2010, as the director of CRSCD from December 1996 to January 2004.

Mr. Huang graduated from Southwest Jiaotong University (西南交通大學) in July 1987, with a Bachelor's degree in engineering and majoring in automatic control; and graduated from Fordham University in the United States in May 2003, with a MBA degree. In December 2005, Mr. Huang was conferred the title of Senior Engineer by the Qualification Review Committee for Senior Engineers of the MOR.

## Joint Company Secretaries

**Mr. HU Shaofeng**, has been the Company's joint company secretary since 17 March 2015. Please refer to "Senior Management" in this section for biographical details of Mr. Hu.

**Ms. NG Wing Shan** was appointed as our joint company secretary on 17 March 2015. Ms. Ng is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. She has over 10 years of professional experience in the company secretarial field and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## EMPLOYEES

### Staff Composition

As at 31 December 2017, the Group had a total of 18,314 full-time employees. The number of employees of the respective entities is set out as below:

Distribution	Number of Employees
The Company	150
Subsidiaries of the Company	18,164
Total	18,314

### Staff Incentive

The Group has established a comprehensive performance evaluation system, linking the annual operation targets with the performance evaluation of all departments and employees. With an all-round performance evaluation system covering the Company, department, branch, subsidiary and personal levels, the Group breaks down the key indicators layer by layer to ensure they are all covered, and performs management level by level to assure indicators are being accomplished and implemented. With multiple measures and multi-dimensional approaches, the operational status of the Company and personal incentive are intertwined and bound together, thereby fully stimulating organizational and personal creativity. Upholding the business philosophy of being responsible to Shareholders and the society, the Group is dedicated to realizing the long-term development of the enterprise.

### Staff Training

The Group places high importance on establishing a corporate culture and focuses on improving the overall employee quality by proactively implementing a comprehensive staff training initiative by levels and layers. During the Reporting Period, in accordance with the Company's strategy and key task arrangement for the year and supported by the training system infrastructure of the Company, the Group focused on co-ordinating and planning company-level training programs, covering aspects including system, course, teaching staff and management, vigorously developed the training for departments and subsidiaries. As at 31 December 2017, the Group provided training to 47,200 employees with a total of 94,400 learning hours, and the total training cost amounted to RMB 24.9 million.

### Employee Evaluation and Remuneration

In conjunction of the human resources strategy, the Group, based on different position categories, has established a performance and capability oriented employee remuneration system as well as formulated a competitive remuneration standard with reference to the remuneration standard in the Beijing area and related enterprises in the same industry. As such, the Group has effectively safeguarded the capability of the Company's human resources strategy to recruit, retain and incentivize talents.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## Pension Scheme

As at the end of 2017, the Group had a total of 11,337 retired employees. Those employees of the Company are entitled to the endowment insurance scheme approved by the Ministry of Labour and Social Security of the local government. The Company has established an enterprise annuity system which serves as a supplementary pension system providing a certain level of income security for retired employees who fulfil certain requirements and participate on a voluntary basis. The Company and participating employees make contributions according to certain ratios while the trustee commissions a third-party legal entity to act as account manager, custodian and investment manager to perform fund management and investment operation. According to the regulation of this pension system, the pension payment will be made when the employee retires.

Further details of the employees policies of the Company are set out in the “Environmental, Social and Governance Report” of the Company to be published within 3 months of the date of the 2017 annual report.

# INDEPENDENT AUDITOR'S REPORT



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## To the shareholders of China Railway Signal & Communication Corporation Limited

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

### OPINION

We have audited the consolidated financial statements of China Railway Signal & Communication Corporation Limited (中國鐵路通信信號股份有限公司, the "Company") and its subsidiaries (the "Group") set out on pages 93 to 200, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 (the "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 HKICPA's Code of *Ethics for Professional Accountants* (the "Code"), 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.



# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

### Key audit matter

### How our audit addressed the key audit matter

#### *Revenue recognition on contracts for services and construction contracts*

The Group derives a significant portion of its revenues from contracts for services and construction contracts that are accounted for by applying the percentage-of-completion ("POC") method. The POC method involves the use of significant management judgement and estimates including estimates of the progress towards completion, the scope of deliveries and services required, total contract costs, remaining costs to completion, total contract revenues and contract risks. In addition, revenue, cost and gross profit realized on such contracts can vary (sometimes significantly) from the Company's original estimates because of changes in conditions. The deviation of the management judgement and estimates adopted during the course of revenue recognition on contracts for services and construction contracts has a significant effect on the financial statements of the Group.

More details are given in note 2.4, note 3 and note 23 to the consolidated financial statements.

#### *Impairment of trade receivables*

The Group maintains an impairment allowance arising from the failure of its customers to make payments when they fall due. The impairment assessment was performed by the management based on the ageing of trade receivable balances, customers' creditworthiness, and historical write-off experience. Making the impairment allowance involves the use of significant management judgement and estimates after taking into account the credit risks of the customers, recent historical payment patterns and existence of disputes, and other qualitative and quantitative information available to management.

More details are given in note 24 to the consolidated financial statements.

Our audit procedures included testing the effectiveness of the Group's internal controls over appropriate judgement and estimates adopted during the course of revenue recognition. We obtained all material contracts for services and construction contracts, reviewed the key contract terms and verified material contract revenues amounts to supporting documents. We have also checked the information adopted by management during the course of estimating the total budgeted costs for material services and construction contracts such as current offers from sub-contractors and suppliers and recent offers agreed with sub-contractors and suppliers. We have assessed the appropriateness of the estimation adopted by management in determining the budgeted total contract costs and checked the calculation of the percentage of completion of construction and service contracts on a test basis.

We assessed the adequacy of the impairment allowance of trade receivables by understanding the judgements and consideration exercised by management during the assessment, considered whether any circumstances have arisen that may have an impact on the collectability of any material receivables; challenging the judgement and estimates made by management in determining impairment allowance. We evaluated cash collection performance against historical trends; tested the accuracy of the ageing of trade receivable balances, reviewed payment records of the aged debtors; obtained trade receivable confirmation on a test basis; and analysed the amounts written off as uncollectible.

# INDEPENDENT AUDITOR'S REPORT

## 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.

# INDEPENDENT AUDITOR'S REPORT

## 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.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

29 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>REVENUE</b>	5	<b>34,433,683</b>	29,402,146
Cost of sales	7	<b>(26,043,267)</b>	(21,973,755)
Gross profit		<b>8,390,416</b>	7,428,391
Other income and gains	5	<b>380,462</b>	411,068
Selling and distribution expenses		<b>(692,598)</b>	(684,272)
Administrative expenses		<b>(3,415,537)</b>	(3,177,721)
Other expenses		<b>(358,862)</b>	(167,780)
Finance costs	6	<b>(51,823)</b>	(30,032)
Share of profits and losses of:			
Joint ventures		<b>12,401</b>	10,423
Associates		<b>21,197</b>	26,054
<b>PROFIT BEFORE TAX</b>	7	<b>4,285,656</b>	3,816,131
Income tax expense	9	<b>(772,594)</b>	(624,642)
<b>PROFIT FOR THE YEAR</b>		<b>3,513,062</b>	3,191,489
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax:			
Re-measurement losses on defined benefit plans, net of tax		<b>(70,520)</b>	(22,644)
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:			
Exchange differences on translation of foreign operations		<b>16</b>	—
Effective portion of changes in fair value of a hedging instrument arising during the year, net of tax		<b>1,855</b>	6,396
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>(68,649)</b>	(16,248)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>3,444,413</b>	3,175,241
Profit attributable to:			
Owners of the parent		<b>3,310,045</b>	3,049,341
Non-controlling interests		<b>203,017</b>	142,148
		<b>3,513,062</b>	3,191,489
Total comprehensive income attributable to:			
Owners of the parent		<b>3,241,396</b>	3,033,093
Non-controlling interests		<b>203,017</b>	142,148
		<b>3,444,413</b>	3,175,241
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
Basic and diluted (expressed in RMB per share)	11	<b>0.38</b>	0.35

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>NON-CURRENT ASSETS</b>			
Investment properties	12	243,282	—
Property, plant and equipment	13	4,334,707	3,755,006
Prepaid land lease payments	14	2,137,494	2,292,068
Goodwill	15	267,894	267,894
Other intangible assets	16	366,949	470,370
Investments in joint ventures	17	361,038	394,614
Investments in associates	18	642,206	237,705
Available-for-sale investments	19	156,002	153,820
Deferred tax assets	21	278,028	215,002
Trade receivables	24	901,398	600,771
Financial receivables	20	2,131,712	255,116
Prepayments, deposits and other receivables	25	297,003	60,000
Total non-current assets		12,117,713	8,702,366
<b>CURRENT ASSETS</b>			
Prepaid land lease payments	14	58,055	60,797
Inventories	22	3,329,667	3,242,961
Trade and bills receivables	24	12,427,803	11,023,531
Prepayments, deposits and other receivables	25	2,551,986	2,147,598
Amounts due from contract customers	23	17,686,254	9,414,068
Tax recoverable		5,876	11,539
Pledged deposits	26	187,844	171,610
Cash and cash equivalents	26	12,879,446	15,520,537
Total current assets		49,126,931	41,592,641
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	27	24,232,650	15,645,157
Amounts due to contract customers	23	3,244,800	3,812,861
Other payables, advances from customers and accruals	28	5,199,419	5,647,534
Interest-bearing bank and other borrowings	29	1,328,803	931,269
Provisions for supplementary retirement benefits	32	62,779	70,701
Tax payable		333,236	223,180
Government grants	31	24,470	8,959
Provisions	30	47,489	58,958
Total current liabilities		34,473,646	26,398,619
<b>NET CURRENT ASSETS</b>		14,653,285	15,194,022
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		26,770,998	23,896,388



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>26,770,998</b>	23,896,388
<b>NON-CURRENT LIABILITIES</b>			
Trade payables	27	20,839	19,380
Interest-bearing bank and other borrowings	29	546,979	220,436
Provisions for supplementary retirement benefits	32	672,940	656,489
Deferred tax liabilities	21	42,062	59,405
Government grants	31	156,671	125,123
Provisions	30	106,909	125,084
Total non-current liabilities		<b>1,546,400</b>	1,205,917
Net assets		<b>25,224,598</b>	22,690,471
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	33	8,789,819	8,789,819
Reserves	34	15,229,232	12,866,818
		<b>24,019,051</b>	21,656,637
<b>Non-controlling interests</b>		<b>1,205,547</b>	1,033,834
Total equity		<b>25,224,598</b>	22,690,471

**Zhou Zhiliang**  
Director

**Yin Gang**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2017

	Attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Capital reserve	Special reserve	Statutory	Retained profits	Total	Total		
				surplus reserve					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2016	8,789,819	7,266,883	142,831	651,833	1,991,923	18,843,289	891,893	19,735,182	
Profit for the year	—	—	—	—	3,049,341	3,049,341	142,148	3,191,489	
Other comprehensive loss for the year:									
Effective portion of changes in fair value of a hedging instrument arising during the year, net of tax	—	6,396	—	—	—	6,396	—	6,396	
Re-measurement losses on defined benefit plans, net of tax	—	(22,644)	—	—	—	(22,644)	—	(22,644)	
Total comprehensive income/(loss) for the year	—	(16,248)	—	—	3,049,341	3,033,093	142,148	3,175,241	
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	8,821	8,821	
Acquisition of a subsidiary	—	—	—	—	—	—	63,142	63,142	
Final 2015 dividend declared (note 10)	—	—	—	—	(219,745)	(219,745)	—	(219,745)	
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	(72,170)	(72,170)	
Appropriation to statutory surplus reserve (note (ii))	—	—	—	55,492	(55,492)	—	—	—	
Transfer to special reserve (note (i))	—	—	258,134	—	(258,134)	—	—	—	
Utilisation of special reserve (note (i))	—	—	(241,012)	—	241,012	—	—	—	
As at 31 December 2016	<u>8,789,819</u>	<u>7,250,635*</u>	<u>159,953*</u>	<u>707,325*</u>	<u>4,748,905*</u>	<u>21,656,637</u>	<u>1,033,834</u>	<u>22,690,471</u>	

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2017

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital reserve	Special reserve	Statutory surplus reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2017	8,789,819	7,250,635	159,953	707,325	4,748,905	21,656,637	1,033,834	22,690,471
Profit for the year	—	—	—	—	3,310,045	3,310,045	203,017	3,513,062
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	—	16	—	—	—	16	—	16
Effective portion of changes in fair value of a hedging instrument arising during the year, net of tax	—	1,855	—	—	—	1,855	—	1,855
Re-measurement losses on defined benefit plans, net of tax	—	(70,520)	—	—	—	(70,520)	—	(70,520)
Total comprehensive income/(loss) for the year	—	(68,649)	—	—	3,310,045	3,241,396	203,017	3,444,413
Capital contribution from non-controlling shareholders	—	—	—	—	—	—	135,056	135,056
Final 2016 dividend declared (note 10)	—	—	—	—	(878,982)	(878,982)	—	(878,982)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	(166,360)	(166,360)
Appropriation to statutory surplus reserve (note (ii))	—	—	—	185,476	(185,476)	—	—	—
Transfer to special reserve (note (i))	—	—	423,285	—	(423,285)	—	—	—
Utilisation of special reserve (note (i))	—	—	(320,839)	—	320,839	—	—	—
As at 31 December 2017	<u>8,789,819</u>	<u>7,181,986*</u>	<u>262,399*</u>	<u>892,801*</u>	<u>6,892,046*</u>	<u>24,019,051</u>	<u>1,205,547</u>	<u>25,224,598</u>

\* As at 31 December 2017, these reserve accounts comprise the consolidated reserves of RMB15,229,232,000 (31 December 2016: RMB12,866,818,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2017

