中国铁建

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

(A joint stock company incorporated in the People's Republic of China with limited liability)
（於中華人民共和國註冊成立的股份有限公司）

Stock Code 股份代號 :1786

Annual Report 年報 2018

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders:

In 2018, lingering in a low level in the market, CRCCE made a major overhaul of our business ideas, in which we made market lead research and development, increased investment in science and technology as well as improved the management quality. Effectively transforming reform achievements into economic benefit through the synergy of markets, research and development and management, we made steady progress and improvement in major economic indicators and achieved new results in all our work.

In this year, increasing market-oriented investment in innovation of science and technology and introducing a large number of research and development personnel, the Company strengthened the collaborative innovation capacity of research and development institutions and market, and built up organizational structure of large project system. Improvement of incentive mechanism for science and technology and stimulus to the creativity of researchers also significantly enhanced the ability to do research and development as well as create effectiveness.

In this year, the Company entered deep end of its reform and drove forward the "Three Systems" reform with great efforts. With comprehensive completion of adjustment on corporate structure, institutional process reengineering, remuneration and incentive systems restructuring, fixing on post, arrangement and personnel as well as logistics reduction, the Company completed in one year its reform cherished for years and took on a new look.

Well begun is half done. With rising tides and the sea vast as sky, it is time for us to sail.

In the year 2019, we will base on a new starting point, achieve results in a new era, promote new development, realize a new leap, and work hard unremittingly to develop CRCCE into a world-leading overall solution provider for large and intelligent track maintenance equipment, with enterprise prosperity, employee happiness, social respect and high value creativity.

Last but not least, I would like to take this opportunity to express my sincere gratitude towards all Shareholders, the general public, extensive customers and all employees for your continual care and support to our development!

Liu Feixiang
Chairman

Kunming, Yunnan Province, the PRC
28 February 2019

GENERAL MANAGER'S STATEMENT

Dear Directors:

I am pleased to present the consolidated results report of the Company for the year ended 31 December 2018, and I would like to express my most sincere gratitude to all Directors for your continual care and support to the Company.

In 2018, the Company made steady progress and improvement in major economic indicators and recorded an operating revenue of RMB2,410.7 million in 2018 (2017: RMB1,818.3 million), representing an increase of 32.58% year-on-year. Profit for the year amounted to RMB156 million (2017: RMB55 million), representing an increase of 183.84% year-on-year.

In the past year, we clung to our vision of being responsible to the society, the Shareholders and the employees. Under the correct leadership of the Board of Directors, we deepened reform, improved management, promoted corporate transformation and upgrading, and made new progress in all our work, enabling the Company with more reasonable organizational structure, better systems, stronger risk controls and more in-depth informatization construction. In terms of technology and research and development, an increase in effort in introducing and training talents brought key projects, all research and development as well as design work to a new level. In terms of market operation, we secured the core market and made new breakthroughs in the emerging market of urban rail transit and overseas market. For the supply chain and production organization, basic management was improved, and a collaborative system of scientific research, supply chain and manufacturing based on agile manufacturing was gradually set up. Moreover, we continued our efforts in fulfilling environmental and social responsibility, creating 128 jobs in a year and donating books, clothing, stationery and other materials to impoverished mountain areas and hope primary schools, with a view to fulfil social responsibility in a better way.

The external situation the Company facing in 2019 is still grim, but the new economic macro policy and industrial development environment will bring us an important period of strategic opportunities. As expected by the Directors, the Company will firmly carry out the "two types, three conversions and nine capabilities" strategy, adhere to the idea of "seizing new opportunities, soaring again in reform" for development, promote the "re-liberation of thoughts, further reform and re-implementation of work", and will also consolidate the management improvement, create new technologies as well as develop new markets so as to speed up efforts to achieve its goal of becoming a world-leading overall solution provider for large and intelligent track maintenance equipment.

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

Tong Pujiang
General Manager

Kunming, Yunnan Province, the PRC
28 February 2019

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

	2018 (RMB million)	2017 (RMB million)
Sales of machinery	**1,597.5**	968.2
Sales of parts and components	**208.5**	256.8
Overhaul services	**493.8**	486.6
Railway line maintenance services	**41.5**	26.0
Rail vehicles engineering and technical services	**69.4**	80.7
Total revenue	**2,410.7**	1,818.3

The Group's revenue from core business increased by RMB592.4 million or 32.58% from RMB1,818.3 million for the year ended 31 December 2017 to RMB2,410.7 million for the year ended 31 December 2018.

In 2018, the Group's revenue from sales of machinery increased by RMB629.3 million or 65.00% as compared with the same period last year, and the main reason for such increase was the increase of machinery products and sales of machinery delivered during this year; the revenue from sales of parts and components decreased by RMB48.3 million or 18.81% as compared with the same period last year, and the main reason for such decrease was the decrease in market demand on spare parts of large railway track maintenance machines; the revenue from overhaul services recorded a slight increase in revenue with an increase of RMB7.2 million or 1.48% as compared with the same period last year, and the main reason for such increase was the increase of quantity of large railway track maintenance machines for engineering works and the machines delivered; the revenue from railway line maintenance services increased by RMB15.5 million or 59.62% as compared with the same period last year, and the main reason for such increase was the increase in quantity of engineering works of railway line maintenance services; The revenue from rail vehicles engineering and technical services decreased by RMB11.3 million or 14.00%, and the decrease was mainly due to the use of part of the designed production capacity to meet the internal needs of the Group during this year.

COST OF SALES

The Group's cost of sales increased by RMB506.4 million from RMB1,328.9 million for the year ended 31 December 2017 to RMB1,835.3 million for the year ended 31 December 2018. The increase in cost of sales was mainly due to the rise in operating revenue of the Group's business sectors including manufacturing and sales of machinery.

GROSS PROFIT

The Group's gross profit increased by RMB85.9 million from RMB489.5 million for the year ended 31 December 2017 to RMB575.4 million for the year ended 31 December 2018. The Group's gross profit margin decreased from 26.92% for the year ended 31 December 2017 to 23.87% for the year ended 31 December 2018. The change in gross profit margin was mainly due to the change of gross profit structure of each business sector.

OTHER INCOME AND GAINS

The Group's other income and gains increased by RMB19.9 million from RMB67.7 million for the year ended 31 December 2017 to RMB87.6 million for the year ended 31 December 2018. The increase of other income and gains was mainly due to the increase in income from exchange gains.

NET IMPAIRMENT LOSSES

The Group's net impairment losses increased by RMB14.7 million from RMB14.2 million for the year ended 31 December 2017 to RMB28.9 million for the year ended 31 December 2018. The increase of impairment losses was mainly due to the increase in provision of credit loss for accounts receivable.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses decreased by RMB6.4 million from RMB59.3 million for the year ended 31 December 2017 to RMB52.9 million for the year ended 31 December 2018, primarily due to the comprehensive decline in selling expenses.

ADMINISTRATIVE EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES

The Group's administrative expenses and research and development expenses decrease by RMB6.5 million from RMB375 million for the year ended 31 December 2017 to RMB368.5 million for the year ended 31 December 2018. The decrease of administrative expenses was mainly attributable to the decrease in administrative expenditure.

OTHER EXPENSES

The Group's other expenses increased by RMB32 million from RMB8.3 million for the year ended 31 December 2017 to RMB40.3 million for the year ended 31 December 2018, primarily due to the increase in other operating cost during the year.

FINANCE COSTS

The Group's finance costs decreased by RMB36 million from RMB36 million for the year ended 31 December 2017 to nil for the year ended 31 December 2018, primarily due to the absence of interest on discounted long-term trade receivables during this year as compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT BEFORE TAX

The Group's profit before tax increased by RMB108 million from RMB64.4 million for the year ended 31 December 2017 to RMB172.4 million for the year ended 31 December 2018. The increase in profit before tax was mainly due to the increase in gross profit as a result of rise in operating revenue, and the comprehensive decline in various expenses.

INCOME TAX EXPENSE

The Group's income tax expense increased by RMB6.7 million from RMB9.3 million for the year ended 31 December 2017 to RMB16 million for the year ended 31 December 2018. The increase in income tax expense was mainly due to the increase in the profit before tax of current period.

The Company was entitled to the preferential tax policy of the western development, and was entitled to the preferential corporate income tax rate of 15%.

In 2018, Ruiweitong Company was accredited as a high and new technology enterprise and received approvals from the relevant government authorities, and was entitled to the preferential corporate income tax rate of 15%.

Aotongda Company, Guangweitong Company and Kunweitong Company were levied at the corporate income tax rate of 25%.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Profit attributable to owners of the parent increased by RMB101.3 million from RMB55.1 million for the year ended 31 December 2017 to RMB156.4 million for the year ended 31 December 2018. The increase in the net profit attributable to owners of the parent was mainly due to the increase in gross profit as a result of rise in operating revenue, and the comprehensive decline in various expenses.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit attributable to non-controlling interests was nil for the year ended 31 December 2018, which was unchanged as compared with the same period of last year.

BASIC EARNINGS PER SHARE

Basic earnings per share increased from RMB0.04 for the year ended 31 December 2017 to RMB0.10 for the year ended 31 December 2018, which was mainly due to the increase in the Group's net profit.

LIQUIDITY AND SOURCE OF CAPITAL

Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. For the year ended 31 December 2018, the closing balance of the Group's cash and cash equivalents amounted to RMB1,789.2 million and the net increase in cash and cash equivalents was RMB232.8 million.

Net cash inflow from operating activities

The Group's net cash inflow from operating activities decreased from RMB796.6 million for the year ended 31 December 2017 to RMB261.5 million for the year ended 31 December 2018, which was mainly due to the decrease in sales collections.

Net cash outflow from investing activities

For the year ended 31 December 2018, the Group's net cash outflow from investing activities was RMB21 million. The cash outflow from investing activities was mainly due to the acquisition and construction of fixed assets.

Net cash outflow from financing activities

For the year ended 31 December 2018, the Group's net cash outflow from financing activities was RMB15.5 million. The cash outflow item in financing activities was mainly the distribution of cash dividends.

Liquidity

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

COMMITMENTS

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

Capital commitments:

	31 December 2018 RMB million	31 December 2017 RMB million
Contracted but not provided for	**44.1**	47.4

INDEBTEDNESS

The Group has no indebtedness as at 31 December 2018.

PLEDGE

The Group has no pledge as at 31 December 2018.