## Notes:

- (i) In preparation of the consolidated financial statements, the Company and its subsidiaries have appropriated certain amounts of retained profits to a special reserve fund for the years ended 31 December 2017 and 2016, for safety production expense purposes as required by the directives issued by relevant PRC government authorities. The Group charged the safety production expenses to profit or loss when such expenses were incurred, and at the same time the corresponding amounts of special reserve fund were 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 the Ministry of Finance of the PRC ("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 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		4,285,656	3,816,131
Adjustments for:			
Finance costs	6	51,823	30,032
Foreign exchange differences, net		69,615	(57,697)
Interest income	5	(151,122)	(185,914)
Share of profits of associates and joint ventures		(33,598)	(36,477)
Gain on re-measurement of the previously held interest in an acquiree at its acquisition-date fair value in a step acquisition of a subsidiary	5	—	(11,157)
Gain on disposal of a joint venture	5	(6,543)	—
Gain on disposal of an available-for-sale investment	5	(5,981)	—
(Gain)/loss on forward commodity purchase contracts	7	(688)	132
Depreciation of items of property, plant and equipment	7	312,014	316,175
Depreciation of investment properties	7	8,736	178
Amortisation of other intangible assets	7	134,210	138,603
Amortisation of prepaid land lease payments	7	58,125	54,654
Impairment/(reversal of impairment) of trade receivables	7	117,719	(39,182)
Impairment of deposits and other receivables	7	57,361	103,582
(Reversal of write-down)/write-down of inventories to net realisable value	7	(904)	972
(Reversal of provision)/provision for foreseeable losses on contracts	7	(13,387)	2,419
(Gain)/loss on disposal of items of property, plant and equipment	7	(975)	1,948
Government grants		(26,590)	(19,414)
		<b>4,855,471</b>	<b>4,114,985</b>
Increase in inventories		(85,802)	(255,152)
Changes in amounts with contract customers		(8,826,861)	(3,697,683)
Increase in trade and bills receivables		(1,834,804)	(2,358,261)
Increase in financial receivables		(1,876,596)	(255,116)
(Increase)/decrease in prepayments, deposits and other receivables		(715,534)	278,200
(Increase)/decrease in pledged deposits		(16,234)	26,939
Increase in trade and bills payables		8,588,951	4,633,302
(Decrease)/increase in other payables, advances from customers and accruals		(279,745)	1,002,013
Decrease in provisions for supplementary retirement benefits		(61,991)	(51,284)
(Decrease)/increase in provisions		(29,644)	31,214
Increase in government grants		73,649	31,000
Cash generated from operations		(209,140)	3,500,157
Interest received		58,461	96,689
Income tax paid		(735,342)	(661,790)
Net cash flows used in operating activities		<b>(886,021)</b>	<b>2,935,056</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for acquisition of items of property, plant and equipment		(1,088,701)	(819,645)
Payments for acquisition of prepaid land lease payments		(133,865)	(88,486)
Payments for acquisition of other intangible assets		(29,879)	(18,221)
Addition of available-for-sale investments		(2,400)	(91,111)
Addition of investments in joint ventures and associates		(422,605)	(266,024)
Increase in prepayments, deposits and other receivables		(64,615)	(41,220)
Proceeds from disposal of items of property, plant and equipment		7,202	2,920
Proceeds from disposal of a joint venture and an associate		49,521	17,100
Proceeds from disposal of items of an available-for-sale investment		5,139	—
Dividends received from associates and joint ventures		42,300	36,040
Acquisitions of a subsidiary, net of cash acquired		—	13,905
(Increase)/decrease in non-pledged time deposits with original maturity of more than three months		(183,959)	1,589,352
Interest received		92,661	87,546
Net cash flows (used in)/generated from investing activities		(1,729,201)	422,156
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans and other borrowings		1,655,346	1,091,723
Repayment of bank loans and other borrowings		(834,081)	(434,445)
Interest paid		(51,827)	(30,034)
Dividends paid to shareholders		(878,982)	(943,145)
Dividends paid to non-controlling shareholders		(165,725)	(136,530)
Payments of share issue expenses		—	(188,343)
Capital contribution from non-controlling shareholders		135,056	—
Net cash flows used in financing activities		(140,213)	(640,774)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of the year		14,190,033	11,419,938
Effect of exchange rate changes on cash and cash equivalents		(69,615)	53,657
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	26	<b>11,364,983</b>	<b>14,190,033</b>



# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION

China Railway Signal & Communication Corporation Limited (the “Company”) was established as a joint stock company with limited liability on 29 December 2010 in the People’s Republic of China (the “PRC”). The shares of the Company have been issued and listed on the Main board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) from 7 August 2015. The registered office of the Company is located at 20th floor of CRSC Building, Block A, No. 1 Auto Museum South Road, Fengtai District, Beijing, the PRC.

The Company and its subsidiaries (collectively referred to as the “Group”) are primarily engaged in rail transportation control system projects in the PRC.

In the opinion of the directors of the Company, the Company’s holding company is China Railway Signal & Communication (Group) Corporation Limited (“CRSC Corporation Group”), which is wholly owned by the State Council of the PRC.

### Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Company name	Place of registration and place of business	Registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
CRSC Cables Company Ltd. * (“CRSC Cables”) (通號電纜集團有限公司)	The PRC/ Mainland China	RMB347,500,000	100%	—	Manufacture and sale of cables, electrical appliances and equipment
China Railway Signal & Communication Shanghai Engineering Bureau Group Co., Ltd. * (中國鐵路通信信號上海工程局集團有限公司)	The PRC/ Mainland China	RMB500,000,000	100%	—	System integration, engineering contracting, and provision of survey, design and consultation services
CRSC Communication & Information Group Company Ltd. * (通號通信信息集團有限公司)	The PRC/ Mainland China	RMB232,749,317	100%	—	Technical development and provision of technical service for communication information system integration
Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd.* (“CRSCD”) (北京全路通信信號研究設計院集團有限公司)	The PRC/ Mainland China	RMB1,360,000,000	100%	—	Design of and consultancy for railway communication, protection, signal, electric power and auxiliary works, technical development, and testing installation of system integration
Beijing Urban Transit Technology Co., Ltd. * (北京通號國鐵城市軌道技術有限公司)	The PRC/ Mainland China	RMB100,000,000	100%	—	Urban rail transit technical development, consultation and provision of related service
CRSC International Holdings Company Ltd. * (通號國際控股有限公司)	The PRC/ Mainland China	RMB463,000,000	100%	—	Project investment, technical development, provision of technical service, construction contracting and import and export of goods

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Company name	Place of registration and place of business	Registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
CRSC Innovation Investment Co., Ltd. * (通號創新投資有限公司)	The PRC/ Mainland China	RMB5,000,000,000	100%	—	Project investment, project management and investment consulting
CRSC Material Group Company Limited * (通號物資集團有限公司)	The PRC/ Mainland China	RMB100,000,000	100%	—	Trading of equipment in communication, signal, electric power and automatic control, minerals, coal, coke, and other materials
CRSC Engineering Group Co., Ltd. * (通號工程局集團有限公司)	The PRC/ Mainland China	RMB600,000,000	100%	—	Construction and installation contracting
CRSC Inspection & Testing Co., Ltd.* (通號檢驗檢測有限公司)	The PRC /Mainland China	RMB85,000,000	100%	—	Technical detection
CRSC (Changsha) Railway Traffic Control Technology Company Limited * ("CRSC Changsha Railway") (通號(長沙)軌道交通控制技術有限公司)	The PRC/ Mainland China	RMB453,750,000	100%	—	Manufacture, construction and installation of rail transportation control products and electric power engineering
CRSC Wanquan Signal Equipment Company Ltd. *("CRSC Wanquan") (通號萬全信號設備有限公司)	The PRC/ Mainland China	RMB130,000,000	70%	—	Manufacture, installation, and construction of communication and signal automatic equipment and electronic and electrical equipment
CRSC Construction Group Co., Ltd * (通號建設集團有限公司)	The PRC/ Mainland China	RMB1,000,000,000	100%	—	Construction contracting and municipal engineering
Casco Signal Ltd.* ("CRSC CASCO") (卡斯柯信號有限公司)	The PRC/ Mainland China	RMB200,000,000	51%	—	Design, integration and contracting of communication signal works, manufacture and sale of communication signal equipment and related ancillary equipment
China Railway Signal & Communication International Co., Ltd (中國通號國際有限公司)	The PRC/Hong Kong	RMB2,581,200	100%	—	Engineering contracting, technical exchanges and services, international trade
CRSC Jishou Huatai Pipeline Project Management Co., Ltd * (吉首通號華泰管廊項目管理有限責任公司)	The PRC/ Mainland China	RMB580,000,000	90%	—	Integrated corridor project management services, municipal engineering construction
CRSC Jishou Tengda Project Management Co., Ltd * (吉首通號騰達項目管理有限責任公司)	The PRC/ Mainland China	RMB450,000,000	90%	—	Municipal road project management services, municipal road construction

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Company name	Place of registration and place of business	Registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
CRSC Institute of Smart City Research & Design * (通號智慧城市研究設計院有限公司)	The PRC/ Mainland China	RMB50,000,000	100%	—	Engineering survey and design; software development; technology development, technical consulting, technical services
CRSC (Beijing) Rail Industry Group Co., Ltd.* ("CRSC Beijing Industry") (通號(北京)軌道工業集團有限公司)	The PRC/ Mainland China	RMB1,400,000,000	100%	—	Manufacture and sale of rail transportation control, information and electric power basic equipment and devices
CRSC (Xi'an) Rail Industry Group Co., Ltd.* ("CRSC Xi'an Industry") (通號(西安)軌道交通工業集團有限公司)	The PRC/ Mainland China	RMB903,059,800	100%	—	Manufacture and sale of rail transportation control, information and electric power basic equipment and devices
Zhengzhou Zhongyuan Railway Engineering Co., Ltd.*("Zhengzhou Zhongyuan") (鄭州中原鐵道工程有限責任公司)	The PRC/ Mainland China	RMB500,000,000	65%	—	Industrial and civil construction contracting construction of rail transportation control projects and electrification projects
CRSC Railway Vehicles Co., Ltd.* ("CRSC Vehicle") (通號軌道車輛有限公司)	The PRC/ Mainland China	RMB342,000,000	66%	—	Design, manufacture, sale, service and training of tramcars, light rail vehicles and pipe fittings
CRSC (Zhengzhou) Electrification Bureau Co., Ltd.*("CRSC Electrification") (通號(鄭州)電氣化局有限公司)	The PRC/ Mainland China	RMB500,000,000	65%	—	Industrial and civil construction contracting, construction of rail transportation control projects and electrification projects

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

- \* 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.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended 31 December 2017 or formed a substantial portion of the net assets of the Group as at 31 December 2017. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention. 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 Group for the year ended 31 December 2017. 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.

## 2.1 BASIS OF PREPARATION (Continued)

### Basis of consolidation (Continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described 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 applied the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Clarification of the Scope of IFRS 12</i>

The nature and the impact of the amendments are described below:

- (a) 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. Disclosure of the changes in liabilities arising from financing activities is provided in note 35(b) to the financial statements.
- (b) Amendments to IAS 12 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 amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group has no an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that are classified as held for sale as at 31 December 2017.

## 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	<i>Classification and Measurement of Share-based Payment Transactions<sup>1</sup></i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts<sup>1</sup></i>
IFRS 9	<i>Financial Instruments<sup>1</sup></i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation<sup>2</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
IFRS 15	<i>Revenue from Contracts with Customers<sup>1</sup></i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers<sup>1</sup></i>
IFRS 16	<i>Leases<sup>2</sup></i>
Amendments to IAS 40	<i>Transfers of Investment Property<sup>1</sup></i>
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration<sup>1</sup></i>
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments<sup>2</sup></i>
IFRS 17	<i>Insurance Contracts<sup>3</sup></i>
Amendments to IAS 28	<i>Long-term interests in associates and joint ventures<sup>2</sup></i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to IFRS 1 and IAS 28<sup>1</sup></i>

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

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

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption



## 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 described below:

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 an 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will 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 will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

### (a) Classification and measurement

The Group is currently assessing the classification and measurement of the adoption of IFRS 9. The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets.

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

### (b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not expect that the adoption of IFRS 9 will have a significant impact on the impairment of its financial assets.

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 in January 2016 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 adoption now.

IFRS 15, issued in May 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 has performed a detailed assessment on the impact of the adoption of IFRS 15 and does not expect that the adoption of IFRS 15 will have a significant impact on its financial statements from 2018 onwards.

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

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

IFRS 16 replaces IAS 17 Leases, (IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, (SIC)-Int 15 *Operating Leases – Incentives and (SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees—leases of low-value assets and short-term leases. 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). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. 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 also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees 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 the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 38 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB155,388,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

# NOTES TO FINANCIAL STATEMENTS

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

Amendments to IAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC-Interpretation 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC-Interpretation 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

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

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

The amendments to IAS 28 clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The IASB also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

# NOTES TO FINANCIAL STATEMENTS

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that 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.

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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations and goodwill (Continued)

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.

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial 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, construction and service contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), 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.

# NOTES TO FINANCIAL STATEMENTS

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## 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 personal 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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Categories	Annual rates
Buildings	2.25%-4.85%
Machinery	9.00%-19.40%
Motor vehicles	11.25%-19.40%
Electronic equipment and others	9.00%-32.33%
Leasehold improvement	20.00%-50.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the estimated useful lives of 50 years. Owner-occupied property is transferred to investment property when there is a change in use evidenced by the end of owner occupation.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the item is derecognised.

### 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.

	Estimated useful life	Internally generated or acquired
Purchased software	5 years	Acquired
Patents and licences	5 years	Internally generated and acquired
Patents and technology know-how	8 years	Acquired
Backlog	2-3 years	Acquired
Customer relationship	5-9 years	Acquired

Intangible assets with finite lives are subsequently amortised over the useful economic life on the straight-line basis 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. The amortisation expenses on intangible assets with finite lives are recognised in profit or loss in the expense category consistent with the function of the intangible asset.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets (other than goodwill) (Continued)

#### 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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

#### 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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 the statement of 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### Service concession arrangements

The Group has entered into certain service concession arrangement with certain governmental authority (the “Grantor”). The service concession arrangement is a Build-Operate-Transfer (the “BOT”) arrangement. Under the BOT arrangement, the Group carries out construction work for the Grantor and receives in return a right to operate for a specified period of time (the “Operation Period”) in accordance with the pre-established conditions set by the Grantor, it should be transferred to the Grantor with nil consideration at the end of the Operation Period.