GEARING RATIO

The Group monitors capital management by using the gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank borrowings 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 equity attributable to owners of the parent. The Group's gearing ratio was -6% as at 31 December 2017 and -0.4% as at 31 December 2018.

CONTINGENT LIABILITIES

The Group has no material contingent liability as of 31 December 2018.

FOREIGN EXCHANGE RISKS

The majority of the Group's businesses are located in China and most of the transactions are settled in RMB, with certain sales, procurement and businesses of the German subsidiaries settled in foreign currencies including Euro and USD. The fluctuation in exchange rates of these foreign currencies against RMB will affect the operating results of the Group.

OTHER MAJOR RISKS AND UNCERTAINTIES

Apart from foreign exchange risks, the discussion of other major risks and uncertainties (including regulatory risks, policy risks, market risks and operational risks) faced by the Group is set out in the "MAJOR RISKS AND UNCERTAINTIES" section of the "DIRECTORS' REPORT".

1. **Liu Feixiang (劉飛香)**, aged 55, graduated from the department of mechanics of Southwest Jiaotong University with a bachelor's degree of engineering in August 1983, majoring in engineering machinery. He is a professor level senior engineer who has 35 years of experience in research, development and manufacturing of high-end equipment in China. From August 1983 to February 1996, he worked as a trainee, assistant engineer and engineer of Zhuzhou Bridge Factory (株洲橋樑廠) under the Ministry of Railways. From February 1996 to May 1997, he served as deputy general manager of Zhuzhou Bridge Factory Nanjian Corporation* (株洲橋樑廠南箭總公司) and manager and engineer of Rail Welding Engineering Company* (軌道焊接工程公司) at the same time. From May 1997 to July 2000, he served as deputy factory manager, engineer and senior engineer of Zhuzhou Bridge Factory under the Ministry of Railways. From July 2000 to November 2001, he served as factory manager, deputy secretary of the Communist Party committee, senior engineer of Zhuzhou Bridge Factory of China Railway Construction Corporation Factory Bureau. From November 2001 to March 2003, he served as factory manager, deputy secretary of the Communist Party committee and senior engineer of Zhuzhou Bridge Factory of China Railway 11th Bureau Group Co., Ltd. From March 2003 to April 2005, he served as chairman, general manager, deputy secretary of the Communist Party committee, equity representative and senior engineer of China Railway Zhuzhou Bridge Company* (中鐵株洲橋樑公司) under China Railway 11th Bureau Group Co., Ltd. From April 2005 to May 2007, he served as deputy general manager and professor level senior engineer of China Railway 11th Bureau Group Co., Ltd. From May 2007 to July 2011, he was appointed as director, chairman, general manager, deputy secretary of the Communist Party committee and professor level senior engineer of China Railway Track System Group Co., Ltd. From July 2011 to January 2015, he served as chairman, general manager, deputy secretary of the Party committee and professor level senior engineer of CRCHI. Since September 2017, he concurrently served as the chairman and an executive Director of the Company.

2. **Zhao Hui (趙暉)**, aged 46, graduated from the department of environmental engineering in Lanzhou Railway University with a bachelor's degree of engineering in July 1995, majoring in water supply and drainage engineering. He is a senior engineer who has 23 years of experience in research, development and manufacturing of high-end equipment in China. From July 1995 to November 2000, he worked in Zhuzhou Bridge Factory under the Ministry of Railways as a trainee, assistant engineer, and assistant member of league committee and league officer. From November 2000 to May 2002, he served as assistant engineer, engineer and salesman of sales office of Zhuzhou Bridge Factory of China Railway Construction Corporation Factory Bureau. From May 2002 to September 2005, he served as salesman of sales office, director of sales office, head of general marketing department (deputy level), deputy chief of marketing department, head of marketing department, and engineer of Zhuzhou Bridge Factory of China Railway 11th Bureau Group Co., Ltd. From September 2005 to June 2007, he served as assistant to general manager and deputy general manager and senior engineer of China Railway Zhuzhou Bridge Company under China Railway 11th Bureau Group Co., Ltd. From June 2007 to January 2008, he served as head of marketing department and senior engineer of China Railway Track System Group Co., Ltd. From January 2008 to July 2011, he served as assistant to general manager, head of marketing department and senior engineer of China Railway Track System Group Co., Ltd. From July 2011 to April 2013, he served as assistant to general manager of CRCHI, general manager and senior engineer of the turnout company. From April 2013 to January 2015, he served as director of marketing and senior engineer of CRCHI. From January 2015 to June 2017, he served as deputy general manager, member of the Communist Party committee and senior engineer of CRCHI. From June 2017 to July 2017, he served as deputy secretary of the Communist Party committee, director, deputy general manager and senior engineer of CRCHI. Since September 2017, he concurrently served as an executive Director and secretary of the Communist Party committee of the Company.

3. **Tong Pujiang (童普江)**, aged 41, graduated from the Central Party School in June 2014 and obtained a master's degree in economic management. He is an engineer who has 20 years of experience in manufacturing and repair of railway track maintenance machinery. From August 2005 to February 2011, he worked in Kunming China Railway Large Maintenance Machinery Group Co., Ltd. as secretary, deputy director, director of the office and engineer. From February 2011 to January 2013, he served as assistant to general manager, head of human resource department and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2013 to January 2015, he served as assistant to general manager, factory manager of manufacturing general factory and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He worked as deputy general manager of the Company from June 2015 to July 2017. Since July 2017, he served as general manager of the Company and since September 2017, he served as an executive Director.

4. **Chen Yongxiang (陳永祥)**, aged 52, obtained a master's degree in international economic and trade relations jointly set up by Nankai University and Flinders University, Australia in June 2013. He is an engineer who has 30 years of experience in manufacturing and repair of railway track maintenance machinery. From November 1998 to December 2004, he served as the deputy director and engineer at the production preparation workshop of Kunming Machinery Factory under the engineering headquarters of the Ministry of Railway. From December 2004 to May 2005, he worked as the manager and engineer at the metal materials processing company of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From May 2005 to January 2010, he worked as the manager and engineer at the machining company of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2010 to June 2015, he served as a vice general manager and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. Since June 2015, he served as deputy general manager of the Company and since June 2017, he served as an executive Director.

5. **Wu Zhixu (伍志旭)**, aged 49, was appointed as a non-executive Director in June 2015. Mr. Wu has 25 years of experience in legal service areas, such as reorganisation and listing of enterprise, standardised daily operation of company and foreign investment. From November 1992 to October 1993, he served as a lawyer in Yunnan Trade Law Firm. From October 1993 to December 1999, he served as a lawyer and partner in Yunnan Haihe Law Firm. From December 1999 to April 2014, he served as a chief lawyer of Yunnan Qianhe Law Firm. Since April 2014, he has served as the chief lawyer of Beijing Deheng (Kunming) Law Firm. From May 2008 to May 2011, he served as an independent director of Yunnan Xiyi Industrial Co., Ltd. (stock code: 002265). From February 2011 to February 2014, he served as an independent director of Yunnan Lincang Xinyuan Germanium Industrial Co., Ltd. (stock code: 002428). From June 2011 to June 2016, he has served as an independent director of Yunnan Tourism Corporation (stock code: 002059). He obtained a postgraduate diploma from Yunnan University in July 1997, majoring in economic law.

6. **Sun Linfu (孫林夫)**, aged 55, served as an independent non-executive Director since November 2015. Mr. Sun has nearly 26 years of experience in advanced manufacturing and railway maintenance machinery industry. From October 1992 to September 1999, he served as the executive deputy director of the Computer-aided Design (CAD) Engineering Center of Southwest Jiaotong University. From September 1999 to October 2014, he served as the director of the CAD Engineering Center of Southwest Jiaotong University. Since December 2006, he served as the dean of Sichuan Provincial Modern Service Technology Research Institute (formerly known as Sichuan Provincial Research Institute of Manufacturing Information). Mr. Sun has been appointed as a professor of Southwest Jiaotong University since June 1996. He was appointed as the doctoral supervisor by Southwest Jiaotong University in April 2000. He obtained a doctor's degree from Southwest Jiaotong University in June 1993, majoring in bridge and tunnel engineering.

7. **Yu Jiahe (于家和)**, aged 64, served as an independent non-executive Director since November 2015. Mr. Yu has 39 years of experience in design and selection of railway maintenance machinery. From June 1980 to October 1999, he served as intern, assistant engineer, engineer, station head and senior engineer in the Design Institute of Railway. From October 1999 to May 2014, he assisted the foundation department of the transport bureau of the former MOR. He obtained an academic certificate for university from Southwest Jiaotong University in February 1980, majoring in machinery manufacturing technique and equipment.

8. **Wong Hin Wing (黃顯榮)**, aged 56, holds a master's degree in Executive Business Administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants, the Hong Kong Institute of Directors and the Institute of Chartered Secretaries and Administrators. He is also a member of the American Institute of Certified Public Accountants and a chartered member of the Chartered Institute for Securities & Investment. He is an independent non-executive director of AEON Credit Service (Asia) Co. Ltd. (a public company listed on the Stock Exchange), Dongjiang Environmental Company Limited (a public company with A shares listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange and H shares listed on the Stock Exchange), the Company (a public company with H shares listed on the Stock Exchange), Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (a public company with A shares listed on the Shanghai Stock Exchange and H shares listed on the Stock Exchange), Inner Mongolia Yitai Coal Co., Ltd. (a public company with B shares listed on the Shanghai Stock Exchange and H shares listed on the Stock Exchange) and Wine's Link International Holdings Limited (a public company listed in Hong Kong) and Jiangxi Bank Co., Ltd.. He is also a member of Anhui Provincial Committee of the Chinese People's Political Consultative Conference, a panel member of Securities and Futures Appeals Tribunal, a member of Nursing Council of Hong Kong and a member of the Construction Industry Council. He is the managing director and has been responsible officer of Silk Road International Capital Limited (formerly known as Legend Capital Partners, Inc.), a licensed corporation under the SFO since 1997. Prior to this, he had worked with an international audit firm for four years and then a listed company as chief financial officer for seven years. He has 35 years of experience in accounting, finance, investment management and advisory.

9. **Sha Mingyuan (沙明元)**, aged 57, has nearly 40 years' experience in equipment and material management, engineering machinery manufacturing and engineering construction. He worked as an intern in the Repair Workshop of No. 19 Engineering Corporation of the Ministry of Railways from July 1983 to July 1984. He worked as an teaching assistant in the Department of Machinery of Shijiazhuang Railway Institute from July 1984 to December 1989. He worked as a lecturer in the Department of Machinery of Shijiazhuang Railway Institute from December 1989 to August 1997. He studied the bachelor program in the Department of Engineering Machinery of Railway Corps Engineering Institute from September 1979 to July 1983 and obtained the bachelor of engineering. He worked as an associate professor in the Department of Machinery of Shijiazhuang Railway Institute and the vice chief engineer of the Qinling Tunnel Engineering Headquarters of China Railway Construction Corporation from August 1997 to February 2000. He worked for the Equipment & Material Transportation Department (corresponding to the level of the associate professor) of China Railway Construction Corporation and assumed concurrently the Vice Commander and Equipment and Material Department Director of Danfeng Engineering Headquarters of China Railway Construction Corporation from February 2000 to July 2001. He worked as the Senior Engineer in the Equipment & Material Transportation Department of China Railway Construction Corporation from July 2001 to December 2002. He worked as the professor level senior engineer in the Equipment & Material Transportation Department of China Railway Construction Corporation from December 2002 to December 2005. He worked as the professor level senior engineer in the Engineering Management Department of China Railway Construction Corporation from December 2005 to April 2006. He worked as the chief mechanical engineer (corresponding to the level of the department principal) and senior engineer at the professor level in Nanjing Changjiang Tunnel Co., Ltd. from April 2006 to July 2008. He worked as the vice director (corresponding to the level of the department principal) and professor level senior engineer of the Engineering Management Department of CRCC and the chief mechanical engineer of Nanjing Changjiang Tunnel Co., Ltd. from July 2008 to November 2008. He worked as the vice director (corresponding to the level of the department principal) and professor level senior engineer of the Science & Technology Design Department of CRCC and the chief mechanical engineer of Nanjing Changjiang Tunnel Co., Ltd. from November 2008 to June 2009. He has been working as the chief mechanical engineer (corresponding to the level of the department principal) and professor level senior engineer of the Equipment and Material Department of CRCC from June 2009 till now.

10. **Yu Qiuhua (余秋華)**, aged 55, is a senior economist with a bachelor's degree taught by correspondence. From September 1980 to July 1982, he graduated from Zhuzhou Railway Machinery School* (株洲鐵路機械學校) with a technical secondary school degree majoring in management of railway material; from August 1982 to August 1983, he worked as an intern of material division of Zhuzhou Bridge Factory* (株洲橋樑廠) under the Ministry of Railways; from August 1983 to September 1984, he was a technician of material division of Zhuzhou Bridge Factory under the Ministry of Railways (鐵道部株橋廠); from September 1984 to July 1987, he graduated from Tianjin Materials Management Cadre College of the Ministry of Railways* (鐵道部天津物資管理幹部學院) with a college degree majoring in engineering of material management; from July 1987 to June 1988, he was a technician of material division of Zhuzhou Bridge Factory under the Ministry of Railways (鐵道部株橋廠); from June 1988 to February 1991, he served as an economic clerk of material management division of Zhuzhou Bridge Factory under the Ministry of Railways; from February 1991 to April 1992, he served as an assistant economist of material management division of Zhuzhou Bridge Factory of China Railway Materials and Suppliers Corporation* (中國鐵路物資總公司) under the Ministry of Railways; from April 1992 to April 1995, he served as a director planner of material management office of Zhuzhou Bridge Factory of China Railway Materials and Suppliers Corporation under the Ministry of Railways; from April 1995 to August 2001, he served as deputy director and economist of material management office of Zhuzhou Bridge Factory of China Railway Materials and Suppliers Corporation under the Ministry of Railways; from August 1995 to December 1997, he graduated from Correspondence School of Party School of the Central Committee of CPC with a bachelor's degree majoring in economic management; from August 2001 to January 2002, he served as senior economist of Zhuzhou Bridge Factory of China Railway Construction Corporation Factory Bureau; from January 2002 to April 2002, he served as director and senior economist of material division of Zhuzhou Bridge Factory under China Railway 11th Bureau Group Co., Ltd.* (中鐵11局集團公司株洲橋梁廠); from April 2002 to February 2004, he served as office director and senior economist of Zhuzhou Bridge Factory under China Railway 11th Bureau Group Co., Ltd.; from February 2004 to December 2005, he served as general manager assistant, office director and senior economist of China Railway Zhuzhou Bridge Company under China Railway 11th Bureau Group Co., Ltd.* (中鐵11局集團公司中鐵株洲橋梁有限公司); from December 2005 to October 2006, he served as deputy general manager and senior economist of China Railway Zhuzhou Bridge Company under China Railway 11th Bureau Group Co., Ltd.; from October 2006 to June 2007, he served as deputy secretary of the Communist Party committee, secretary of committee for discipline inspection, chairman of union and senior economist of Track System Group of China Railway 11th Bureau* (中鐵11局軌道系統集團有限公司) (the predecessor of the turnout company); from June 2007 to December 2007, he served as deputy secretary of the Communist Party committee, secretary of committee for discipline inspection, chairman of union and senior economist of turnout company of Track System Group of China Railway* (中鐵軌道系統集團道岔公司); from December 2007 to March 2008, he served as the standing deputy general manager and senior economist of Zhuzhou China Railway Track System Material Co., Ltd. of China Railway Track Group Co., Ltd.* (中鐵軌道集團公司株洲中鐵軌道系統物資有限公司); from March 2008 to December 2008, he served as director, vice chairman, general manager, deputy secretary of the Communist Party committee, member of the Communist Party committee and senior economist of Zhuzhou China Railway Track System Material Co., Ltd. of China Railway Track Group Co., Ltd.; from December 2008

to August 2009, he served as director, vice chairman (corresponding to the level of standing deputy general manager), member of the Communist Party committee and senior economist of China Railway Zhuzhou Bridge Co., Ltd. Of China Railway Track Group Co., Ltd.* (中鐵軌道集團公司中鐵株洲橋樑有限公司); from August 2009 to March 2011, he served as the minister of comprehensive management department and senior economist of China Railway Track Group Co., Ltd.; from March 2011 to April 2013, he served as the office director, senior economist of China Railway Track Group Co., Ltd.; from April 2013 to October 2013, he served as the office director, tendering center director and senior economist of CRCHI; from October 2013 to August 2014, he served as the office director and senior economist of CRCHI; from August 2014 to June 2015, he served as the vice chairman of union and minister of union work department, member of the Communist Party committee and senior economist of CRCHI; from June 2015 to September 2015, he served as the deputy secretary of committee for discipline inspection, deputy chief economist, minister of audit and supervision department, member of the Communist Party committee and senior economist of CRCHI; from September 2015 to March 2016, he served as the nominee for deputy secretary of committee for discipline inspection, deputy chief economist, minister of audit and supervision department and the leader of the first group for discipline inspection of committee for discipline inspection and senior economist of CRCHI; from March 2016 to August 2016, he served as the nominee for deputy secretary of committee for discipline inspection, minister of supervision department and the leader of the first group for discipline inspection of committee for discipline inspection of group companies and senior economist of CRCHI; from August 2016 to September 2017, he served as the deputy secretary of committee for discipline inspection, minister of supervision department and the leader of the first group for discipline inspection of committee for discipline inspection of group companies and senior economist of CRCHI; from September 2017 to February 2018, he served as the deputy secretary of committee for discipline inspection, office director of committee for discipline inspection, director of supervision (inspection) room and senior economist of CRCHI; from February 2018 and up to now, he has served as the deputy secretary of committee for discipline inspection of CRCHI and secretary of committee for discipline inspection and chairman of Supervisory Committee.

11. **Wang Huaming (王華明)**, aged 49, served as the representative supervisor of Shareholders of the Company since June 2015. Mr. Wang has 25 years of experience in corporate economic management. From June 2002 to July 2004, he was a member of the finance department and a deputy director of the investment audit department under Anhui Engineering Co., Ltd. of Shanghai Railway Construction Group. From August 2004 to December 2012, he served as the chief financial officer of Anhui Engineering Company of Shanghai Railway Construction Group (renamed as Anhui Engineering Co., Ltd. of China Railway 24th Bureau). From July 2011 to December 2012, he concurrently served as the general counsel of Anhui Engineering Co., Ltd. of China Railway 24th Bureau. From January 2013 to August 2014, he served as the financial director and general counsel of China Railway Zhanjiang Development Co., Ltd. From September 2014 to November 2018, he served as the general manager of the supervision and audit department of China Railway Construction Investment Group. In December 2018, he served as the general manager of the finance department of CRCC Group. He obtained a master's degree from the Party University under Anhui Provincial Communist Party Committee in July 2011, majoring in economic management.

12. **Wang Shuchuan (王淑川)**, aged 47, is currently the general manager of China Railway Special Equipment Engineering Co., Ltd.* (中鐵建特種裝備工程有限公司), the deputy director of project reporting platform of CRCHI, and a senior economist. Mr. Wang has 24 years of experience in accounting and financial management. From July 1995 to August 2001, he worked as a trainee of cross-sleeper workshop and trainee of planning department of Zhuzhou Bridge Factory* (株洲橋樑工廠) under the Ministry of Railways and was an assistant economist of planning department. From August 2001 to March 2003, he was the economist of finance department of Zhuzhou Bridge Factory of China Railway Construction 11th Bureau Group. From March 2003 to July 2005, he served as the head of risk management department of Zhuzhou Jinqiao Small-to-medium Enterprise Guarantee Co., Ltd.* (株洲金橋中小企業擔保有限公司) and was an economist. From July 2005 to January 2006, he was the head of finance department of Zhuzhou Tianhua Real Estate Co., Ltd. (株洲天華房地產有限公司) and was an economist. From January 2006 to October 2006, he was the deputy head of finance department of China Railway Zhuzhou Bridge Co., Ltd.* (中鐵株洲橋樑有限公司) and was an economist. From October 2006 to December 2007, he worked in turnout construction team of China Railway Construction 11th Bureau Group and was an economist. From December 2007 to January 2013, he served as the deputy head of financial asset department of China Railway Track System Group Co., Ltd., the vice chief accountant and head of finance department of branch office of Express Turnout Company* (高速道岔分公司), the chief accountant of China Railway Zhuzhou Bridge Co., Ltd. and the chief accountant of turnout company and was an economist. From January 2013 to June 2015, he served as the head of finance department of CRCHI and was an economist and senior economist. From June 2015 to March 2016, he served as the chief financial officer of research, development and marketing service center and head of finance department of CRCHI and was a senior economist. From March 2016 to January 2017, he was the head of finance department and deputy director of project reporting platform of CRCHI and was a senior economist. From January 2017 to July 2017, he served as the general manager of China Railway Special Equipment Engineering Co., Ltd., the deputy director of project reporting platform of CRCHI and was a senior economist. Mr. Wang graduated from Business and Administration Department of Hunan University of Finance and Economics majoring in enterprise management, and obtained a bachelor's degree in economics in July 1995.