### Consideration given by the Grantors

A financial asset (financial receivable) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantor for the construction service rendered and/or the consideration paid and payable by the Group for the right to operate municipal corridor, and the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the Grantors contractually guarantee to pay the Group specified or determinable amounts even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (financial receivable) is accounted for in accordance with the policy set out for loans and receivables under “Investments and other financial assets” below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses and services. The intangible asset (operating concession) is accounted for in accordance with the policy set out for “intangible assets” above, which is amortised on a straight-line basis over the terms of operation ranging from 25 to 30 years.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Service concession arrangements (Continued)

#### Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for “Construction contracts” below.

#### Operating services

Revenue relating to operating services is accounted for in accordance with the policy for “Revenue recognition” below. Costs for operating services are expensed in the period in which they are incurred.

### 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.

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:

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

#### Financial assets at fair value through profit or loss (Continued)

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

#### 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 other comprehensive income in finance costs for loans and in other expenses for receivables.

#### Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

#### Available-for-sale financial investments (Continued)

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.

#### 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.

# NOTES TO FINANCIAL STATEMENTS

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Derecognition of financial assets (Continued)

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.

### 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.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### Financial assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited in profit or loss.

#### Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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, interest-bearing bank and other borrowings and other payables.

#### Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

#### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### Derivative financial instruments and hedge accounting

#### Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward commodity purchase contracts to hedge its commodity purchase price risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by IAS 39 is recognised in profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

### 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.

Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Properties under development

Properties under development are stated at the lower of cost and net realisable value. Cost comprises land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period. The net realisable value of properties under development is determined by establishing the market values of the properties on an “as-if” completed basis with appropriate deduction on construction costs, professional fees, applicable various selling expense and interests to be incurred from the valuation date to completion.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. Upon completion, the properties are transferred to completed properties held for sale.

### 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.

### Trade and bills receivables and other receivables

Trade and bills receivables and other receivables are amounts due from customers for construction contracts, merchandise sold or services performed in the ordinary course of business. If collection of these receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets.

Trade and bills receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

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.

### Trade and bills payables and other payables

Trade and bills payables and other payables are mainly obligations to pay for goods, equipment or services that have been acquired in the ordinary course of business from suppliers and service providers. These payables are classified as current liabilities if they are due within one year or less (or in the normal operating cycle of the business if longer).

### 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 the reporting period, taking into consideration interpretations and practices prevailing in the country 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax(Continued)

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.

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.



## 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 the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to 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 goods, 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;
- (b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for “Contracts for services” below;
- (c) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise direct labour, the cost of subcontracting and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracting is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

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)

### 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 shareholders in a general meeting. Proposed final dividends are disclosed in the note 10 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

The 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).

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

### Employee benefits

#### Retirement benefits

##### (a) Social pension plans

The Group has the social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

##### (b) Annuity plan

The Group provides an annuity plan to the voluntary or eligible employees. Contributions are made based on a percentage of the voluntary or eligible employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the plan. Under the plan, the Group has no further obligations beyond the contributions made.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employee benefits (Continued)

#### Retirement benefits (Continued)

##### (c) Supplementary retirement benefits

The Group also provides the retirement pension subsidies, medical benefits and other supplementary benefits to employees who retired on or before 31 December 2013. These supplementary retirement benefits are considered to be defined benefit plans and are unfunded. 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 each reporting period. The defined benefit obligation is calculated by independent qualified actuaries using the projected unit credit method annually, or when any material changes in the plans and key assumptions will 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 supplementary retirement benefit obligations. 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.

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 “cost of sales” and “administrative expenses” in the 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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employee benefits (Continued)

#### Termination benefits and early retirement benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Early retirement benefits are recognised in the period in which the Group has entered into an agreement with the employee specifying the terms of redundancy, or after the individual employee has been advised of the specific terms. As for early retirement benefits, the Group recognises monthly paid salaries and social benefits for these early retirees during the period from the date of early retirement to the normal retirement date as termination benefits. The expected costs of these benefits are measured by the projected cumulative unit credit method. All service cost, net interest on the net liability of early retirement benefits, and re-measurement including actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are recognised immediately in profit or loss for the current period.

#### 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 medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Apart from those described above, the Group does not have any other legal or constructive obligations over employee benefits.



### 3. 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.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

#### Accounting for service concession arrangements

The Group engages in certain service concession arrangement in which the Group carries out construction work for the Grantor and receives in return a right to operate in accordance with the pre-established conditions set by the Grantor. In accordance with IFRIC 12 *Service Concession Arrangements*, the construction work under the service concession arrangement is classified as financial assets, as the service concession arrangement is covered by a payment commitment from the Grantor. The Group recognises a financial receivable as it has an unconditional contractual right under the service concession arrangement to receive a determinable amount of payments during the concession period irrespective of the usage.

Subsequent to initial recognition, the financial receivable is measured at amortised cost using the effective interest method.

Revenue from the construction service under the terms of the service concession arrangement is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in similar locations, and is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

When the Group receives a payment during the concession period, it will apportion such payment among (i) a repayment of the financial receivables (if any), which will be used to reduce the carrying amount of the financial receivables on the statement of financial position, (ii) interest income, which will be recognised as revenue in profit or loss and (iii) revenue from operating and maintaining the municipal corridor in profit or loss.

Judgement is also exercised in determining the fair value of the financial receivables. Discount rates, estimates of future cash flows and other factors are used in the valuation process.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

### Estimation of total budgeted costs and percentage of completion of construction and service works

The Group recognises revenue according to the percentage of completion of individual contracts of construction and service work, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs.

Total budgeted costs for construction contracts and contracts for services comprise (i) direct material costs and direct labour, (ii) costs of subcontracting, and (iii) an appropriation of variable and fixed construction and services overheads. In estimating the total budgeted costs for construction contracts and contracts for services, management refers to information such as (i) current offers from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers, and (iii) professional estimation on material costs, labour costs and other costs.

Due to the nature of the activity undertaken in contracts for construction and services, the date at which the activity starts and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and, when necessary, revises the estimate of total budgeted costs and the percentage of completion of construction and service works as the contract progresses. If the estimate of total budgeted costs and the percentage of completion are changed when new events or circumstances affected total budgeted costs arise or are different from previous estimation, revenue recognised for the periods that the estimation changes and thereafter will be affected, besides, where the contract revenue is less than expected or actual contract costs are more than expected, a foreseeable loss may arise.

### Useful lives and residual values of items of property, plant and equipment and other intangible assets

In determining the useful lives and residual values of items of property, plant and equipment and other intangible assets, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. The depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment and other intangible assets are different from previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### Current income tax and deferred income tax

The Group is subject to income taxes in numerous jurisdictions in the PRC. Estimation is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

#### Deferred tax assets

Deferred tax assets relating to certain deductible temporary differences are recognised as management considers it is probable that future taxable profits will be available against which the unused temporary differences or unused tax losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

#### Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### Impairment of trade and bills receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

#### Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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.

#### Warranty provision

Provision for product warranties given by the Group for certain products is recognised based on sales volume and past experience of the level of repairs, discounted to their present values as appropriate.

#### Supplementary employee retirement benefits

The Group has recognised the supplementary employee retirement benefit obligations as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, future salary increases, mortality rates, the growth rate of the benefits and other factors. The deviation from the actual result and the actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amount of supplementary employee retirement benefit obligations. All assumptions are reviewed at each reporting date.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to their nature. Each of the Group's operating segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

- (a) rail transportation control system segment engages in design and integration, equipment manufacturing and system implementation with a focus on product design and research and development and through its "three-in-one" business model (that combines design and integration, equipment manufacturing and system implementation) relating to the rail transportation control system industry;
- (b) construction contracting segment engages in the provision of services relating to municipal and other construction projects; and
- (c) the "others" segment mainly engages in trading and etc.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit before tax except corporate expenses are excluded from such measurement.

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017

	Rail transportation control system RMB'000	Construction contracting RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>					
Sales to external customers	24,597,085	9,635,243	201,355	—	34,433,683
Intersegment sales	97,545	553,346	136,607	(787,498)	—
<b>Total revenue</b>	<b>24,694,630</b>	<b>10,188,589</b>	<b>337,962</b>	<b>(787,498)</b>	<b>34,433,683</b>
<b>Segment results</b>	<b>3,711,579</b>	<b>673,278</b>	<b>17,937</b>	<b>(21,280)</b>	<b>4,381,514</b>
Interest income	197,577	32,396	440	(79,291)	151,122
Finance costs	(46,965)	(69,999)	(8,005)	73,146	(51,823)
Corporate and other unallocated expenses					(195,157)
<b>Profit before tax</b>					<b>4,285,656</b>
<b>Segment assets</b>	<b>41,314,336</b>	<b>21,431,023</b>	<b>276,061</b>	<b>(1,776,776)</b>	<b>61,244,644</b>
Total assets	41,314,336	21,431,023	276,061	(1,776,776)	61,244,644
<b>Segment liabilities</b>	<b>21,420,067</b>	<b>15,347,427</b>	<b>182,582</b>	<b>(930,030)</b>	<b>36,020,046</b>
Total liabilities	21,420,067	15,347,427	182,582	(930,030)	36,020,046
<b>Other segment information:</b>					
Share of profits and losses of:					
Joint ventures	18,875	(6,474)	—	—	12,401
Associates	25,352	(4,155)	—	—	21,197
Depreciation and amortisation	502,943	9,694	448	—	513,085
Impairment/(reversal of impairment) of trade receivables	116,632	1,109	(22)	—	117,719
Impairment of deposits and other receivables	11,448	45,913	—	—	57,361
Product warranty provision:					
Additional provision	51,159	—	—	—	51,159
Reversal of provision	(5,793)	—	—	—	(5,793)
Available-for-sale investments	156,002	—	—	—	156,002
Investments in joint ventures	361,038	—	—	—	361,038
Investments in associates	507,490	134,716	—	—	642,206
Capital expenditure	1,035,307	46,151	100	—	1,081,558



# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2016

	Rail transportation control system RMB'000	Construction contracting RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
<b>Segment revenue:</b>					
Sales to external customers	23,398,250	5,770,357	233,539	—	29,402,146
Intersegment sales	12,374	349,699	59,528	(421,601)	—
<b>Total revenue</b>	<b>23,410,624</b>	<b>6,120,056</b>	<b>293,067</b>	<b>(421,601)</b>	<b>29,402,146</b>
<b>Segment results</b>					
Interest income	215,173	16,170	1,334	(46,763)	185,914
Finance costs	(20,563)	(43,041)	(13,191)	46,763	(30,032)
Corporate and other unallocated expenses					(262,879)
<b>Profit before tax</b>					<b>3,816,131</b>
<b>Segment assets</b>					
Total assets	38,526,561	12,631,881	492,942	(1,356,377)	50,295,007
<b>Segment liabilities</b>					
Total liabilities	20,240,857	7,716,872	316,275	(669,468)	27,604,536
<b>Other segment information:</b>					
Share of profits and losses of:					
Joint ventures	6,232	4,191	—	—	10,423
Associates	23,460	2,594	—	—	26,054
Depreciation and amortisation	498,206	10,969	435	—	509,610
Impairment/(reversal of impairment) of trade receivables	(53,014)	4,651	9,181	—	(39,182)
Impairment of deposits and other receivables	53,465	9,825	40,292	—	103,582
Product warranty provision:					
Additional provision	80,061	—	—	—	80,061
Reversal of provision	(2,340)	—	—	—	(2,340)
Available-for-sale investments	153,820	—	—	—	153,820
Investments in joint ventures	394,614	—	—	—	394,614
Investments in associates	193,038	44,667	—	—	237,705
Capital expenditure	882,850	43,396	106	—	926,352

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 4. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

#### (a) Revenue from external customers

	2017 RMB'000	2016 RMB'000
Mainland China	33,650,578	28,686,667
Other countries/regions	783,105	715,479
	<u>34,433,683</u>	<u>29,402,146</u>

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

#### (b) Non-current assets

	2017 RMB'000	2016 RMB'000
Mainland China	<u>8,417,436</u>	<u>7,417,657</u>

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

### Information about major customers

No revenue from a single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2017 and 2016.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 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 sales taxes and intra-group transactions; (2) the values of services rendered, and (3) revenue from construction contracts.