13. **Huang Zhaoxiang (黃兆祥)**, aged 55, obtained a bachelor's degree in engineering from Southwest Jiaotong University in July 1986, majoring in mechanical engineering. Mr. Huang has 33 years of experience in manufacturing and repair of railway track maintenance machinery. From February 1995 to October 1998, he served successively as the deputy division manager, division manager, assistant engineer and engineer at the equipment division of Kunming Machinery Factory under the engineering headquarters of Ministry of Railway. From October 1998 to March 2003, he served as the deputy factory manager, engineer and senior engineer of Kunming Machinery Factory. From March 2003 to June 2015, he served as vice general manager and senior engineer at Kunming China Railway Large Maintenance Machinery Group Co., Ltd. Since June 2015, he served as a deputy general manager of the Company.

14. **Mo Bin(莫斌)**, aged 49, graduated from Southwest Jiaotong University with a bachelor's degree majoring in welding technology and equipment and is a senior engineer. From July 1992 to August 1993, he was a trainee at Kunming Machinery Factory assembly workshop of CRCC; from August 1993 to August 2001, he served as assistant engineer and engineer at Kunming Machinery Factory assembly workshop of CRCC; from August 2001 to February 2003, he served as the secretary for Kunming Machinery Factory of CRCC, engineer and senior engineer; from February 2003 to December 2004, he served as the secretary of the board of directors and senior engineer of Kunming China Railway Group Co., Ltd.; from December 2004 to January 2009, he served as the office director and senior engineer of Kunming China Railway Group Co., Ltd.; from January 2009 to January 2010, he served as the office director and secretary of the board of directors and senior engineer of Kunming China Railway Group Co., Ltd.; from January 2010 to July 2011, he served as a member of the Communist Party committee and secretary of committee for discipline inspection and senior engineer of Kunming China Railway Group Co., Ltd.; from July 2011 to June 2015, he served as the chairman of supervisory committee, member of the Communist Party committee, secretary of committee for discipline inspection and senior engineer of Kunming China Railway Group Co., Ltd.; from June 2015 to July 2017, he served as the secretary of committee for discipline inspection and senior engineer of the Company. From April 2018 to December 2018, he served as the deputy inspector and minister of union work department of CRCHI. Since December 2018, he has served as a deputy general manager of the Company.

15. **E Baosheng (鄂寶生)**, aged 52, graduated from Shijiazhuang Railway Institute with a bachelor's degree in bridge engineering in June 1989 and is a professor level senior engineer. Mr. E started his career since June 1989 and served as intern, member and deputy director of the quality office, deputy director and assistant engineer of the technical division, deputy director of the second bridge workshop, deputy manager and engineer of the bridge plant of Fangshan Bridge Factory under the Control Department of the Ministry of Railway (鐵指房山橋樑廠); deputy chief engineer of the Fangshan Bridge Factory of CRCC (中鐵建房山橋樑廠) and manager of the bridge plant; assistant to manager, manager, the deputy secretary of the Communist Party committee and senior engineer of Fangshan Bridge Factory of CRCC (中鐵建房山橋樑廠); general manager of Beijing Fangqiao China Railway Co., Ltd. (北京房橋中鐵路公司); chairman, general manager and professor level senior engineer of Beijing Fangqiao China Railway Co., Ltd.; assistant to general manager of China Railway 14th Bureau Group Co., Ltd. (中鐵十四局集團公司); assistant to general manager of Kunming China Railway Group Co., Ltd. (昆明中鐵集團公司); the secretary of the Communist Party committee and executive director of Beijing Ruiweitong Company (北京瑞維通公司); chief economist of Kunming China Railway Group Co., Ltd.; executive director and the secretary of the Communist Party committee of Beijing Ruiweitong Company of the Company; chief economist and general manager of the general manufacturing factory at the Company. Since April 2018, he served as a deputy general manager and the chief economist of the Company.

16. **Zhang Baoming (張寶明)**, aged 53, graduated from the Department of Electronic Engineering of Changsha Railway Institute with a bachelor's degree in automation in July 1987 and is a senior engineer. Mr. Zhang started his career since July 1987 and served as technician and assistant engineer of Kunming Machinery Factory under the Control Department of the Ministry of Railway (鐵指昆明機械廠); inspector, engineer, deputy director and senior engineer of the large road maintenance machinery inspection and acceptance office of Kunming Machinery Factory under the Ministry of Railways (鐵道部駐昆明機械廠大型養路機械驗收室); director (deputy department director level) of the large road maintenance machinery inspection and approval office of Kunming China Railway Group Co., Ltd. under the Ministry of Railways; director (department director level) of the public works machinery vehicle inspection and approval office in Kunming under the Ministry of Railways (鐵道部昆明工務機械車驗收室); director of the public works machinery vehicle inspection and acceptance office in Kunming under the Ministry of Railways; director of the supervision and construction department of public works machinery vehicle in Kunming under the Kunming Railway Bureau; deputy chief engineer and dean of the research institute of the Company; and dean of the research and design institute of the Company. Since April 2018, he served as a deputy general manager and the chief engineer of the Company.

17. **Kang Yanjun (康彥君)**, aged 49, graduated from Nanchang Aviation and Industry Institute with a bachelor's degree in metal materials and heat treatment in July 1992 and is a senior engineer. Ms. Kang started her career since August 1992 and served as intern, alternate deputy director, deputy director and assistant engineer of the heat treatment workshop of Shaoguan Excavator Factory (韶關挖掘機製造廠); primary deputy director, office director, director of the quality assurance department, secretary of the board of directors, head of the oxygen station, deputy director of the technical quality department and engineer of Shaoguan Xinyu Construction Machinery Co., Ltd. (韶關新宇建設機械有限公司); deputy director of the technical department, deputy director of the quality control department of the heavy equipment branch company, director of the quality control department of the tunnel equipment branch company, and deputy general manager of the general equipment manufacturing factory of China Railway Track System Group (中鐵軌道系統集團); deputy general manager, the deputy secretary of the Communist Party committee and general manager of the general manufacturing factory of CRCHI; general manager, the deputy secretary of the Communist Party committee and senior engineer of the production and supply centre of CRCHI; deputy general manager of the supply chain operation centre of CRCHI; member of the Communist Party committee and deputy executive director of the general boring machine manufacturing factory of CRCHI; and deputy executive director of the business tendering department, deputy executive director of the tendering and commerce department and director of the tendering and commerce department of CRCHI. Since April 2018, she served as a deputy general manager of the Company.

18. **Tang Xiang (唐翔)**, aged 42, graduated from professional class of Hunan Radio and Television University majoring in accounting computerization in July 1997, and then graduated from Hunan University in September 2004, and obtained a bachelor's degree in business administration. He is a senior accountant who has 21 years of experience in accounting and financial management. From December 1997 to February 2007, he served as cashier, bookkeeper and general accountant at treasury management department, assistant accountant, accountant of Xiangtan Electric Manufacturing Group Co., Ltd. From February 2007 to August 2010, he served as chief of finance section, accountant, senior accountant of Xiangtan Electric Transformer Company Ltd.* (湘潭電機特變電工有限公司) under Xiangtan Electric Manufacturing Group Co., Ltd. From August 2010 to April 2014, he served as chief financial officer and senior accountant of Xiangtan Electric New Energy Co., Ltd.* (湘電新能源有限公司) under Xiangtan Electric Manufacturing Group Co., Ltd. From April 2014 to December 2014, he served as a senior accountant in finance department of CRCHI. From December 2014 to July 2017, he served as deputy director of finance department, director of finance department and senior accountant of CRCHI. Since July 2017, he served as the chief accountant of the Company.

19. **Ma Changhua (馬昌華)**, aged 45, obtained a master's degree in international economic and trade relations jointly set up by Nankai University and Flinders University, Australia in June 2014 and is an engineer who has 23 years of experience in manufacturing and repair of railway track maintenance machinery. From March 2005 to February 2011, he served as deputy head, head and engineer of information management department of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From February 2011 to July 2011, he served as office director and the head of information management department and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From July 2011 to August 2012, he served as office director and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From August 2012 to January 2014, he served as office director, assistant to the general manager and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2014 to February 2015, he served as the assistant to general manager of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. and commander and engineer at construction instruction department of the northern base. From February 2015 to June 2015, he served as secretary of the board of directors and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From June 2015 to August 2017, he served as the secretary of the Board and engineer of the Company. From August 2017 to April 2018, he served as the secretary of the Board, office director of the Board and engineer of the Company. From April 2018 to October 2018, he served as the secretary of the Board and office director of the Board, the director of the strategic investment department and engineer of the Company. Since October 2018, he served as the secretary of the Board, office director of the Board, director of the asset management department, director of the securities department and an engineer of the Company.

CORPORATE GOVERNANCE REPORT

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

I. CORPORATE GOVERNANCE PRACTICES

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

For the year ended 31 December 2018, the Company has fully complied with all the code provisions of the CG Code.

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

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

II. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the code of conduct for governing the securities transactions by the Directors and the Supervisors.

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

III. BOARD OF DIRECTORS

1. Composition of the Board

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

As at the date of this report, the Board consisted of nine Directors, of which Mr. Liu Feixiang, Mr. Zhao Hui and Mr. Tong Pujiang, Mr. Chen Yongxiang were appointed as the executive Directors of CRCCE upon the nomination by the Nomination Committee, and the consideration and approval at the twenty-second meeting of the first session of the Board and 2017 annual general meeting of the Company. Mr. Liu Feixiang was elected as the chairman of the second session of the Board, upon the nomination by the controlling Shareholder and the consideration and approval at the first meeting of the second session of the Board.

In addition, the two non-executive Directors were Mr. Sha Mingyuan and Mr. Wu Zhixu, respectively; three independent non-executive Directors were Mr. Sun Linfu, Mr. Yu Jiahe and Mr. Wong Hin Wing, respectively.

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

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

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

2. Meetings of the Board and Directors attendance record

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

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

Name	Title	Board meetings	General meeting
Liu Feixiang	Chairman and executive Director	6/6	1/1
Zhao Hui	Executive Director	6/6	1/1
Tong Pujiang	Executive Director	6/6	1/1
Chen Yongxiang	Executive Director	6/6	1/1
Sha Mingyu	Non-executive Director	4/4	0/1
Wu Zhixu	Non-executive Director	5/6	1/1
Sun Linfu	Independent non-executive Director	5/6	1/1
Yu Jiahe	Independent non-executive Director	6/6	1/1
Wong Hin Wing	Independent non-executive Director	6/6	1/1
Li Xuefu	Non-executive Director	2/2	0/0

Note: Mr. Li Xuefu was a non-executive Director of the first session of the Board. As Mr. Li Xuefu no longer acts as the Director of the second session of the Board upon the expiry of his term of appointment on 29 June 2018, he did not attend the subsequent four Board meetings since then and did not attend the annual general meeting of 2017 due to his work. Mr. Sha Mingyuan was appointed as the non-executive Director of the second session of the Board on 29 June 2018, therefore he did not attend the previous two Board meetings and the annual general meeting of 2017. Mr. Wu Zhixu delegated Mr. Li Xuefu to attend the twenty-second meeting of the first session of the Board on his behalf. Mr. Sun Linfu delegated Mr. Yu Jiahe to attend the twenty-second meeting of the first session of the Board on his behalf.

3. Continuous training and development schemes for Directors

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

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

During the reporting period, the Company provided the appropriate continuous training and professional development courses for the Directors and Supervisors, including engaging the Company's counsel to carry out the training about "compliance matters about Hong Kong Listed Companies", "standardized operation of the procedure for decision-making and the transfer of domestic shares", "corporate governance and functions and powers of the Board and the Supervisors Committee", etc. All Directors and Supervisors have attended the related training, and were made aware of and carefully read the relevant documents. Moreover, the Company have received the letters of confirmation for attending the continuous professional training from each Director.

4. Operation of the Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(XIV) to propose on the general meetings the appointment or change of the accounting firm that provides the Company with the audit service of annual financial statements and to determine its audit fee;

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

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

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

(XVIII) other functions and authorities as specified by laws, regulations and the listing rules of the stock exchange on which shares of the Company are listed and as granted by the general meeting and the Articles.

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

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

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

5. Specialized committees of the Board

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

a. *Strategy and investment committee*

The strategy and investment committee of the Company was established in June 2015. It currently consists of three Directors, including one executive Director and two independent non-executive Directors. Due to the change of the session of the Board, Mr. Liu Feixiang was appointed as the chairman of the strategy and investment committee upon the consideration and approval at the first meeting of the second session of the Board. The other members of the committee are Mr. Sun Linfu and Mr. Yu Jiahe. The strategy and investment committee is primarily responsible for studying and proposing suggestions on the Company's development strategy planning and significant investment decisions, which include, among other things:

- to review the Company's long-term development strategies;
- to review the major issues that affect the development of the Company;
- to review the significant capital operations, asset management projects, significant investments, financing and guarantee projects which should be approved by the Board.

In 2018, the strategy and investment committee held three meetings, to mainly consider the following issues:

Name of the strategy and investment committee's meetings	Date	Major matters considered
The first meeting of the strategy and investment committee of the first session of the Board in 2018	27 February 2018	(I) To consider the Resolution on Production and Operating Plan of 2018 of the Company; (II) To consider the Resolution on Annual Investment Plans of 2018 of the Company; (III) To consider the Resolution on Rolling Plan for Three Years (2018–2020) of the Company; (IV) To consider the Resolution on 2018 Bank Credit Facilities of the Company; (V) To consider the Resolution on the Performance Report of the Strategy and Investment Committee of 2017 of the Company.
The first meeting of the strategy and investment committee of the second session of the Board in 2018	8 December 2018	(I) To consider the Resolution on Adjustment of the Organisations of the Company.
The second meeting of the strategy and investment committee of the second session of the Board in 2018	28 December 2018	(I) To consider the Resolution on Proposal to Exclude Certain Assets of the Newly-Established Project of National Large Railway Track Maintenance Machinery Engineering Research Center.

Attendances of each member at the meetings are as follows:

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

b. Audit and risk management committee

The audit and risk management committee of the Company was established in June 2015. It currently consists of three independent non-executive Directors. As the change of the session of the Board, Mr. Yu Jiahe, Mr. Sun Linfu and Mr. Wong Hin Wing were appointed as the members of the audit and risk management committee upon the consideration and approval at the first meeting of the second session of the Board, of which Mr. Yu Jiahe is the chairman of the audit and risk management committee.

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

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

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

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

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

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

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

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

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

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

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

During the reporting period, the audit and risk management committee reviewed 2017 results announcement and annual report, 2018 interim results announcement and interim report, auditing planning of external auditor, and the annual auditor's report prepared by Ernst & Young for 2017 and the 2018 interim review report prepared by Deloitte.

In 2018, the audit and risk management committee held four meetings, to mainly consider the following issues:

Name of the audit and risk management committee's meetings	Date	Major matters considered
The first meeting of the audit and risk management committee of the first session of the Board in 2018	27 February 2018	(I) To consider the Proposal of the 2017 Annual Report and Results Announcement; (II) To consider the Proposal of the Company's Final Financial Report for 2017; (III) To consider the Proposal of the Company's Annual Profit Distribution Plan for 2017; (IV) To consider the Proposal of 2017 Auditing Fee Payment; (V) To consider the Proposal of 2017 Report of Internal Risk Control; (VI) To consider the Proposal of the Changes in Accounting Policies; (VII) To consider the Proposal of the Performance Report of Audit and Risk Management Committee of the Board for 2017; (VIII) To consider the Proposal of Summary for Work of 2017 Internal Audit, Risk Control and Planning of 2018 Internal Audit and Risk Control; (IX) To consider the Proposal of 2018 Implementing Plan of Measures of Material and Key Risk Management and Control;

Name of the audit and risk management committee's meetings	Date	Major matters considered
		(X) To consider the Proposal of Rectifying Plan after Identifying the 2017 Annual Internal Control Evaluation Defects.
The second meeting of the audit and risk management committee of the first session of the Board in 2018	28 April 2018	(I) To consider the Proposal of Continuing Connected Transactions;
		(II) To consider the Proposal of Appointing 2018 Audit Agencies.
The first meeting of the audit and risk management committee of the second session of the Board in 2018	31 July 2018	(I) To consider the Proposal of 2018 Interim Results Announcement and Interim Report;
		(II) To consider the Proposal of Continuing Connected Transactions;
The second meeting of the audit and risk management committee of the second session of the Board in 2018	28 December 2018	(I) To consider the Proposal of Continuing Connected Transactions.

No.	Name	Position	Attendances/ Meetings
1	Yu Jiahe	Chairman of the committee	4/4
2	Sun Linfu	Member	3/4
3	Wong Hin Wing	Member	4/4

Note: Mr. Sun Linfu delegated Mr. Yu Jiahe to attend the second meeting of the audit and risk management committee of the first session of the Board in 2018.

c. *Nomination committee*

The nomination committee of the Company was established in June 2015. It currently consists of three Directors, including one executive Director and two independent non-executive Directors. Due to the change of the session of the Board, Mr. Liu Feixiang was appointed as the chairman of the nomination committee upon the consideration and approval at the first meeting of the second session of the Board. The other members of the committee are Mr. Sun Linfu and Mr. Yu Jiahe.

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

- to examine the structure, number of members and composition (including skill, knowledge and experience of related aspects) of the Board at least once a year;
- to formulate the nomination procedures and standards for Directors and senior management, and to make suggestions on the proposed changes of the Board with the aim to facilitate the Company's strategies;
- to assess the independence of independent Directors;
- to assess and review the candidates for Directors and senior management to be potentially appointed by the Board, and make suggestions to the Board on plans for appointment, re-appointment and succession of Directors.

In 2018, the nomination committee held two meetings, to mainly consider the following issues:

Name of the nomination committee's meetings	Date	Major matters considered
The first meeting of the nomination committee of the first session of the Board in 2018	28 April 2018	(I) To consider the Proposal of Adjustment to the Certain Senior Management Members of the Company; (II) To consider the Proposal of Nomination of the Directors of the Second Session of the Board of the Company.
The first meeting of the nomination committee of the second session of the Board in 2018	28 December 2018	(I) To consider the Proposal of Appointment of the Vice General Manager of the Company.

Attendances of each member at the meetings are as follows:

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

Note: Mr. Sun Linfu delegated Mr. Yu Jiahe to attend the first meeting of the nomination committee of the first session of the Board in 2018.

d. Remuneration and evaluation committee

The remuneration and evaluation committee of the Company was established in June 2015. It currently consists of three Directors, including one executive Director and two independent non-executive Directors. As the change of the session of the Board, Mr. Yu Jiahe was appointed as the chairman of the remuneration and evaluation committee upon the consideration and approval at the first meeting of the second session of the Board. The other members of the committee are Mr. Liu Feixiang and Mr. Sun Linfu.

The remuneration and evaluation committee of the Company is primarily responsible for formulating and reviewing the remuneration policies and schemes for the Company's Directors and senior management, which include, among other things:

- to make recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management;
- to study the performance assessment management measures for the Company's Directors and senior management, to formulate assessment standards, and to determine the assessment objectives;
- to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment, to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct;
- to develop formal, fair, reasonable and transparent remuneration system, and to supervise the effective implementation of the Company's remuneration system, to consider the Company's share incentive plan(s) and provide recommendations thereon.

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

In 2018, the remuneration and evaluation committee held one meeting, to mainly consider the following issues:

Name of the remuneration and evaluation committee's meeting	Date	Major matters considered
The first meeting of the remuneration and evaluation committee of the first session of the Board in 2018	27 February 2018	(I) To consider the Proposal of the Remuneration for the Directors and Supervisors of the Company in 2017; (II) To consider the Proposal of the Remuneration for the Senior Management of the Company in 2017; (III) To consider the Proposal of the Performance Report of Remuneration And Evaluation Committee of the Board of Directors of the Company for 2017.

Attendances of each member at the meeting are as follows:

No.	Name	Position	Attendances/ Meeting
1	Yu Jiahe	Chairman of the committee	1/1
2	Liu Feixiang	Member	1/1
3	Sun Linfu	Member	1/1

e. ***Corporate governance functions***

The Board is responsible for the following corporate governance functions:

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

II. to review and monitor the training and continuous professional development of the Directors and senior management members;

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

IV. to formulate, review and monitor any code of conduct and compliance manual (if any) applicable to employees and Directors; and

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

IV. CHAIRMAN AND GENERAL MANAGER

The offices of the chairman and the general manager of the Company are held by different persons. Mr. Liu Feixiang is the chairman and Mr. Tong Pujiang is the general manager of the Company. The division of responsibilities between them has been clearly established and set out in writing. The chairman is responsible for leadership of the Board and chairing Board meetings, while the general manager is responsible for the Company's daily operations.