An analysis of the Group's revenue, other income and gains is as follows:

	2017 RMB'000	2016 RMB'000
<b>Revenue</b>		
Rail transportation control system		
– Design and integration	8,604,117	7,895,973
– Equipment manufacturing	5,792,247	7,142,825
– System implementation	10,200,721	8,359,452
Construction contracting	9,635,243	5,770,357
Others	201,355	233,539
	<u>34,433,683</u>	<u>29,402,146</u>
<b>Other income and gains</b>		
Interest income	151,122	185,914
Government grants	181,355	115,861
Gain on disposal of a joint venture	6,543	—
Gain on disposal of an available-for-sale investment	5,981	—
Gain on re-measurement of the previously held interest in an acquiree at its acquisition-date fair value in a step acquisition of a subsidiary	—	11,157
Foreign exchange gains, net	—	69,363
Others	35,461	28,773
	<u>380,462</u>	<u>411,068</u>

## 6. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank loans and other borrowings wholly repayable	46,040	28,719
Interest on discounted bills receivable	5,783	1,313
	<u>51,823</u>	<u>30,032</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 7. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of sales		<b>26,043,267</b>	21,973,755
Depreciation of investment properties	12	<b>8,736</b>	178
Depreciation of items of property, plant and equipment	13, (a)	<b>312,014</b>	316,175
Amortisation of prepaid land lease payments	14	<b>58,125</b>	54,654
Amortisation of other intangible assets	16	<b>134,210</b>	138,603
Total depreciation and amortisation		<b>513,085</b>	509,610
Impairment/(reversal of impairment) of trade receivables	24	<b>117,719</b>	(39,182)
Impairment of deposits and other receivables	25	<b>57,361</b>	103,582
(Reversal of write-down)/write-down of inventories to net realisable value		<b>(904)</b>	972
(Reversal of provision)/provision for foreseeable losses on contracts		<b>(13,387)</b>	2,419
Lease expenses under operating leases of land and buildings	(b)	<b>154,611</b>	113,955
Auditors' remuneration		<b>8,730</b>	8,300
Employee benefit expenses (including directors' and supervisors' remuneration):			
Wages, salaries and allowances	(c)	<b>2,646,605</b>	2,294,198
Retirement benefit costs			
– Defined contribution retirement schemes		<b>474,315</b>	410,604
– Defined benefit retirement schemes and early retirement costs	32, (c)	<b>7,381</b>	28,223
Total retirement benefit costs		<b>481,696</b>	438,827
Welfare and other expenses		<b>899,285</b>	745,619
Research and development costs	(d)	<b>1,180,165</b>	1,050,429
Government grants	5	<b>(181,355)</b>	(115,861)
Product warranty provision:			
Additional provision	30	<b>51,159</b>	80,061
Reversal of provision	30	<b>(5,793)</b>	(2,340)
		<b>45,366</b>	77,721
Interest income	5	<b>(151,122)</b>	(185,914)
(Gain)/loss on disposal of items of property, plant and equipment		<b>(975)</b>	1,948
Gain on disposal of a joint venture	5	<b>(6,543)</b>	—
Gain on disposal of an available-for-sale investment	5	<b>(5,981)</b>	—
Gain on re-measurement of the previously held interest in an acquiree at its acquisition-date fair value in a step acquisition of a subsidiary		—	(11,157)
(Gain)/loss on forward commodity purchase contracts		<b>(688)</b>	132
Foreign exchange differences, net		<b>70,016</b>	(69,363)

## 7. PROFIT BEFORE TAX (Continued)

Notes:

- (a) Depreciation of approximately RMB203,859,000 and RMB202,112,000 is included in cost of sales in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016, respectively.
- (b) Lease expenses of approximately RMB77,320,000 and RMB70,327,000 are included in cost of sales in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016, respectively.
- (c) Employee benefit expenses of approximately RMB1,778,525,000 and RMB1,526,951,000 are included in cost of sales in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016, respectively.
- (d) Employee benefit expenses of approximately RMB677,101,000 and RMB579,985,000 are included in research and development costs for the years ended 31 December 2017 and 2016, respectively.
- (e) Most of the government grants have been received for conducting research activities. The government grants are released when research and development costs are incurred to which they relate. Government grants received for which related expenditures have not yet been undertaken are included in government grants in the consolidated statement of financial position.

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

### (a) Directors' and supervisors' remuneration

The aggregate amounts of remuneration of the directors and supervisors of the Company during the years ended 31 December 2017 and 2016, disclosed pursuant to the Hong Kong 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:

	2017 RMB'000	2016 RMB'000
Fees	344	488
Other emoluments:		
– Salaries, allowances and benefits in kind	1,868	1,878
– Performance related bonuses	758	1,183
– Pension scheme contributions	314	350
	<b>3,284</b>	<b>3,899</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

### (a) Directors' and supervisors' remuneration

2017

	Notes	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
<b>Executive directors</b>						
Mr. Zhou Zhiliang (周志亮) (Chief executive)		—	486	215	85	786
Mr. Fu Jianguo (傅建國)	(i)	—	188	89	30	307
Mr. Yin Gang (尹剛)		—	486	156	83	725
		—	1,160	460	198	1,818
<b>Independent non-executive directors</b>						
Mr. Wang Jiajie (王嘉杰)		103	—	—	—	103
Mr. Sun Patrick (辛定華)		121	—	—	—	121
Mr. Chen Jin'en (陳津恩)		60	—	—	—	60
Mr. Gao Shutang (高樹堂)		60	—	—	—	60
		344	—	—	—	344
<b>Supervisors</b>						
Ms. Tian Liyan (田麗艷)		—	455	182	75	712
Mr. Gao Fan (高帆)	(iii)	—	—	—	—	—
Ms. Zhao Xiumei (趙秀梅)		—	253	116	41	410
		—	708	298	116	1,122
		344	1,868	758	314	3,284



# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

### (a) Directors' and supervisors' remuneration (Continued)

2016

	Notes	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
<b>Executive directors</b>						
Mr. Zhou Zhiliang (周志亮) (Chief executive)		—	430	361	71	862
Mr. Fu Jianguo (傅建國)	(i)	—	180	—	32	212
Ms. Li Yanqing (李燕青)	(ii)	—	250	341	41	632
Mr. Yin Gang (尹剛)		—	430	325	74	829
		—	1,290	1,027	218	2,535
<b>Independent non-executive directors</b>						
Mr. Wang Jiajie (王嘉杰)		119	—	—	—	119
Mr. Sun Patrick (辛定華)		137	—	—	—	137
Mr. Chen Jin'en (陳津恩)		116	—	—	—	116
Mr. Gao Shutang (高樹堂)		116	—	—	—	116
		488	—	—	—	488
<b>Supervisors</b>						
Ms. Tian Liyan (田麗艷)		—	393	156	80	629
Mr. Gao Fan (高帆)	(iii)	—	—	—	—	—
Ms. Zhao Xiumei (趙秀梅)		—	195	—	52	247
		—	588	156	132	876
		488	1,878	1,183	350	3,899

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

### (a) Directors' and supervisors' remuneration (Continued)

Notes:

- (i) Mr. Fu Jianguo was appointed as an executive director effective from 27 July 2016, and resigned as an executive director effective from 26 June 2017.
- (ii) Ms. Li Yanqing resigned as an executive director effective from 20 July 2016 due to retirement.
- (iii) Mr. Gao Fan received no emoluments for the years ended 31 December 2017 and 2016, because he did not receive any remuneration in the capacity as a supervisor.

An analysis of the headcounts of the five highest paid employees within the Group for the year ended 31 December 2017 is as follows:

	2017	2016
Non-director and non-supervisor employees	<u>5</u>	<u>5</u>

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

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	5,187	5,681
Performance related bonuses	6,925	5,054
Pension scheme contributions	<u>229</u>	<u>212</u>
	<u>12,341</u>	<u>10,947</u>

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

	2017	2016
HK\$2,000,001 to HK\$3,000,000	4	5
HK\$3,000,001 to HK\$4,000,000	<u>1</u>	<u>—</u>
	<u>5</u>	<u>5</u>

During the years ended 31 December 2017 and 2016, no directors or supervisors, or none of the non-director and non-supervisor highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors and supervisors or any of the non-director and non-supervisor highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 9. INCOME TAX EXPENSE

Certain subsidiaries have been accredited as “high and new technology enterprises” and were entitled to a preferential income tax rate of 15% for the years ended 31 December 2017 and 2016 in accordance with the PRC Corporate Income Tax Law. Other entities within the Group in Mainland China have been subject to corporate income tax at the statutory rate of 25%.

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits in Hong Kong during the years ended 31 December 2017 and 2016.

	Note	2017 RMB'000	2016 RMB'000
Current income tax - Mainland China			
Charge for the year		800,090	698,291
Underprovision for the prior years		52,873	11,775
Deferred income tax	21	(80,369)	(85,424)
Tax charge for the year		<u>772,594</u>	<u>624,642</u>

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 is as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	<u>4,285,656</u>	<u>3,816,131</u>
Income tax charge at the statutory income tax rate of 25%	1,071,414	954,033
Effect of different income tax rates for some entities	(315,565)	(298,443)
Income not subject to tax	(21,641)	(27,852)
Expenses not deductible for tax purposes	43,583	37,023
Tax losses and deductible temporary differences not recognised	37,495	27,440
Utilisation of tax losses and deductible temporary differences not recognised in previous periods	(1,771)	(9,173)
Additional tax deduction for research and development costs	(73,146)	(61,214)
Tax effect of share of profits and losses of joint ventures and associates	(8,399)	(9,119)
Adjustments in respect of current tax of previous periods	52,873	11,775
Effect of change in tax rate on deferred income tax balance at the beginning of the period	(12,985)	—
Others	736	172
Tax charge for the period at the effective rate	<u>772,594</u>	<u>624,642</u>

The share of tax attributable to associates and joint ventures amounting to RMB6,085,000 (2016: RMB4,972,000) and RMB3,697,000 (2016: RMB5,573,000) respectively is included in “share of profits and losses of joint ventures and associates” in the consolidated statement of profit or loss.

# NOTES TO FINANCIAL STATEMENTS

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## 10. DIVIDENDS

	Note	2017 RMB'000	2016 RMB'000
Declared:			
Final dividend declared to owners of the parent	(i)	<u>878,982</u>	<u>219,745</u>
Proposed:			
Final dividend – RMB0.15 (2016: RMB0.10) per ordinary share	(ii)	<u>1,318,473</u>	<u>878,982</u>
		<u><b>2,197,455</b></u>	<u><b>1,098,727</b></u>

- (i) On 27 March 2017, the board of directors of the Company proposed the payment of a final dividend of RMB0.10 per ordinary share in respect of the year ended 31 December 2016, based on the enlarged issued share capital of the Company of 8,789,819,000 shares. The proposed final dividend was approved on 19 May 2017 and settled on 17 July 2017.
- (ii) On 29 March 2018, the board of directors of the Company proposed the payment of a final dividend of RMB0.15 per ordinary share in respect of the year ended 31 December 2017, based on the enlarged issued share capital of the Company of 8,789,819,000 shares. The proposed dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.
- (iii) Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementing rules, the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes the final dividend to non-resident enterprise holders of H Shares (including any H Shares registered in the name of HKSCC Nominees Limited).

Pursuant to the applicable provisions of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementing rules as well as the Tax Notice, the Company will implement arrangements in relation to the withholding and payment of individual income tax ranging from 10% to 20% on behalf of individual holders of H Shares.

# NOTES TO FINANCIAL STATEMENTS

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## 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 attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year ended 31 December 2017.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2017.

	2017 RMB'000	2016 RMB'000
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent	<u>3,310,045</u>	<u>3,049,341</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u>8,789,819</u>	<u>8,789,819</u>

## 12. INVESTMENT PROPERTIES

	Notes	2017 RMB'000	2016 RMB'000
Carrying amount at beginning of the year		—	4,672
Transfer from property, plant and equipment	13	234,163	—
Transfer from prepaid land lease payments	14	118,614	—
Transfer to property, plant and equipment		—	(4,672)
		<u>352,777</u>	—
Depreciation at beginning of the year		—	(755)
Transfer from property, plant and equipment	13	(81,336)	—
Transfer from prepaid land lease payments	14	(19,423)	—
Transfer to property, plant and equipment		—	933
Depreciation charge for the year		<u>(8,736)</u>	<u>(178)</u>
		<u>(109,495)</u>	—
Carrying amount at end of the year		<u>243,282</u>	—

# NOTES TO FINANCIAL STATEMENTS

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## 12. INVESTMENT PROPERTIES (Continued)

The Group's investment properties mainly consist of two commercial properties in Mainland China. The Directors have determined that the investment properties consist of one class of asset, i.e., commercial, based on the nature, characteristics and risks of each property. The Group's investment properties were valued on 31 December 2017 based on valuations performed by Asia-Pacific Consulting and Appraisal Limited, independent professionally qualified valuers, at RMB349,530,000 (31 December 2016: nil). The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38 to the financial statements.

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

#### 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Recurring fair value measurement for:				
Commercial property	—	—	349,530,000	349,530,000
	—	—	349,530,000	349,530,000

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 (2016: Nil).

The commercial property located in Beijing was valued by the comparison approach with reference to comparable market transactions. Comparison approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.



# NOTES TO FINANCIAL STATEMENTS

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## 13. PROPERTY, PLANT AND EQUIPMENT

### 2017

	Buildings	Machinery	Motor vehicles	Electronic equipment and others	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2017	2,733,671	651,290	382,004	760,780	1,132,751	40,368	5,700,864
Additions	22,439	40,673	68,345	143,674	759,263	17,285	1,051,679
Transfers to investment properties(note 12)	(234,163)	—	—	—	—	—	(234,163)
Transfers	835,332	24,997	101	38,149	(898,579)	—	—
Transfer to other intangible assets(note 16)	—	—	—	—	(910)	—	(910)
Disposals	—	(22,565)	(28,508)	(14,931)	—	—	(66,004)
At 31 December 2017	<u>3,357,279</u>	<u>694,395</u>	<u>421,942</u>	<u>927,672</u>	<u>992,525</u>	<u>57,653</u>	<u>6,451,466</u>
Accumulated depreciation:							
At 1 January 2017	(682,976)	(485,981)	(225,899)	(516,374)	—	(34,596)	(1,945,826)
Depreciation charge for the year	(93,704)	(69,300)	(53,072)	(84,804)	—	(11,134)	(312,014)
Transfers to investment properties(note 12)	81,336	—	—	—	—	—	81,336
Disposals	—	20,395	26,319	13,063	—	—	59,777
At 31 December 2017	<u>(695,344)</u>	<u>(534,886)</u>	<u>(252,652)</u>	<u>(588,115)</u>	<u>—</u>	<u>(45,730)</u>	<u>(2,116,727)</u>
Impairment:							
At 1 January 2017	—	(32)	—	—	—	—	(32)
At 31 December 2017	—	(32)	—	—	—	—	(32)
Net carrying amount:							
At 31 December 2017	<u>2,661,935</u>	<u>159,477</u>	<u>169,290</u>	<u>339,557</u>	<u>992,525</u>	<u>11,923</u>	<u>4,334,707</u>
At 1 January 2017	<u>2,050,695</u>	<u>165,277</u>	<u>156,105</u>	<u>244,406</u>	<u>1,132,751</u>	<u>5,772</u>	<u>3,755,006</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

2016

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost:							
At 1 January 2016	2,703,136	582,734	319,497	687,410	469,568	32,585	4,794,930
Additions	5,275	62,606	56,706	124,147	700,429	7,783	956,946
Acquisition of a subsidiary	—	2,228	1,000	2,665	—	—	5,893
Contribution from a non- controlling shareholder	3,024	929	13,739	61	—	—	17,753
Transfers from investment properties	4,672	—	—	—	—	—	4,672
Disposals	—	(13,482)	(9,042)	(56,370)	(436)	—	(79,330)
Transfers	17,564	16,275	104	2,867	(36,810)	—	—
At 31 December 2016	2,733,671	651,290	382,004	760,780	1,132,751	40,368	5,700,864
Accumulated depreciation:							
At 1 January 2016	(584,777)	(423,689)	(175,867)	(486,628)	—	(18,886)	(1,689,847)
Depreciation charge for the year	(97,205)	(73,019)	(49,408)	(80,833)	—	(15,710)	(316,175)
Acquisition of a subsidiary	—	(1,716)	(528)	(1,856)	—	—	(4,100)
Contribution from a non- controlling shareholder	(62)	(433)	(8,426)	(11)	—	—	(8,932)
Transfers from investment properties	(932)	—	—	—	—	—	(932)
Disposals	—	12,876	8,330	52,954	—	—	74,160
At 31 December 2016	(682,976)	(485,981)	(225,899)	(516,374)	—	(34,596)	(1,945,826)
Impairment:							
At 1 January 2016	—	—	—	—	—	—	—
Acquisition of a subsidiary	—	(32)	—	—	—	—	(32)
At 31 December 2016	—	(32)	—	—	—	—	(32)
Net carrying amount:							
At 31 December 2016	2,050,695	165,277	156,105	244,406	1,132,751	5,772	3,755,006
At 1 January 2016	2,118,359	159,045	143,630	200,782	469,568	13,699	3,105,083

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at the date of this report, 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 RMB1,013,905,000 (2016: RMB1,039,527,000) as at 31 December 2017 and 2016. The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors of the Company are also of the opinion that the aforesaid matters will not have any significant impact on the Group's financial position as at 31 December 2017.