According to the Articles, the chairman is primarily responsible for the following functions and powers:

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

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

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

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

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

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

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

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

(9) other functions and powers granted by the Board.

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

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

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

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

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

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

(6) to propose to the Board of Directors the appointment or dismissal of any vice general manager, chief accountant, chief engineer and chief economist of the Company;

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

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

(9) other functions and powers granted by the Board.

V. INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

VI. BOARD DIVERSITY POLICY

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

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

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

VII. NOMINATION OF DIRECTORS

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

VIII. REMUNERATION OF SENIOR MANAGEMENT

According to Provision B.1.5 of the CG Code, the range of annual remuneration in 2018 of the members of the senior management whose particulars are contained in the section headed "Directors, Supervisors and Senior Management" in this report is set out below:

For the year ended 31 December 2018

Remuneration band (RMB)	Number of individuals
RMB0.5 million or above	4
RMB0.2 million (including) to RMB0.5 million	5
Less than RMB0.2 million	1
Total	10

Note: As Ms. Kang Yanjun (vice general manager) joined the Company in April 2018, Ms Kang is entitled to her remuneration from April 2018; As the position of Mr. Zhang Zhong (vice general manager) changed in April 2018, Mr. Zhang was only entitled to the remuneration from January to April; Mr. Mo Bin (vice general manager) was appointed in December 2018.

IX. REMUNERATION OF THE AUDITOR

Deloitte Touche Tohmatsu is the overseas auditor of the Company in 2018, and Deloitte Touche Tohmatsu Certified Public Accountants LLP is the domestic auditor of the Company in 2018. For the year ended 31 December 2018, the services provided and the remuneration received by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP are as follows:

2018 financial statement audit	RMB0.94 million
2018 interim review	RMB0.24 million
Total	RMB1.18 million

X. DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors confirm that they are responsible for the preparation of financial statements for the financial year ended 31 December 2018, and to give a true and fair report of the Company's financial position and financial performance.

XI. JOINT COMPANY SECRETARIES

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

Mr. Law Chun Biu, aged 45, serves as one of the joint company secretaries of the Company. He joined the Company and was appointed as a joint company secretary in November 2015. From March 2000 to December 2002, Mr. Law worked for Harbor Ring Management Limited as an assistant accounting manager. From March 2003 to October 2006, he was a senior accountant of Tonic Electronics Ltd. From October 2006 to April 2007, he was a finance manager of Fuji Kon Industrial Co. Ltd. Since December 2007, he has been a joint company secretary of CRCC. Mr. Law is a member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Law obtained a bachelor's degree from Hong Kong University of Science and Technology in 1997, majoring in business administration. He obtained a master's degree from Hong Kong Polytechnic University in 2006, majoring in information systems.

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

XII. CONSTITUTIONAL DOCUMENTS

The Company's first extraordinary general meeting of 2015 was convened on 24 June 2015 to consider and approve the resolution on Adoption of the Articles after Issuance and Listing of H Shares of CRCC High-Tech Equipment Corporation Limited, and to approve the applicable Articles (Draft) after issuance and listing of H Shares. Those Articles came into force since the listing date of H Shares on the Main Board of the Stock Exchange. The Company was approved to make amendments to the Articles upon the consideration and approval at the 2017 annual general meeting on 29 June 2018 in accordance with relevant requirements and regulations of the State-owned Assets Supervision and Administration Commission of the State Council, China Securities Regulatory Commission and relevant national regulatory authorities. On 28 December 2018, the Company, as an enterprise controlled by the Central Government, made certain amendments to the Articles under relevant requirements and regulations upon the consideration and approval of the Board, which is subject to the submission to the general meeting for consideration and approval.

XIII. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

The Board arranged an assessment to the risk management and internal control system of the Company and considered that the risk management and internal control system of the Company was effectively operated and sufficient in 2018. The system could maintain and improve the internal control activities of the Company and ensure that the Company was able to resist changes in internal business and external environment in terms of finance, operation and risk management, to safeguard the safety of the asset of the Company and the interest of the Shareholders.

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

XIV. SHAREHOLDERS' RIGHTS

1. Convening extraordinary general meetings

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

2. Putting enquiries to the Board

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

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

3. Putting proposals at general meetings

Any Shareholder solely holding, or Shareholders aggregately holding, more than 3% of shares of the Company may put forward an interim proposal and submit the same in writing to the convener 10 days prior to the convening of the general meeting. Besides, Shareholder(s) should follow the procedures of "Convening the extraordinary general meetings" for putting forward proposals at general meetings. The Company shall include the matters in the proposals which are within the scope of the terms of reference of the general meetings in the agenda of the meeting.

XV. INVESTOR RELATIONSHIP

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

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

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

XVI. DIVIDEND POLICY

In principle, dividend payout ratio of the Company is approximately between 20% and 40% of the annual profits after tax of which the lower amounts determined in accordance with IFRS shall be adopted. Specifically, the annual amount of share dividends of the Company to be declared and paid shall depend on the following factors, including our general business conditions, our results of operations, our financial results/conditions, our working operating capital, our capital requirements, our future prospects, our cash flows and any other factors which our Board deems relevant. Our historical dividends may not be indicative of future dividend payments. The declaration and payment of dividends may also be limited by legal restrictions or financing arrangements that we may enter into in the future.

The net profits attributable to the shareholders of the parent company as stated in the audited consolidated financial statements of the Company for 2018 under IFRS.

DIRECTORS' REPORT

The Board is pleased to present the Directors' Report and the audited financial statements of the Company for the year ended 31 December 2018.

THE COMPANY'S BUSINESS ACTIVITIES

The Company is mainly engaged in the research, development, manufacture and sale of large railway track maintenance machines, parts and components sales and services, overhaul services, railway line maintenance services as well as engineering and technical services within the field of track vehicle.

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

MAJOR RISKS AND UNCERTAINTIES

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

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

Regulatory risks

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

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

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

- Measures for License for Design, Manufacture, Maintenance and Import of Railway Locomotives and Vehicles promulgated by the Ministry of Transport on 24 December 2013 and enforced on 1 January 2014;

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

- Measures for Railway Engineering Machinery Parts Management (《鐵路工務機械車配件管理辦法》) promulgated by China Railway Corporation on 31 August 2017 and implemented on 1 March 2018.

In 2018, the Company also paid close attention to the legislative developments of the industry while operating in compliance with the regulatory requirements under the abovementioned laws, regulations and departmental rules.

Policy risks

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

Market risks

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

Most of the Company's revenue comes from major customers. Therefore, the loss of one or more major customers or customer groups or changes in their orders or the terms of the contracts may have a material adverse impact on the Company's business. The market uncertainties caused by the reform of China Railway Corporation, being a major customer of the Company, may have a material impact on the business of the Company.

The largest supplier of the Company is Zhuzhou Times Electronics Technology Co., Ltd., the purchase from whom is attributable to approximately 16.31% of the Company's total purchase for this year, and the purchase attributable to our five largest suppliers amounted to approximately 42.22% of our total purchase for this year. Significant changes in the relationship between the Company and our major suppliers may have a material adverse impact on our business.

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

Operating risks

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

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

ENVIRONMENTAL POLICY

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

BUSINESS MODEL AND DIRECTION OF STRATEGY

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

Development of the industrial park regarding national large railway track maintenance machinery high-tech industry and the southwest industrial park regarding CRCC's underground engineering facilities will enable the Company to achieve its target of becoming a "world class, domestic leading" enterprise, proactively create a modern and service-oriented business model, adhere to professionalism, digitalisation and globalisation along the path. The Company will also attempt to cultivate and strengthen its capabilities in nine aspects, including developing and strengthening its capabilities of market exploitation and prompt reaction, providing comprehensive and throughout service, pioneering innovation, efficient resource allocation, integration and management, enterprise management and innovation, leading, promoting and regulating of "mechanism +", transforming and upgrading "digitalisation +", dynamic realising of "the Party building +", and improving "executive force +" and "training force +". Based on these capabilities, we will focus on product innovation, diligently enhance overall competitiveness, and effectively transform reform results into economic benefit.

RESULTS AND DIVIDENDS

For results of the Company for the year ended 31 December 2018 prepared in accordance with the IFRSs, please refer to the audited financial statements of this report. The annual results for the year ended 31 December 2018 of the Company have been reviewed by the audit and risk management committee of the Company.

As at 31 December 2018, the Group's retained profits (before distribution of the final dividend) amounted to RMB496 million in total, and the Board proposed the distribution of dividend of RMB0.05 per Share (including applicable taxes) for the year in cash. The distribution of the proposed dividends is subject to the Shareholders' approval at the 2018 annual general meeting to be held in 2019. After being considered and approved, the final dividend for the year ended 31 December 2018 is expected to be paid on or around 21 August 2019. Further details in relation to the closure of register of member for H Shares will be announced by the Company after the arrangement of such general meeting.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 17 to the financial statements.

SHORT-TERM BORROWINGS

The Group had no short-term borrowings as at 31 December 2018.

LONG-TERM BORROWINGS

The Group had no long-term borrowings as at 31 December 2018.

SHARE CAPITAL

As at 31 December 2018, the share capital of the Company was 1,519,884,000 shares, of which 531,900,000 shares are H Shares.

USE OF PROCEEDS OF THE COMPANY

After deducting the underwriting commissions and expenses in connection with the global offering, the net proceeds of the global offering were approximately RMB2.27 billion. According to the Proposal to Change the Usage of Part of the Proceeds, which was considered and approved at the 13th meeting of the first session of the Board, we planned to apply the net proceeds from the global offering for the following purposes:

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

- development of regional business network platform: approximately 10% of the net proceeds from the global offering would be used for upgrading our business network by developing our sales offices into 4S stores that integrate functions of sales, service, spare parts and survey, so as to provide comprehensive customer services and systemic solutions to our large railway track maintenance machine customers;

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

- working capital: no more than approximately 30% of the net proceeds from the global offering would be used to supplement working capital.

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

The following table sets forth the actual use of proceeds of the Company as at 31 December 2018:

Planned use	**Budgeted usage amount** RMB billion	**Actual usage amount** RMB billion
Construction of our "International Technology Cooperation Center" Project	0.91	0.54
Development of regional business network platform	0.23	0.04
General domestic and overseas mergers and acquisitions	0.45	0.12
Working capital	0.68	0.68
Total	2.27	1.38

As at 31 December 2018, the balance of the proceeds from H Shares issuance of the Company was approximately RMB890 million (including interest income). The Company will use the balance of the proceeds at the appropriate time according to future development plans and actual needs.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

SHAREHOLDERS' EQUITY

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

RETAINED PROFITS

As at 31 December 2018, the Group's retained profits calculated in accordance with relevant regulations amounted to approximately RMB496 million, of which RMB76 million has been proposed to be paid as final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

Our major customers include China Railway Corporation ("**CRC**") and its affiliated enterprises, local railway operators and railway construction companies. During the year, the revenue from the sales of goods and provision of services in aggregate attributable to CRC and its affiliated enterprises was approximately 57.57% of the Group's total operating revenue while the revenue from the sales of goods and provision of services in aggregate attributable to our five largest customers was approximately 61.55% of the Group's total revenue. One of our five largest customers was a related party of the Company and other four largest customers were independent third parties.

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

The largest supplier of the Company is Zhuzhou Times Electronics Technology Co., Ltd., the purchase from whom is attributable to approximately 16.31% of the Company's total purchase, and the purchase attributable to our five largest suppliers amounted to approximately 42.22% of our cost for the year. Significant changes in the relationship between the Company and our major suppliers may have a material adverse impact on our business.

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

DIRECTORS AND SUPERVISORS

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

Executive Directors

Liu Feixiang	–	*Chairman of the Board* (Re-elected as an executive Director of the second session of the Board on 29 June 2018)
Zhao Hui	–	*Secretary of the Communist Party committee* (Re-elected as an executive Director of the second session of the Board on 29 June 2018)
Tong Pujiang	–	*General manager* (Re-elected as an executive Director of the second session of the Board on 29 June 2018)
Chen Yongxiang	–	*Vice general manager* (Re-elected as an executive Director of the second session of the Board on 29 June 2018)

Non-executive Directors

Sha Mingyuan	–	(Elected as a non-executive Director of the second session of the Board on 29 June 2018)
Wu Zhixu	–	(Re-elected as a non-executive Director of the second session of the Board on 29 June 2018)
Li Xuefu	–	(Expired of the term as a non-executive Director of the first session of the Board on 29 June 2018)

Independent non-executive Directors

Sun Linfu	–	(Re-elected as an independent non-executive Director of the second session of the Board on 29 June 2018)
Yu Jiahe	–	(Re-elected as an independent non-executive Director of the second session of the Board on 29 June 2018)
Wong Hin Wing	–	(Re-elected as an independent non-executive Director of the second session of the Board on 29 June 2018)

Supervisors

Yu Qiuhua	–	*Chairman of the Supervisory Committee, employee supervisor* (Elected as a supervisor of the second session of the Supervisory Committee on 24 May 2018)
Wang Shuchuan	–	*Representative supervisor of Shareholders* (Re-elected as a supervisor of the second session of the Supervisory Committee on 29 June 2018)
Wang Huaming	–	*Representative supervisor of Shareholders* (Re-elected as a supervisor of the second session of the Supervisory Committee on 29 June 2018)

COMPOSITION OF THE SUPERVISORY COMMITTEE

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

As at the date of this report, the Supervisory Committee comprised three supervisors. Upon the nomination by the controlling Shareholders, and the consideration and approval at the tenth meeting of the first session of the Supervisory Committee and the 2017 annual general meeting of the Company, Mr. Wang Huaming and Mr. Wang Shuchuan were appointed as the representative supervisor of Shareholders. Upon the nomination by the controlling Shareholders, and the consideration and approval at the first meeting of the second session of the Supervisory Committee, Mr. Yu Qiuhua was appointed as the chairman of the Supervisory Committee (Representative supervisor of Employees).

BIOGRAPHIES OF DIRECTORS AND SUPERVISORS

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

POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

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

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year and as at 31 December 2018, none of the Directors nor supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries was a party.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and as at 31 December 2018, none of the Directors, directly or indirectly, had an interest in any business which competes or may compete with the business of the Company and/or its subsidiaries.

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

During the year and as at 31 December 2018, none of the Directors, supervisors and the general manager or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or any interests or short positions required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or any personal, family, corporate or other interests or short positions required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PERMITTED INDEMNITY PROVISIONS

During the reporting period and as at 31 December 2018, the Company has purchased liabilities insurance for the Directors and Supervisors, which provides appropriate insurance for the Directors and Supervisors.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

EMPLOYEES AND REMUNERATION POLICY

The Company's remuneration policy for its employees takes into account the individuals' post value, work performance and competence. The Company places great emphasis on the provision of on-the-job-training and development of its employees. Each staff member is required to participate in training organised by the Company and its department prior to the commencement of his or her employment. The Company formulates training plans according to its staff position and career development needs and releases its annual training plan at the beginning of year pursuant to which all departments need to organise staff training. The management and other employees are required to undertake training for enhancing work ability as specified by the Company. The Company has established channels for career development of employees. Employees have opportunities of promotion and development according to the orders of different positions within the Company. As at 31 December 2018, the Company had 1,907 full-time employees, and the total amount of remuneration (including salaries and allowances) for employees in 2018 was approximately RMB415 million.

The remuneration of Directors and supervisors is proposed by the Board and subject to approval by the Company at the general meeting, taking into consideration their respective experience, level of responsibilities within the Company, performance of the Company as well as remuneration benchmark in the industry and the market situation. Details of the remunerations of Directors and supervisors are set out in note 11 to the financial statements.

MANAGEMENT CONTRACT

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

STRUCTURE OF SHARE CAPITAL

The Company's share capital structure as at 31 December 2018 was as follows:

		As at 31 December 2018	
Shareholder	**Type**	**Number of shares**	**% of issued share capital**
China Railway Construction Corporation Limited	Domestic share	968,224,320	63.70%
China Railway Construction Investment Group Co., Ltd.	Domestic share	4,939,920	0.325%
China Railway Construction International Group Co., Ltd.	Domestic share	4,939,920	0.325%
China Civil Engineering Construction Corporation	Domestic share	4,939,920	0.325%
CRCC China-Africa Construction Limited	Domestic share	4,939,920	0.325%
Shares in public hands	H Share	531,900,000	35.00%
Total		1,519,884,000	100%

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

To the knowledge of the Directors, as of 31 December 2018, except for the Directors, Supervisors or chief executives of the Company, the interests and short positions of any person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO are set out as follows:

Unit: share

Name of substantial Shareholder	Number of shares held [Note 1]	Capacity	Approximate percentage of domestic share capital	Approximate percentage of H Share capital	Approximate percentage of issued share capital
China Railway Construction Corporation Limited [Note 2]	968,224,320(L)	Beneficial owner	98.00%	–	63.70%
	19,759,680(L)	Interest of controlled corporation	2.00%	–	1.30%
China Railway Construction Group Corporation* (中國鐵道建築集團有限公司) [Note 3]	987,984,000(L)	Interest of controlled corporation	100.00%	–	65.00%
Citigroup Inc.[Note 4]	47,761,503(L)	Interest of controlled corporation	–	8.97(L)	3.14%
	47,761,503(P)	Custodian – corporation/ Approved lending agent	–	8.97(P)	3.14%
CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited [Note 5]	44,285,500(L)	Beneficial owner	–	8.33(L)	2.91%
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. [Note 5]	44,285,500(L)	Interest of controlled corporation	–	8.33(L)	2.91%
CRRC Corporation Limited [Note 5]	44,285,500(L)	Interest of controlled corporation	–	8.33(L)	2.91%

Name of substantial Shareholder	Number of shares held Note 1	Capacity	Approximate percentage of domestic share capital	Approximate percentage of H Share capital	Approximate percentage of issued share capital
CRRC Group Co., Ltd. Note 5	44,285,500(L)	Interest of controlled corporation	–	8.33(L)	2.91%
GIC Private Limited	42,367,000(L)	Investment manager	–	7.97(L)	2.79%

Note 1: L – Long Position, P – Lending Pool.

Note 2: As at 31 December 2018, China Railway Construction Corporation Limited ("**CRCC**") (including its wholly-owned subsidiaries, namely China Railway Construction Investment Group Co., Ltd., China Railway Construction International Group Co., Ltd., China Civil Engineering Construction Corporation and CRCC China-Africa Construction Limited) directly or indirectly held a long position of 987,984,000 domestic shares of the Company.

Note 3: As at 31 December 2018, China Railway Construction Group Corporation* (中國鐵道建築集團有限公司) directly held approximately 55.73% shares of CRCC, while CRCC directly or indirectly held 987,984,000 domestic shares of the Company. Therefore, China Railway Construction Group Corporation* (中國鐵道建築集團有限公司) was deemed to be interested in these shares.

Note 4: As at 31 December 2018, Citigroup Inc. held a long position of 47,761,503 H Shares and a lending pool of 47,761,503 H Shares of the Company through its controlled corporations.

Note 5: As at 31 December 2018, CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Ltd. was a subsidiary of CSR Zhuzhou Institute Co., Ltd., which in turn was a subsidiary of CRRC Corporation Limited, which in turn was a subsidiary of CRRC Group Co., Ltd.. CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Ltd. held 44,285,500 H Shares in aggregate of the Company. Thus, CSR Zhuzhou Institute Co., Ltd., CRRC Corporation Limited and CRRC Group Co., Ltd. were deemed to be interested in these shares.

Note 6: The remaining disclosures in this table are based on information provided by the disclosure of interests system of the website of the Stock Exchange (www.hkexnews.hk), except for the "Approximate percentage of issued share capital".

CONTINUING CONNECTED TRANSACTIONS

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

Non-exempt continuing connected transactions

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

The Machinery Equipment and Accessories Sales Framework Agreement with CRCC

The Company entered into the Machinery Equipment and Accessories Sales Framework Agreement with CRCC on 5 May 2017, pursuant to which, the Company agreed to provide the following to CRCC and/or its associates:

(i) to sell various kinds of large railway track maintenance machines;

(ii) to sell machinery, equipment and materials;

(iii) to provide other related or ancillary products and services.

The term of the agreement was commencing upon the conclusion of the 2016 annual general meeting and ending on 31 December 2019, subject to early termination by either party giving at least three months' prior written notice to the other party. For details, please refer to the Company's shareholder's circular dated 31 May 2017.