## 14. PREPAID LAND LEASE PAYMENTS

	Note	2017 RMB'000	2016 RMB'000
Carrying amount at beginning of the year		2,352,865	2,337,355
Additions		—	339,967
Transfer to investment properties	12	(99,191)	—
Transfer to inventories		—	(229,802)
Disposals		—	(40,001)
Amortisation charge for the year		(58,125)	(54,654)
Carrying amount at end of the year		2,195,549	2,352,865
Portion classified as current assets		(58,055)	(60,797)
Non-current portion		2,137,494	2,292,068

# NOTES TO FINANCIAL STATEMENTS

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## 15. GOODWILL

	2017 RMB'000	2016 RMB'000
Cost and carrying amount at beginning of the year	267,894	267,225
Acquisition of a subsidiary	—	669
Cost and carrying amount at end of the year	<u>267,894</u>	<u>267,894</u>

### Impairment testing of goodwill:

The recoverable amount of CRSC CASCO has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.09%. The carrying amount of goodwill allocated to the design and integration cash-generating unit was RMB201,207,000 as at 31 December 2017.

The recoverable amount of CRSC Wanquan has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rates applied to the cash flow projections is 15.09%. The carrying amount of goodwill allocated to the equipment manufacturing cash-generating unit was RMB4,535,000 as at 31 December 2017.

The recoverable amount of Zhengzhou Zhongyuan and CRSC (Zhengzhou) Zhong'an Engineering Co., Ltd have been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projections are 11.59%. The carrying amount of goodwill allocated to the system implementation cash-generating unit were RMB58,530,000 as at 31 December 2017.

The recoverable amount of CRSC Guizhou Construction Co., Ltd has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12.11%. The carrying amount of goodwill allocated to the construction contracting cash-generating unit was RMB3,802,000 as at 31 December 2017.

Assumptions were used in the value in use calculation of such companies for 31 December 2017. The following describes each key assumption on which management has based its cash flow projection to undertake impairment testing of goodwill:

Budgeted gross margins — the basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvement and expected market development.

Discount rate — the discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development and discount rate are consistent with external information sources.

# NOTES TO FINANCIAL STATEMENTS

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## 16. OTHER INTANGIBLE ASSETS

2017

	Patents, licences and technology know-how RMB'000	Office software RMB'000	Deferred development costs RMB'000	Backlog RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:						
At 1 January 2017	376,351	179,092	14,103	169,921	244,326	983,793
Additions	273	15,404	14,202	—	—	29,879
Transfer from property, plant and equipment (note 13)	—	910	—	—	—	910
Disposals	—	(32)	—	—	—	(32)
At 31 December 2017	<u>376,624</u>	<u>195,374</u>	<u>28,305</u>	<u>169,921</u>	<u>244,326</u>	<u>1,014,550</u>
Accumulated amortisation:						
At 1 January 2017	(214,466)	(131,521)	—	(113,128)	(54,308)	(513,423)
Amortisation for the year	(30,462)	(19,701)	—	(56,793)	(27,254)	(134,210)
Disposals	—	32	—	—	—	32
At 31 December 2017	<u>(244,928)</u>	<u>(151,190)</u>	<u>—</u>	<u>(169,921)</u>	<u>(81,562)</u>	<u>(647,601)</u>
Net carrying amount:						
At 31 December 2017	<u>131,696</u>	<u>44,184</u>	<u>28,305</u>	<u>—</u>	<u>162,764</u>	<u>366,949</u>
At 1 January 2017	<u>161,885</u>	<u>47,571</u>	<u>14,103</u>	<u>56,793</u>	<u>190,018</u>	<u>470,370</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 16. OTHER INTANGIBLE ASSETS

2016

	Patents, licences and technology know-how RMB'000	Office software RMB'000	Deferred development costs RMB'000	Backlog RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:						
At 1 January 2016	374,369	176,045	5,251	169,921	244,326	969,912
Additions	77	9,292	8,852	—	—	18,221
Acquisition of a subsidiary	1,905	274	—	—	—	2,179
Disposals	—	(6,519)	—	—	—	(6,519)
At 31 December 2016	<u>376,351</u>	<u>179,092</u>	<u>14,103</u>	<u>169,921</u>	<u>244,326</u>	<u>983,793</u>
Accumulated amortisation:						
At 1 January 2016	(184,280)	(113,685)	—	(56,183)	(27,054)	(381,202)
Amortisation for the year	(30,186)	(24,218)	—	(56,945)	(27,254)	(138,603)
Disposals	—	6,382	—	—	—	6,382
At 31 December 2016	<u>(214,466)</u>	<u>(131,521)</u>	<u>—</u>	<u>(113,128)</u>	<u>(54,308)</u>	<u>(513,423)</u>
Net carrying amount:						
At 31 December 2016	<u>161,885</u>	<u>47,571</u>	<u>14,103</u>	<u>56,793</u>	<u>190,018</u>	<u>470,370</u>
At 1 January 2016	<u>190,089</u>	<u>62,360</u>	<u>5,251</u>	<u>113,738</u>	<u>217,272</u>	<u>588,710</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 17. INVESTMENTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Share of net assets	<u>361,038</u>	<u>394,614</u>

The Group's balances with joint ventures are disclosed in notes 24, 25 and 27 to the financial statements.

The aggregate financial information of the Group's joint ventures that are not individually material is set out below:

	2017 RMB'000	2016 RMB'000
Aggregate carrying amount of the Group's investments in the joint ventures	<u>361,038</u>	<u>394,614</u>

	2017 RMB'000	2016 RMB'000
Share of the joint ventures' results:		
Profit for the year	12,401	10,423
Other comprehensive income	—	—
Total comprehensive income	<u>12,401</u>	<u>10,423</u>

The joint ventures had no contingent liabilities or capital commitments as at 31 December 2017 and 2016.



# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 18. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	<u>642,206</u>	<u>237,705</u>

The Group's balances with associates are disclosed in notes 24, 25, 27 and 28 to the financial statements.

The aggregate financial information of the Group's associates that are not individually material is set out below:

	2017 RMB'000	2016 RMB'000
Aggregate carrying amount of the Group's investments in the associates	<u>642,206</u>	<u>237,705</u>

	2017 RMB'000	2016 RMB'000
Share of the associates' results:		
Profit for the year	21,197	26,054
Other comprehensive income	—	—
Total comprehensive income	<u>21,197</u>	<u>26,054</u>

## 19. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Unlisted equity investments, at cost	<u>156,002</u>	<u>153,820</u>

The unlisted equity investments are unlisted equity investments in entities established in Mainland China. The investments are measured at cost less impairment at each reporting date because they do not have quoted market prices in an active market and the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

# NOTES TO FINANCIAL STATEMENTS

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## 20. FINANCIAL RECEIVABLES

	2017 RMB'000	2016 RMB'000
Receivables for service concession arrangements	<u>2,131,712</u>	<u>255,116</u>

Receivables for service concession arrangements arose from the service concession contract to build and operate the municipal corridor, urban road and others, which were recognised to the extent that the Group has an unconditional contractual right to receive cash from the Grantor.

Financial receivables were unbilled receivables, and were neither past due nor impaired. Financial receivables were mainly due from governmental authorities in Mainland China as grantors in respect of the Group's service concession arrangements. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2017, the Group's financial receivables with a carrying amount of RMB321,752,000 (2016: nil) were pledged to secure certain bank loans granted to the Group (note 29).

## 21. DEFERRED TAX ASSETS/LIABILITIES

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets:		
At beginning of the year	215,002	147,444
Deferred tax credited to profit or loss during the year	63,026	67,116
Acquisition of a subsidiary	—	442
At end of the year	<u>278,028</u>	<u>215,002</u>

	2017 RMB'000	2016 RMB'000
Deferred tax liabilities:		
At beginning of the year	59,405	74,252
Deferred tax credited to profit or loss during the year	(17,343)	(18,308)
Acquisition of a subsidiary	—	3,461
At end of the year	<u>42,062</u>	<u>59,405</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 21. DEFERRED TAX ASSETS/LIABILITIES (Continued)

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets:		
Provisions for impairment of receivables	149,133	120,371
Unrealised gains arising from intra-group transactions	65,926	46,193
Product warranty provisions	26,724	24,198
Government grants received not yet recognised as income	21,297	10,468
Accrued but not paid salaries, wages and benefits	7,104	6,436
Loss on disposal of other intangible assets	2,894	2,894
Others	4,950	4,442
	<u>278,028</u>	<u>215,002</u>

	2017 RMB'000	2016 RMB'000
Deferred tax liabilities:		
Excess of fair values of identifiable assets and liabilities over carrying values arising from acquisition of subsidiaries	<u>42,062</u>	<u>59,405</u>

Deferred tax assets have not been recognised in respect of the following items:

	2017 RMB'000	2016 RMB'000
Tax losses	352,524	205,766
Deductible temporary differences	4,406	8,268
	<u>356,930</u>	<u>214,034</u>

The above tax losses are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 22. INVENTORIES

	2017 RMB'000	2016 RMB'000
Components and raw materials	541,952	540,090
Work in progress	327,225	337,502
Finished goods	896,287	966,344
Low value consumables	9,344	4,473
Properties under development	1,554,859	1,394,552
	<u>3,329,667</u>	<u>3,242,961</u>

## 23. AMOUNTS DUE FROM/(TO) CONTRACT CUSTOMERS

	2017 RMB'000	2016 RMB'000
Amount due from contract customers	17,686,254	9,414,068
Amount due to contract customers	(3,244,800)	(3,812,861)
	<u>14,441,454</u>	<u>5,601,207</u>

	2017 RMB'000	2016 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	127,191,838	102,434,296
Less: Progress billings received and receivable	(112,750,384)	(96,833,089)
	<u>14,441,454</u>	<u>5,601,207</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 24. 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 offered by the Group is six months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

	Note	2017 RMB'000	2016 RMB'000
Trade receivables		12,530,337	10,788,285
Provision for impairment		(624,742)	(507,064)
Trade receivables, net		11,905,595	10,281,221
Bills receivable		1,423,606	1,343,081
		13,329,201	11,624,302
Portion classified as non-current assets	(i)	(901,398)	(600,771)
Current portion		12,427,803	11,023,531

Note:

- (i) The non-current portion of trade receivables mainly represents the amounts of retentions held by customers and other long term receivables from certain construction projects.

Certain bills receivable with a carrying amount of RMB23,731,000 at 31 December 2017 (31 December 2016: RMB20,174,000) were pledged for issuance of certain bills payable. Certain bills receivable with a carrying amount of RMB107,657,000 at 31 December 2017 (31 December 2016: RMB191,723,000) were pledged for interest-bearing bank loans.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 24. TRADE AND BILLS RECEIVABLES (Continued)

At 31 December 2017 and 2016, the amounts of retentions held by customers for contract works included in trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
Amounts of retentions in trade receivables	<u>868,566</u>	<u>1,090,111</u>

An ageing analysis of the Group's trade and bills receivables, based on the billing date and net of provision for impairment of trade receivables, as at 31 December 2017 and 2016 respectively is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	10,312,849	9,197,201
1 to 2 years	2,277,010	1,712,902
2 to 3 years	484,614	531,239
Over 3 years	<u>254,728</u>	<u>182,960</u>
	<u>13,329,201</u>	<u>11,624,302</u>

The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	507,064	545,395
Impairment losses recognised	152,930	120,382
Acquisition of subsidiaries	—	1,674
Impairment losses reversed	(35,211)	(159,564)
Amounts written off as uncollectible	<u>(41)</u>	<u>(823)</u>
At end of the year	<u>624,742</u>	<u>507,064</u>

Included in the above provision for impairment of trade receivables are provisions for individually impaired trade receivables of RMB49,047,000 (2016: RMB30,409,000) with an aggregate carrying amount before provision of RMB176,258,000 (2016: RMB115,524,000).

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 24. TRADE AND BILLS RECEIVABLES (Continued)

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

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Neither past due nor impaired	<b>1,215,716</b>	1,015,794
Past due but not impaired:		
Less than 6 months past due	<b>55,652</b>	48,263
Over 6 months past due	<b>57,530</b>	55,852
	<b><u>1,328,898</u></b>	<u>1,119,909</u>

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.

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 of the Company 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.

The amounts due from CRSC Corporation Group, associates of a fellow subsidiary, a fellow subsidiary, a joint venture, associates and a non-controlling shareholder's affiliates included in the trade receivables are as follows:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
CRSC Corporation Group	<b>84,460</b>	73,140
Associates of a fellow subsidiary	<b>29</b>	10,782
A fellow subsidiary	<b>251</b>	251
A joint venture	<b>174</b>	—
Associates	<b>60,924</b>	—
A non-controlling shareholder's affiliates	<b>13,930</b>	—
Total	<b><u>159,768</u></b>	<u>84,173</u>

The above balances are unsecured, non-interest-bearing and repayable on credit terms similar to those offered to other major customers of the Group.



# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2017 RMB'000	2016 RMB'000
Deposits and other receivables		1,969,209	1,607,124
Provision for impairment of deposits and other receivables		(196,439)	(139,078)
		<b>1,772,770</b>	1,468,046
Prepayments to suppliers		627,707	580,562
Deductible input VAT		425,708	142,493
Dividend receivables		1,060	—
Other prepayments		21,744	16,497
		<b>2,848,989</b>	2,207,598
Portion classified as non-current assets	(i)	(297,003)	(60,000)
Current portion		<b>2,551,986</b>	2,147,598

Note:

- (i) The non-current portion of prepayments, deposits and other receivables includes performance guarantee deposits held by customers and prepayments for property, plant and equipment at 31 December 2017.

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

	2017 RMB'000	2016 RMB'000
At beginning of the year	139,078	36,122
Impairment losses recognised	60,235	107,511
Impairment losses reversed	(2,874)	(3,929)
Amount written off as uncollectible	—	(626)
At end of the year	<b>196,439</b>	139,078

Included in the above provisions for impairment of other receivables are provisions for individually impaired other receivables of RMB56,612,000 (2016:RMB43,771,000) with an aggregate carrying amount before a provision of RMB57,241,000 (2016: RMB44,070,000).

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

The ageing analysis of the deposits and other receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	515,855	809,406
Past due but not impaired:		
Less than 6 months past due	121,021	155,641
Over 6 months past due	313,423	61,255
	<u>950,299</u>	<u>1,026,302</u>

The financial assets except for the deposits and other receivables above are neither past due or impaired and related to balances for which there was no recent history of default.

The amounts due from CRSC Corporation Group, a non-controlling shareholder's affiliate, fellow subsidiaries, associates, an associate of a fellow subsidiary and joint ventures included in prepayments, deposits and other receivables are as follows:

	2017 RMB'000	2016 RMB'000
CRSC Corporation Group	11,420	39,478
A non-controlling shareholder's affiliate	12,475	7,234
Fellow subsidiaries	2,794	3,022
Associates	5,721	477
An associate of a fellow subsidiary	684	266
Joint ventures	692	67
Total	<u>33,786</u>	<u>50,544</u>

The above balances are unsecured, non-interest-bearing and have no fixed terms of settlement.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	8,187,046	7,595,683
Time deposits	4,880,244	8,096,464
	<b>13,067,290</b>	15,692,147
Less: Pledged bank balances for performance guarantees and for issuance of letters of credits	<b>(187,844)</b>	(171,610)
Cash and cash equivalents in the consolidated statement of financial position	<b>12,879,446</b>	15,520,537
Less: Non-pledged time deposits with original maturity of more than three months when acquired	<b>(1,514,463)</b>	(1,330,504)
Cash and cash equivalents in the consolidated statement of cash flows	<b>11,364,983</b>	14,190,033
Cash and bank balances and time deposits denominated in:		
– RMB	<b>12,005,724</b>	14,596,926
– Other currencies	<b>1,061,566</b>	1,095,221
	<b>13,067,290</b>	15,692,147

The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods mainly depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

# NOTES TO FINANCIAL STATEMENTS

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## 27. TRADE AND BILLS PAYABLES

	Note	2017 RMB'000	2016 RMB'000
Trade payables		23,496,672	15,171,700
Bills payable		756,817	492,837
		<b>24,253,489</b>	15,664,537
Portion classified as non-current liabilities	(i)	(20,839)	(19,380)
Current portion		<b>24,232,650</b>	15,645,157

Note:

- (i) The non-current portion of trade payables mainly represents the amount of retentions from suppliers of the Group at 31 December 2017 and 2016.

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:

	2017 RMB'000	2016 RMB'000
Within 1 year	19,970,821	12,594,777
1 to 2 years	2,636,502	1,881,512
2 to 3 years	939,601	842,197
Over 3 years	706,565	346,051
	<b>24,253,489</b>	15,664,537

Trade payables are non-interest-bearing and are normally settled within six to eight months.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 27. TRADE AND BILLS PAYABLES (Continued)

The amounts due to fellow subsidiaries, associates of a fellow subsidiary, a non-controlling shareholder and its affiliates, an associate, an associate of CRSC Corporation Group and a joint venture included in the trade and bills payables are as follows:

	2017 RMB'000	2016 RMB'000
Fellow subsidiaries	161,606	145,169
Associates of a fellow subsidiary	42,383	84,382
A non-controlling shareholder and its affiliates	123,722	58,723
An associate	23,474	42,674
An associate of CRSC Corporation Group	1,173	943
A joint venture	32	102
	<u>352,390</u>	<u>331,993</u>

The above balances are unsecured, non-interest-bearing and have no fixed terms of settlement.

## 28. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Advances from customers	2,143,248	2,565,601
Accrued salaries, wages and benefits	366,765	369,844
Other taxes payable	495,680	607,904
Dividends payable	17,884	17,249
Payables for acquisition of items of property, plant and equipment	650,997	821,883
Other payables	1,524,845	1,265,053
	<u>5,199,419</u>	<u>5,647,534</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 28. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS (Continued)

The amounts due to CRSC Corporation Group, a non-controlling shareholder's affiliate, associates, fellow subsidiaries, an associate of a fellow subsidiary and a joint venture included in other payables, advances from customers and accruals are as follows:

	2017 RMB'000	2016 RMB'000
CRSC Corporation Group	54,825	64,064
A non-controlling shareholder's affiliate	4,574	14,454
Associates	5,696	6,414
Fellow subsidiaries	4,373	3,972
An associate of a fellow subsidiary	—	170
A joint venture	4,716	—
	<u>74,184</u>	<u>89,074</u>

The above balances are unsecured, non-interest-bearing and have no fixed terms of repayment.

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Note	2017			2016		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current:							
Bank loans – secured	(i)	5.23	2018	107,657	3.09-6.70	2017	201,723
Bank loans – unsecured		2.65-5.93	2018	1,221,000	2.65-5.88	2017	729,400
Other loans – unsecured		3.30	2018	146	3.30	2017	146
				<u>1,328,803</u>			<u>931,269</u>
Non-current:							
Bank loans – secured	(ii)	4.35-4.90	2019-2033	226,689			—
Bank loans – unsecured		4.99	2019	300,000	2.65	2018	200,000
Other loans – unsecured		3.30	2019-2020	20,290	3.30	2018-2020	20,436
				<u>546,979</u>			<u>220,436</u>
Total				<u>1,875,782</u>			<u>1,151,705</u>
Interest-bearing bank and other borrowings denominated in:							
– RMB				<u>1,875,782</u>			<u>1,151,705</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Note:

- (i) Certain bills receivable with a carrying amount of RMB107,657,000 at 31 December 2017 (31 December 2016: RMB191,723,000) were pledged for interest-bearing bank loans.
- (ii) Certain of bank loans amounting to RMB226,689,000 at 31 December 2017 (31 December 2016: nil) were secured by the pledge of the financial receivables amounting to RMB321,752,000 (31 December 2016: nil).

The maturity profile of the interest-bearing bank and other borrowings as at 31 December 2017 and 2016 is as follows:

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	1,328,658	931,123
In the second year	417,000	200,000
Beyond five years	109,688	—
	<u>1,855,346</u>	<u>1,131,123</u>
Other borrowings repayable:		
Within one year	146	146
In the second to fifth years	20,290	20,436
	<u>20,436</u>	<u>20,582</u>
	<u><u>1,875,782</u></u>	<u><u>1,151,705</u></u>

## 30. PROVISIONS

The Group generally provides two-year warranties to its customers on the transportation control system products sold by the Group, under which faulty components are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

	2017 RMB'000	2016 RMB'000
At beginning of the year	184,042	158,055
Additional provision	51,159	80,061
Provision reversed	(5,793)	(2,340)
Amounts utilised	(75,010)	(51,734)
At end of the year	<u>154,398</u>	<u>184,042</u>
Portion classified as current liabilities	<u>(47,489)</u>	<u>(58,958)</u>
Non-current portion	<u><u>106,909</u></u>	<u><u>125,084</u></u>



# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 31. GOVERNMENT GRANTS

The movements of government grants during the reporting period are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	134,082	122,496
Additions	122,665	36,980
Recognised as income during the year	(75,606)	(25,394)
At end of the year	181,141	134,082
Portion classified as current liabilities	(24,470)	(8,959)
Non-current portion	156,671	125,123

Government grants are received by the Group as financial subsidies mainly for the research and development projects and relocation compensation of the Group. 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 or the construction period of the relevant property, plant and equipment.

## 32. PROVISIONS FOR SUPPLEMENTARY RETIREMENT BENEFITS

The Group provides supplementary retirement benefits, including the retirement pension subsidies, medical benefits and other supplementary benefits to employees who retired on or before 31 December 2013. The Group also implements an early retirement plan for certain employees in addition to the benefits under the government-sponsored retirement plans and supplementary pension subsidies described above.

The Group's obligations in respect of the above supplementary retirement benefits at 31 December 2017 were computed by an independent qualified actuarial firm, Towers Watson Consulting Company Limited (“韬睿惠悦咨询公司”) using the projected unit credit actuarial valuation method.

The components of net benefit expenses recognised in profit or loss and the amounts recognised in the statement of financial position are summarised below:

- (a) The provisions for supplementary retirement and early retirement benefits recognised in the consolidated statement of financial position are shown as follows:

	2017 RMB'000	2016 RMB'000
At end of the year	735,719	727,190
Portion classified as current liabilities	(62,779)	(70,701)
Non-current portion	672,940	656,489

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 32. PROVISIONS FOR SUPPLEMENTARY RETIREMENT BENEFITS (Continued)

- (b) The movements of the provisions for supplementary retirement and early retirement benefits are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	727,190	755,830
Interest costs on benefit obligations	23,236	21,028
Past service costs	(12,452)	—
Actuarial (gain)/loss recognised during the year	(3,403)	7,195
Benefits paid during the year	(69,372)	(79,507)
Re-measurement losses recognised in other comprehensive income	70,520	22,644
At end of the year	<u>735,719</u>	<u>727,190</u>

The details of re-measurement losses recognised in other comprehensive income of the Group during the years ended 31 December 2017 and 2016 are as follows:

	2017 RMB'000	2016 RMB'000
Actuarial changes arising from changes in financial assumptions	(65,978)	(19,358)
Actuarial loss due to demographic assumption changes	108,263	—
Liability experience adjustments	28,235	42,002
Re-measurement losses recognised in other comprehensive income	<u>70,520</u>	<u>22,644</u>

- (c) The net expenses recognised in profit or loss in respect of the provisions for supplementary retirement and early retirement benefits of the Group during the years ended 31 December 2017 and 2016 are as follows:

	2017 RMB'000	2016 RMB'000
Interest costs on benefit obligations	23,236	21,028
Past service costs	(12,452)	—
Actuarial (gain)/loss recognised during the year	(3,403)	7,195
Net benefit expenses recognised in administrative expenses	<u>7,381</u>	<u>28,223</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 32. PROVISIONS FOR SUPPLEMENTARY RETIREMENT BENEFITS (Continued)

- (d) The principal actuarial assumptions used in valuing the provisions for supplementary retirement benefits as at 31 December 2017 and 2016 are as follows:

	2017	2016
Discount rates	4.00%	3.25%
Mortality rate	Average life expectancy of residents in Mainland China	
Average annual benefit increase:		
– Average medical expense increase rate	8.00%	8.00%
– Lump sum death benefits increase rate	3.00%	3.00%
– Supplementary pension benefits increase rate	3.00%	3.00%
– Cost of living adjustment for internal retirement	4.50%	4.50%

The average duration of the provisions for supplementary retirement benefits as at 31 December 2017 and 2016 is as follows:

	2017 Years	2016 Years
Average life expectancy	<u>19</u>	<u>17</u>

- (e) The quantitative sensitivity analysis of the provisions for supplementary retirement benefits as at 31 December 2017 and 2016 is as follows:

	Increase in rate %	Increase/ (decrease) in provisions for supplementary retirement benefits RMB'000	Decrease in rate %	Increase/ (decrease) in provisions for supplementary retirement benefits RMB'000
As at 31 December 2016				
Discount rate	0.25	(18,236)	(0.25)	19,118
Future medical expense	1.00	29,602	(1.00)	(24,727)
As at 31 December 2017				
Discount rate	0.25	(19,667)	(0.25)	20,038
Future medical expense	1.00	37,646	(1.00)	(31,007)

The sensitivity analysis above has been determined based on a method that extrapolated the impact on the provisions for supplementary retirement benefits as a result of reasonable changes in key assumptions occurring as at 31 December 2017 and 2016.

# NOTES TO FINANCIAL STATEMENTS

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## 33. SHARE CAPITAL

	2017 RMB'000	2016 RMB'000
Issued and fully paid:		
8,789,819,000 (2016: 8,789,819,000) ordinary shares	<u>8,789,819</u>	<u>8,789,819</u>

The movements in share capital are as follows:

	2017		2016	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
At the end of the year	<u>8,789,819</u>	<u>8,789,819</u>	<u>8,789,819</u>	<u>8,789,819</u>

## 34. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2017 and 2016 are presented in the consolidated statement of changes in equity.

## 35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

As at 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables with the amount of approximately RMB279,605,000 (2016: RMB423,176,000). As at 31 December 2017, certain bills receivable with the amount of approximately RMB97,188,000 (2016: nil) were settled, which was discounted in 2016.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Changes in liabilities arising from financing activities

	Interest payable RMB'000	Bank loans and other borrowings RMB'000	Dividends payable RMB'000
At 1 January 2017	16	1,151,705	17,249
Final dividend declared to shareholders	—	—	1,045,342
Accrued interest expense	51,823	—	—
Changes from financing cash flows	(51,827)	821,265	(1,044,707)
Changes from non-cash transaction	—	(97,188)	—
At 31 December 2017	<u>12</u>	<u>1,875,782</u>	<u>17,884</u>

## 36. PLEDGE OF ASSETS

Details of the Group's assets pledged for certain bills payable, interest-bearing bank and other borrowings are disclosed in notes 20, 24 and 29.

## 37. PARTY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	<b>2017</b>	2016
Percentage of equity interest held by non-controlling interests:		
CRSC CASCO	<b>49.0%</b>	49.0%
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Profit for the year allocated to non-controlling interests	<b>169,244</b>	122,630
Dividends paid to non-controlling interests	<b>(143,020)</b>	(59,057)
Accumulated balances of non-controlling interests at the reporting date	<b><u>594,570</u></b>	<u>582,169</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 37. PARTY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

The following table illustrates the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company elimination:

<b>CRSC CASCO</b>	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Current assets	<b>3,258,652</b>	2,798,942
Non-current assets	<b>557,024</b>	612,811
Current liabilities	<b>2,562,043</b>	2,167,566
Non-current liabilities	<b>40,225</b>	56,086
Revenue	<b>2,950,974</b>	2,535,805
Total expenses	<b>2,605,579</b>	2,285,539
Profit for the year	<b>345,395</b>	250,266
Total comprehensive income for the year	<b>345,395</b>	250,266
Net cash flows from operating activities	<b>471,008</b>	312,229
Net cash flows used in investing activities	<b>(148,821)</b>	(118,489)
Net cash flows used in financing activities	<b>(291,878)</b>	(184,277)
Net increase in cash and cash equivalents	<b>30,306</b>	9,473

## 38. OPERATING LEASE ARRANGEMENTS

### As lessor

The Group leases its investment properties (note 12 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Within one year	<b>22,581</b>	—
In the second to fifth years, inclusive	<b>161,912</b>	—
	<b>184,493</b>	—

During the year ended 31 December 2017, no contingent rental receivable was recognised.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 38. OPERATING LEASE ARRANGEMENTS (Continued)

### As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from three to six years.

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

	2017 RMB'000	2016 RMB'000
Within one year	44,180	28,058
In the second to fifth years, inclusive	90,520	26,795
After five years	20,688	22,616
	<u>155,388</u>	<u>77,469</u>

## 39. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	187,955	1,219,828
Capital contributions to joint ventures and associates	549,232	963,603
	<u>737,187</u>	<u>2,183,431</u>



# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 40. RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transactions with related parties during the years ended 31 December 2017 and 2016:

	2017 RMB'000	2016 RMB'000
<b>Sales of products:</b>		
An associate	53,736	44,356
Associates of a fellow subsidiary	21,411	33,272
Fellow subsidiaries	2,399	6,247
Joint ventures	258	2,144
CRSC Corporation Group	12,173	1,500
	<u>89,977</u>	<u>87,519</u>
<b>Purchases of products:</b>		
Fellow subsidiaries	85,051	85,761
A non-controlling shareholder's affiliates	54,319	72,769
Associates	51,959	68,779
Associates of a fellow subsidiary	35,226	58,059
An associate of CRSC Corporation Group	732	2,842
A joint venture	559	885
	<u>227,846</u>	<u>289,095</u>
<b>Use of U888 Technology</b>		
A non-controlling shareholder and its affiliates	<u>192,629</u>	<u>111,706</u>
<b>Services provided to:</b>		
Associates	457,536	3,320
A non-controlling shareholder's affiliates	62,902	—
Joint ventures	—	150
	<u>520,438</u>	<u>3,470</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 40. RELATED PARTY TRANSACTIONS (Continued)

- (a) The Group had the following material transactions with related parties during the years ended 31 December 2017 and 2016: (Continued)

	2017 RMB'000	2016 RMB'000
<b>Services provided by:</b>		
Fellow subsidiaries	531	4,550
An associate of a fellow subsidiary	514	212
An associate	156	—
	<u>1,201</u>	<u>4,762</u>
<b>Rental income received or receivable from:</b>		
A joint venture	1,232	1,232
Associates of a fellow subsidiary	660	880
An associate	758	—
	<u>2,650</u>	<u>2,112</u>
<b>Rental expenses paid or payable to:</b>		
Fellow subsidiaries	781	1,483

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

The Group is indirectly controlled by the PRC government and operates in an economic environment predominated by entities directly or indirectly owned or controlled by the government through its agencies, affiliates or other organisations (collectively “State-owned Enterprises” (“SOEs”)). During the years ended 31 December 2017 and 2016, the Group entered into extensive transactions with other SOEs, such as bank deposits, bank borrowings, the rendering and receiving of design and integration, equipment manufacturing and system implementation services, and purchases and sales of inventories and machinery. In the opinion of the directors of the Company, the transactions with SOEs were activities conducted in the ordinary course of business, and the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for rendering services and such pricing policies do not depend on whether or not the customers are SOEs.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 40. RELATED PARTY TRANSACTIONS (Continued)

- (a) The Group had the following material transactions with related parties during the years ended 31 December 2017 and 2016: (Continued)

In the opinion of the directors of the Company, the following related party transactions shall also constitute continuing connected transactions under Chapter 14A of the Listing Rules:

	2017 RMB'000	2016 RMB'000
<b>Sales of products:</b>		
Fellow subsidiaries	2,399	6,247
CRSC Corporation Group	12,173	1,500
	<u>14,572</u>	<u>7,747</u>
<b>Purchases of products:</b>		
Fellow subsidiaries	85,051	85,761
A non-controlling shareholder's affiliates	54,319	72,769
An associate of CRSC Corporation Group	732	2,842
	<u>140,102</u>	<u>161,372</u>
<b>Use of U888 Technology</b>		
A non-controlling shareholder and its affiliates	<u>192,629</u>	<u>111,706</u>
<b>Services provided to:</b>		
A non-controlling shareholder's affiliates	<u>62,902</u>	—
<b>Services provided by:</b>		
Fellow subsidiaries	<u>531</u>	<u>4,550</u>
<b>Rental expenses paid or payable to:</b>		
Fellow subsidiaries	<u>781</u>	<u>1,483</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 40. RELATED PARTY TRANSACTIONS (Continued)

### (b) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in notes 24, 25, 27 and 28 to the financial statements.

### (c) Compensation of key management personnel of the Group

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

	2017 RMB'000	2016 RMB'000
Short term employee benefits	5,513	6,355
Pension scheme contributions	634	631
	<u>6,147</u>	<u>6,986</u>

### (d) Commitments with related parties

As at the end of the reporting period, the Group entered into several sale and purchase agreements with related parties. The material commitments and backlogs are as follows:

	2017 RMB'000	2016 RMB'000
<b>Sales of products:</b>		
An associate	<u>22,627</u>	<u>38,020</u>
<b>Purchases of products:</b>		
An associate	6,584	3,396
Associates of a fellow subsidiary	3,780	22,819
Fellow subsidiaries	10,634	5,098
A non-controlling shareholder's affiliates	<u>141,192</u>	<u>140,035</u>
	<u>162,190</u>	<u>171,348</u>
<b>Services provided to:</b>		
Associates	<u>447,683</u>	<u>597,485</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2017 and 2016 are as follows:

	2017 RMB'000	2016 RMB'000
<b>Financial assets</b>		
Available-for-sale financial assets:		
Available-for-sale investments	156,002	153,820
Loans and receivables:		
Trade and bills receivables	13,329,201	11,624,302
Financial receivables	2,131,712	255,116
Financial assets included in prepayments, deposits and other receivables	1,709,965	1,468,046
Pledged deposits	187,844	171,610
Cash and cash equivalents	12,879,446	15,520,537
	<u>30,394,170</u>	<u>29,193,431</u>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost:		
Interest-bearing bank and other borrowings	1,875,782	1,151,705
Trade and bills payables	24,253,489	15,664,537
Financial liabilities included in other payables, advances from customers and accruals	2,193,726	2,104,185
	<u>28,322,997</u>	<u>18,920,427</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 42. 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 as at the end of the reporting period, are as follows:

	Carrying amounts		Fair Value	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
<b>Financial assets</b>				
Loans and receivables:				
Trade receivables,				
non-current portion	<b>901,398</b>	600,771	<b>885,621</b>	583,797
Financial receivables	<b>2,131,712</b>	255,116	<b>2,187,946</b>	202,287
Financial assets included in				
prepayments, deposits and other				
receivables, non-current portion	<b>233,138</b>	60,000	<b>296,388</b>	55,087
	<b>3,266,248</b>	915,887	<b>3,369,955</b>	841,171
<b>Financial liabilities</b>				
Financial liabilities at amortised cost:				
Interest-bearing bank and				
other borrowings	<b>1,875,782</b>	1,151,705	<b>1,867,928</b>	1,143,425
Trade payables, non-current portion	<b>20,839</b>	19,380	<b>20,090</b>	18,836
	<b>1,896,621</b>	1,171,085	<b>1,888,018</b>	1,162,261

## 42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, the current portion of trade and bills receivables, the current portion of trade and bills payables, the current portion of financial assets included in prepayments, deposits and other receivables and the current portion of financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the chief accountant is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the senior management twice a year for annual and interim 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.

The fair values of the non-current portion of trade and bills receivables, financial receivables, non-current portion of financial assets included in prepayments, deposits and other receivables, the non-current portion of trade payables, and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risks for trade and bills payables, and interest-bearing bank and other borrowings as at 31 December 2017 and 2016 were assessed to be insignificant.

The fair values of unlisted available-for-sale equity investments cannot be measured reliably because they do not have quoted market prices in an active market and the range of reasonable fair value estimates is so significant.



# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy:

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets for which fair values are disclosed:

2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade receivables, non-current portion	—	885,621	—	885,621
Financial receivables	—	2,187,946	—	2,187,946
Financial assets included in prepayments, deposits and other receivables, non-current portion	—	296,388	—	296,388
	—	3,369,955	—	3,369,955

2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade receivables, non-current portion	—	583,797	—	583,797
Financial receivables	—	202,287	—	202,287
Financial assets included in prepayments, deposits and other receivables, non-current portion	—	55,087	—	55,087
	—	841,171	—	841,171

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Liabilities for which fair values are disclosed:

2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade payables, non-current portion	—	20,090	—	20,090
Interest-bearing bank and other borrowings	—	1,867,928	—	1,867,928
	—	1,888,018	—	1,888,018

2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade payables, non-current portion	—	18,836	—	18,836
Interest-bearing bank and other borrowings	—	1,143,425	—	1,143,425
	—	1,162,261	—	1,162,261

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 43. TRANSFERS OF FINANCIAL ASSETS

### Transferred financial assets that are derecognised in their entirety

As at 31 December 2017, the Group endorsed the “Derecognised Bills” to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB279,605,000 (2016: RMB423,176,000). The Derecognised Bills had a maturity of one to twelve months at 31 December 2017 and 2016. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors of the Company, 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 of the Company, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2017 and 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 periods or cumulatively. The endorsement of the bills has been made evenly throughout the years ended 31 December 2017 and 2016.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise financial receivables, interest-bearing bank and other 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 and bills receivables and trade and bills 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 and liquidity 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.

## 44. 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's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. Meanwhile, as to cash at banks, the Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash at banks with floating interest rates.

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 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 2017 and 2016, floating interest rate borrowings accounted for about 29% and 82% of the Group's borrowings, and fixed interest rate borrowings accounted for about 71% and 18% of the Group's borrowings. Management would adjust the proportion of floating rate borrowings based on changes in the market interest rates to reduce the significant impact of the interest rate risk.

If there would be a general increase/decrease in the market interest rates by one percentage point of floating interest rate borrowings, with all other variables held constant, the Group's consolidated after-tax profit would have decreased/increased by approximately RMB4,086,000 and RMB7,903,000 for the years ended 31 December 2017 and 2016, respectively, and there would have been no impact on other components of the consolidated equity, except for retained profits, of the Group.

If there would be a general increase/decrease in the market interest rates by 0.1 percentage point of floating interest rate cash at banks, with all other variables held constant, the Group's consolidated after-tax profit would have decreased/increased by approximately RMB6,602,000 and RMB6,396,000 for the years ended 31 December 2017 and 2016, respectively, and there would have been no impact on other components of the consolidated equity, except for retained profits, of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's business transacted in RMB, RMB is defined as the Group's functional currency. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

As a result of its significant business operations in Mainland China, the Group's revenue and expenses are mainly denominated in RMB and over 95% of the financial assets and liabilities are denominated in RMB. The effect of the fluctuations in the exchange rates of RMB against foreign currencies on the Group's results of operations is therefore minimal and the Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regard.

Details of the Group's cash and cash equivalents and pledged deposits at the end of the reporting period are disclosed in note 26 to the financial statements.

The following table indicates the appropriate change in the Group's profit after tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure as at the end of the reporting period. The sensitivity analysis is on bank deposits in United States dollars and Hong Kong dollars.

#### Effects on profit after tax

	Increase/ (decrease) in foreign exchange rate	Increase/(decrease) in profit after tax	
		2017 RMB'000	2016 RMB'000
If RMB weakens against the United States dollars	5%	4,561	4,178
If RMB strengthens against the United States dollars	(5%)	(4,561)	(4,178)
If RMB weakens against the Hong Kong dollars	5%	37,641	41,019
If RMB strengthens against the Hong Kong dollars	(5%)	(37,641)	(41,019)

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 dates.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, available-for-sale investments and financial assets included in prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

The Group trades only with recognised and creditworthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As the Group's major customers are either PRC government agencies at the national, provincial and local levels or other SOEs, 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. As the Group's exposure to credit risk spreads over a diversified portfolio of customers, there is no significant concentration of credit.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables and prepayments, deposits and other receivables are disclosed in notes 24 and 25 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (d) Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
<b>2017</b>				
Interest-bearing bank and other borrowings	1,379,275	373,527	326,247	2,079,049
Trade and bills payables	24,232,650	20,839	—	24,253,489
Financial liabilities included in other payables and accruals	2,193,726	—	—	2,193,726
<b>Total</b>	<b>27,805,651</b>	<b>394,366</b>	<b>326,247</b>	<b>28,526,264</b>
<b>2016</b>				
Interest-bearing bank and other borrowings	948,577	224,112	—	1,172,689
Trade and bills payables	15,645,157	19,380	—	15,664,537
Financial liabilities included in other payables and accruals	2,104,185	—	—	2,104,185
<b>Total</b>	<b>18,697,919</b>	<b>243,492</b>	<b>—</b>	<b>18,941,411</b>



## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (e) 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 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. No change was made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

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

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 are as follows:

	2017 RMB'000	2016 RMB'000
Interest-bearing bank and other borrowings	1,875,782	1,151,705
Trade and bills payables	24,253,489	15,664,537
Financial liabilities included in other payables and accruals	2,193,726	2,104,185
Cash and cash equivalents	(12,879,446)	(15,520,537)
Pledged deposits	(187,844)	(171,610)
Net debt	<u>15,255,707</u>	<u>3,228,280</u>
Total equity	<u>25,224,598</u>	<u>22,690,471</u>
Capital and net debt	<u>40,480,305</u>	<u>25,918,751</u>
Gearing ratio	<u>38%</u>	<u>12%</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 45. EVENTS AFTER THE REPORTING PERIOD

On 29 March 2018, the board of directors proposed the dividend of RMB0.15 per share, amounting to RMB 1,318,473,000 for the year ended 31 December 2017. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 46. 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:

	2017 RMB'000	2016 RMB'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	661,994	517,992
Prepaid land lease payments	928,974	1,121,128
Investment properties	1,207,971	854,110
Other intangible assets	33,262	36,011
Investments in subsidiaries	13,297,987	12,139,450
Investments in joint ventures	158,634	160,000
Investments in associates	522,438	131,024
Available-for-sale investments	2,141	2,141
Deferred tax assets	35,093	20,054
Trade receivables	291,426	265,141
<b>Total non-current assets</b>	<b>17,139,920</b>	<b>15,247,051</b>
<b>CURRENT ASSETS</b>		
Prepaid land lease payments	24,680	24,680
Inventories	89	4,127
Trade receivables	1,887,565	2,016,151
Prepayments, deposits and other receivables	6,421,875	4,980,793
Amounts due from contract customers	2,980,298	1,998,417
Pledged deposits	1,786	1,712
Cash and cash equivalents	9,220,611	9,325,620
<b>Total current assets</b>	<b>20,536,904</b>	<b>18,351,500</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2017 RMB'000	2016 RMB'000
<b>CURRENT LIABILITIES</b>		
Trade payables	6,106,561	5,401,753
Amounts due to contract customers	483,186	516,931
Other payables, advances from customers and accruals	10,910,754	8,788,281
Interest-bearing bank and other borrowings	1,000,000	700,000
Provisions for supplementary retirement benefits	7,268	7,782
Tax payable	49,589	38,911
Government grants	772	772
<b>Total current liabilities</b>	<b>18,558,130</b>	<b>15,454,430</b>
<b>NET CURRENT ASSETS</b>	<b>1,978,774</b>	<b>2,897,070</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>19,118,694</b>	<b>18,144,121</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	200,000	200,000
Provisions for supplementary retirement benefits	83,587	88,650
Government grants	32,528	32,881
Provisions	58,911	58,903
<b>Total non-current liabilities</b>	<b>375,026</b>	<b>380,434</b>
Net assets	<b>18,743,668</b>	<b>17,763,687</b>
<b>EQUITY</b>		
Share capital	8,789,819	8,789,819
Reserves (note)	9,953,849	8,973,868
<b>Total equity</b>	<b>18,743,668</b>	<b>17,763,687</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2016	7,748,515	651,833	29,591	206,023	8,635,962
Profit for the year	—	—	—	554,036	554,036
Other comprehensive income:					
Re-measurement income on defined benefit plans, net of tax	3,615	—	—	—	3,615
Total comprehensive income for the year	3,615	—	—	554,036	557,651
Appropriation to statutory surplus reserve	—	55,492	—	(55,492)	—
Final 2015 dividend declared	—	—	—	(219,745)	(219,745)
Transfer to special reserve	—	—	5,495	(5,495)	—
Utilisation of special reserve	—	—	(7,511)	7,511	—
As at 31 December 2016 and 1 January 2017	<u>7,752,130</u>	<u>707,325</u>	<u>27,575</u>	<u>486,838</u>	<u>8,973,868</u>
Profit for the year	—	—	—	1,858,309	1,858,309
Other comprehensive income:					
Re-measurement income on defined benefit plans, net of tax	654	—	—	—	654
Total comprehensive income for the year	654	—	—	1,858,309	1,858,963
Appropriation to statutory surplus reserve	—	185,476	—	(185,476)	—
Final 2016 dividend declared	—	—	—	(878,982)	(878,982)
Transfer to special reserve	—	—	6,523	(6,523)	—
Utilisation of special reserve	—	—	(659)	659	—
As at 31 December 2017	<u>7,752,784</u>	<u>892,801</u>	<u>33,439</u>	<u>1,274,825</u>	<u>9,953,849</u>

## 47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 29 March 2018.



## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

In this report, unless the context otherwise requires, the following terms shall have the following meaning:

“ALSTOM Holdings”	Alstom Holdings (阿爾斯通控股有限公司), a limited liability company established in France on 14 June 1989, a holding company of ALSTOM IC and a connected person of the Company
“ALSTOM IC”	Alstom Investment Company Limited (阿爾斯通投資(上海)有限公司), a limited liability company established in the PRC on 21 January 2015, holds 49% of the equity interests in CRSC CASCO, and is a connected person of the Company
“ALSTOM”	ALSTOM Holdings and/or its subsidiaries
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Audit and Risk Management Committee”	Audit and Risk Management Committee of the Board
“Board” or “Board of Directors”	the board of Directors of the Company
“CASBE”	China Accounting Standards for Business Enterprises promulgated by the MOF
“China” or the “PRC”	the People’s Republic of China excluding, for the purposes of this report, not including Hong Kong, Macau and Taiwan
“CICC Jiacheng”	CICC Jiacheng Investment Management Co., Ltd. (中金佳成投資管理有限公司), a limited liability company established in the PRC on 26 October 2007, and wholly owned by the China International Capital Corporation Limited (中國國際金融有限公司), one of the Shareholders and promoters of the Company
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), as promulgated after being amended by the Standing Committee of the 12th National People’s Congress of the PRC on 28 December 2013 and effective on 1 March 2014 (as amended, supplemented or otherwise modified from time to time)
“Company” or “our Company”	China Railway Signal & Communication Corporation Limited (中國鐵路通信信號股份有限公司), a joint stock limited liability company established in the PRC on 29 December 2010
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“connected transaction(s)”	has the meaning as defined in the Hong Kong Listing Rules, unless the context otherwise requires

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Controlling Shareholder”	as defined under the Hong Kong Listing Rules, and as of the Latest Practicable Date, refers to the controlling Shareholder of the Company, being CRSC Corporation Group
“Corporate Communications”	as defined in Rule 1.01 of the Listing Rules, means the documents published or to be published by the Company for the reference of or for actions to be taken by any securities holder of the Company, including but not limited to: (a) annual report and its financial summary report (if applicable) (and including all reports and accounts to be included therein); (b) interim reports and the interim summary report (if applicable) (and including all reports and accounts to be included therein); (c) notices of meetings; (d) listing documents; (e) circulars; (f) proxy forms; and (g) reply slips
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Hong Kong Listing Rules
“CRCC”	China Railway Construction Corporation Ltd. (中國鐵建股份有限公司), a joint stock limited liability company established in the PRC on 5 November 2007
“CREC”	China Railway Group Ltd. (中國中鐵股份有限公司), a joint stock limited liability company established in the PRC on 12 September 2007
“CRHC”	China Reform Holdings Corporation Ltd. (中國國新控股有限責任公司), a wholly state-owned enterprise with limited liability established in the PRC on 1 December 2010, one of the Shareholders and promoters of the Company
“CRSC CASCO”	Casco Signal Ltd. (卡斯柯信號有限公司), a limited liability company established in the PRC on 5 March 1986 and a direct non-wholly owned subsidiary of the Company. It is owned as to 51% by the Company and as to 49% by ALSTOM IC respectively
“CRSC” or “Group” or “we” or “us”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
“CRSC Corporation Group”	China Railway Signal & Communication Corporation Limited (中國鐵路通信信號集團有限公司) (formerly known as “China Railway Signal & Communication Corporation (中國鐵路通信信號集團公司)”, a wholly state-owned enterprise approved to be established by MOR on 8 May 1981 and registered in the PRC on 7 January 1984, the sole Controlling Shareholder and one of the promoters of the Company
“CRSC Group”	CRSC Corporation Group and its subsidiaries (other than the Group)
“CRSC Innovation Investment”	CRSC Innovation Investment Company Ltd. (通號創新投資有限公司), a limited liability company established in the PRC on 21 September 2012 and a direct whollyowned subsidiary of the Company



## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“CRSCD”	Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd. (北京全路通信信號研究設計院有限公司) (formerly known as Beijing National Railway Research & Design Institute (北京全路通信信號研究設計院)), a limited liability company established in the PRC on 18 November 1994 and a direct wholly-owned subsidiary of the Company
“CRSCS”	China Railway Signal & Communication Shanghai Engineering Bureau Group Co., Ltd. (中國鐵路通信信號上海工程局集團有限公司) (formerly known as China Railway Signal & Communication Shanghai Engineering Co., Ltd. (中國鐵路通信信號上海工程有限公司)), a limited liability company established in the PRC on 21 August 1984 and a direct wholly-owned subsidiary of the Company
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	a director of the Company
“Domestic Share(s)”	ordinary shares of the Company, with a nominal value of RMB1.00, which are subscribed for or credited as fully paid in Renminbi
“EIT”	enterprise income tax of the PRC
“Ernst & Young”	Ernst & Young/Ernst & Young Hua Ming LLP
“general meeting”	general meeting of the Company
“H Share(s)”	ordinary shares of the Company, being overseas listed foreign shares with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HK\$” or “HK dollar(s)” or “Hong Kong dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
“Independent Third Parties”	a person who, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of the Company within the meaning of the Listing Rules

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Latest Practicable Date”	18 April 2018, being the latest practicable date for the purposes of ascertaining certain information contained in the annual report
“Listing”	the listing of H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	7 August 2015, the date on which the Company’s overseas listed foreign shares (H Shares) were listed on the Main Board of the Stock Exchange
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel to the GEM
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOR”	the former Ministry of Railway of the PRC (中華人民共和國鐵道部)
“Nomination Committee”	Nomination Committee of the Board
“NSSF”	National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Prospectus”	the prospectus of the Company dated 28 July 2015
“Quality and Safety Committee”	Quality and Safety Committee of the Board
“R&D”	research and development
“Remuneration and Evaluation Committee”	Remuneration and Evaluation Committee of the Board
“reporting period” or “2017” or “the year”	the year beginning from 1 January 2017 and ended on 31 December 2017
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Senior Management”	the senior management of the Company
“SFC”	the Securities and Futures Commission of Hong Kong

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holders of the Shares of the Company
“SINOMACH”	China National Machinery Industry Corporation (中國機械工業集團有限公司), a wholly state-owned enterprise with limited liability incorporated in the PRC on 21 May 1988, one of the Shareholders and promoters of the Company
“Special Committee(s)”	collectively, Strategic and Investment Committee, Remuneration and Evaluation Committee, Audit and Risk Management Committee, Nomination Committee and Quality and Safety Committee
“State Administration of Taxation” or “SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“State Council”	State Council of the PRC (中華人民共和國國務院)
“state”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“Strategic and Investment Committee”	Strategic and Investment Committee of the Board
“subsidiary”	has the meaning as defined under the Hong Kong Listing Rules, unless the context otherwise requires
“substantial shareholder”	has the meaning as defined under the Hong Kong Listing Rules, unless the context otherwise requires
“Supervisors”	the supervisors of the Company
“Supervisory Committee”	the supervisory committee of the Company
“United States” or “U.S.”	the United States of America
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“%”	per cent

# DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

## GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this report in connection with the Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"ATP"	the automatic train protection equipment that automatically brakes train when it exceeds speed limits
"balise"	an intermittent device used for ground-to-vehicle information transmission, including passive balise and active balise, whose main function is to provide the on-board train operation control equipment with reliable fixed and changeable data from the ground
"CBTC"	the wireless communication based train control system, a wireless communication system for urban transit that enables bidirectional communication between vehicle and ground to control the operation of trains
"communication system"	a system using information transmission and exchange technology for rail transportation
"high-speed railway"	passenger dedicated railway with an operating speed of 200km/h or higher
"intercity railway"	rapid, convenient and high-density passenger dedicated railway with a designed speed of 200km/h and lower, which is dedicated to serving cities or among cities
"LEU"	Lineside Electronic Unit, a kind of equipment which is used to receive information from the train control center and transmit it to active transponder
"modern tram"	the light-axle transportation system running on the rail and powered by electricity
"normal-speed railway"	railway with an operating speed lower than 160km/h
"PPP"	public-private partnership, a partner relationship based on a framework agreement and formed between the government and private organizations for co-construction of infrastructure projects or providing certain public goods and services
"rail transportation control system"	a system that monitors, controls and adjusts the operation status of trains, such as speed and braking mode, based on the objective conditions and actual situations of trains, which includes rail transportation communication system and rail transportation signal system
"rail transportation"	includes railway, urban transit and modern tram
"railway"	the generic term for national railway and intercity railway. National railway includes normal-speed railway and high-speed railway
"RBC"	the radio block center, to generate movement authority and other control information for trains, which are transmitted to onboard train control equipment through wireless communication

## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“signal system”	a system using manual, automatic and remote control technology to ensure train safety and enhance the traffic capacity among areas and stations
“Smart City”	an advanced form of informationized city, in which the information technology of new generation is fully applied to each industry and every aspect of municipal life, that deeply integrates the informatization, industrialization and urbanization of the city
“track circuit”	a track circuit using steel rail of certain section of railways as conductor, which is used to automatically and continuously detect whether the track is occupied
“train control center”	a system that controls track circuit encoding and active balise information and grants movement authority to trains, based on information such as the location of each train within its monitoring scope, interlocking route, temporary speed limits
“train control system”	a system that monitors, controls and adjusts operation status of trains, such as speed and braking mode, based on the objective conditions and actual situation
“TSI certification”	Technical Specification for Interoperability certification
“urban transit”	the electricity-powered public transportation operating on rails, which has high carrying capacity, including metro and light rail

**CRSC**

**中国通号**

*China Railway Signal & Communication Corporation Limited\**

**中國鐵路通信信號股份有限公司**