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

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

where there are no market prices for the relevant products which are applicable to new types of large railway track maintenance machines to be tailor-made for the specifications required by the CRCC Group for its specific business needs, then the price shall be determined according to the price to be agreed between the parties: the agreed price will be calculated based on the actual costs, which include raw materials, accessories, depreciation, salary, energy, technology consumption and equipment maintenance, incurred in providing such products plus reasonable profits; the Group will charge a mark-up rate, taking into consideration of the specific types of products, for the transactions on a cost-plus basis. Such mark-up rate charged to the CRCC Group is not lower than 15% for all cases, which is the same mark-up rate charged to an independent third party customer. The Board is of the view that such mark-up rate is fair and reasonable, on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

As of 31 December 2018, CRCC directly and indirectly held approximately 65% issued share capital of the Company and is a controlling Shareholder of the Company, and therefore CRCC and its associates are connected persons of the Company. Transactions under the Machinery Equipment and Accessories Sales Framework Agreement constitute continuing connected transactions of the Company.

The Company convened its 2016 annual general meeting on 22 June 2017, on which it considered and approved the resolution on the revision to the annual caps for the continuing connected transactions under the Machinery Equipment and Accessories Sales Framework Agreement, to RMB1,100 million, RMB1,100 million and RMB1,100 million for the years of 2017, 2018 and 2019, respectively.

For the year ended 31 December 2018, the amount of products and services provided by the Group to CRCC and/or its associates under the Machinery Equipment and Accessories Sales Framework Agreement was RMB560.27 million, not exceeding the annual cap of RMB1,100 million for the year of 2018 approved by the general meeting.

Financial Services Framework Agreement with CRCC Finance Company Limited

On 30 March 2016, the Company renewed the financial services framework agreement (the "**Financial Services Framework Agreement**") with CRCC Finance Company Limited (a subsidiary of CRCC) to provide deposit services to the Group for the term ending on 31 December 2018. For details, please refer to the Company's shareholder's circular dated 25 May 2016.

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

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

The Group and CRCC Finance Company Limited will enter into specific agreement to set out specific terms with respect to the financial services contemplated under the Financial Services Framework Agreement in accordance with the aforementioned principle terms thereunder.

For the year ended 31 December 2018, CRCC Finance Company Limited is a connected person of the Company by virtue of being a subsidiary of CRCC. Therefore, the transactions contemplated under the Financial Services Framework Agreement constituted continuing connected transactions of our Company.

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

The Company convened the twenty-second meeting of the first session of the Board on 28 April 2018, on which it considered and approved the resolutions on the continuing connected transactions, and agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and on the proposed maximum daily balance of deposits (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the three years of 2019, 2020 and 2021 both being RMB450 million. The aforesaid resolutions were not approved after consideration on 2017 annual general meeting held by the Company on 29 June 2018.

The Company convened the fourth meeting of the second session of the Board on 28 December 2018, on which it considered and approved the resolution on the continuing connected transactions, and agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and on the proposed maximum daily balance of deposit (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the year of 2019 being RMB100 million.

During the year ended 31 December 2018, the maximum daily balance of deposits (including accrued interest) placed by the Group with CRCC Finance Company Limited under the Financial Services Framework Agreement was RMB926.30 million, not exceeding the cap of RMB1,200 million approved by the general meeting.

Product Sales and Paid Services Framework Agreement with CRCC

The Company entered into the Product Sales and Paid Services Framework Agreement dated 31 July 2018 with CRCC, pursuant to which, CRCC and/or its associates shall provide products and services to the Company and/or its subsidiaries, including:

(i) materials required by the Company and/or its subsidiaries in their productions and sales;

(ii) construction services;

(iii) property leasing services;

(iv) railway line usage services;

(v) maintenance services;

(vi) other paid services.

The term of the agreement commenced on 1 January 2018 and will end on 31 December 2020, subject to early termination by either party giving at least three months' prior written notice to the other party. For details of this agreement, please refer to the announcement of continuing connected transactions dated 31 July 2018 of the Company.

The principal pricing policy of the Product Sales and Paid Services Framework Agreement was as follows:

(i) Where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which are the prices charged by CRCC and/or its associates for providing the same type of products and services to an independent third party customer on normal commercial terms. In determining the prevailing market prices for the relevant products and services, the Company will make reference to the quotations offered by at least two independent third party suppliers for providing the same or similar products or services. The Company will also take into account the following factors to ensure that the prices offered by CRCC and/or its associates will be no less favourable than those available to the Company from the independent third party suppliers for purchasing the same type of products or services, including the costs of the relevant products or services, quality requirements, market conditions, and time arrangement.

(ii) Where there are no market prices for the relevant products and services that are aimed at meeting the Company's specific business requirements, the prices shall be determined according to the agreed prices between the parties. The agreed prices will be calculated based on the actual costs incurred in providing such products and services, which include the costs of raw materials, accessories, depreciation, salary, energy, required technology and equipment maintenance, plus reasonable profits. CRCC and/or its associates will charge a mark-up rate, taking into consideration of the specific types of products and services, for the transactions on a cost-plus basis. Such mark-up rate charged to the Company is generally not higher than 15% for all transactions under the Product Sales and Paid Services Framework Agreement, which is the same mark-up rate charged to an independent third party customer.

As at 31 December 2018, CRCC is a controlling Shareholder of the Company, which directly and indirectly holds approximately 65% of the issued share capital of the Company, and thus CRCC and its associates are the connected persons of the Company. Therefore, the transactions under the Product Sales and Paid Services Framework Agreement constitute continuing connected transactions of the Company.

The Company convened the second meeting of the second session of the Board on 31 July 2018, on which it considered and approved the resolution on the continuing connected transactions, and agreed to determine the annual caps for the continuing connected transactions under the Product Sales and Paid Services Framework Agreement, as RMB80 million, RMB80 million and RMB80 million for the years of 2018, 2019 and 2020, respectively. The Board is of the view that the terms of the transactions involved under the Product Sales and Paid Services Framework Agreement are conducted in the ordinary course of business of the Company on normal commercial terms, which are fair and reasonable and in the interest of the Company and the Shareholders as a whole, and the proposed annual caps are fair and reasonable.

As at 31 December 2018, the amount paid by CRCC and/or its associates in respect of products and services the Company under the Product Sales and Paid Services Framework Agreement was RMB1.3 million, not exceeding the annual cap of RMB80 million for the year of 2018 approved by the Board.

ANNUAL REVIEW FOR CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Company during the reporting period are set out in note 38 to the financial statements.

The Company has complied with the applicable requirements under the Listing Rules for those related party transactions which constituted non-exempt connected transactions/continuing connected transactions. Other related party transactions neither constituted connected transactions/continuing connected transactions under the Listing Rules nor constituted connected transactions/continuing connected transactions under the Listing Rules but were exempted from all disclosure and independent Shareholders' approval requirements under the Listing Rules.

NON-COMPETITION AGREEMENT

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

During the year ended 31 December 2018, the Company's independent non-executive Directors reviewed compliance with the Non-Competition Agreement as well as relevant information provided by CRCC and CRCCG. In the opinions of independent non-executive Directors, CRCC and CRCCG complied with the relevant provisions under the Non-Competition Agreement in 2018; their respective operations were independent of the Group's business, without any mutual competition conduct with the Group. The Board was able to independently operate and manage the Company's business well on the premise of the overall interests of the Company and its Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE BALANCE SHEET DATE

As disclosed in note 12 to the financial statements, the Board proposed, on 28 February 2019, a final dividend of RMB0.05 (inclusive of tax) per share in respect of the year ended 31 December 2018. The proposed final dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting.

TAXATION

According to regulations of the Circular on Relevant Issues of Withholding Corporate Income Tax of Chinese Resident Enterprises which Distribute Dividends to Overseas H Share Non-Resident Enterprise Shareholders (Guo Shui Han No. (2008) 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) promulgated by the State Administration of Taxation, while distributing the dividends of 2008 and subsequent years to overseas H share non-resident enterprise shareholders, Chinese resident enterprises shall uniformly withhold corporate income tax at the rate of 10%. Accordingly, the Company shall withhold corporate income tax at the rate of 10% before distributing final dividend to non-resident enterprise shareholders listed on register of members of H Share of the Company. Shares registered in the name of non-individual registered shareholders (including HKSCC Nominees Limited, other nominees, trustees or other organisations and institutions) will be treated as being held by non-resident enterprise shareholders, and the dividends receivable shall therefore withhold corporate income tax.

Pursuant to the requirements of Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Cai Shui Zi No. [1994] 020) (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)), foreign individuals are exempted from individual income tax on dividends and bonus received from foreign-invested enterprises in the PRC. As the Company is a foreign-invested joint stock limited company, thus the individual shareholders who hold the H Shares of the Company and whose names appear in the register of members of the H Shares of the Company are not required to pay the individual income tax of the PRC.

On 28 February 2019, the Board proposed to pay a final dividend of RMB0.05 per share (inclusive of tax), totaling RMB76 million, for the year ended 31 December 2018.

The proposed dividend would be distributed until obtaining approval from the Shareholders at the 2018 annual general meeting to be convened in 2019.

AUDITOR

Financial statements for the year were audited by Deloitte Touche Tohmatsu. The Resolution in Relation to the Payment of Audit Fees for 2017 and the Appointment of the Auditor of the Company for 2018 was considered and approved at the 2017 annual general meeting convened on 29 June 2018, which decided to appoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the auditors for 2018 in accordance with International Financial Reporting Standards and China Accounting Standards for Business Enterprises.

By order of the Board of Directors
Liu Feixiang
Chairman

Kunming, Yunnan, the PRC
28 February 2019

SUPERVISORY COMMITTEE'S REPORT

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

I. MEETINGS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the year, the Company held four Supervisory Committee meetings, which considered and approved the announcement of annual results for 2017, announcement of interim results for 2018 and the resolutions on nomination of shareholder representative supervisor and election of chairman of the Supervisory Committee. The notices, convening, holding and passing of resolutions of the meetings were in compliance with the requirements of the relevant laws and regulations and the Articles.

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

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE

1. The Company carried on its operations lawfully

In 2018, in accordance with relevant laws and regulations of the PRC, the Supervisory Committee reviewed the procedures adopted in the convening, passing of resolutions, decision-making procedures, results of voting of the Company's general meetings and the Board meetings, implementation of resolutions of general meetings by the Board, the performance of duties of senior management and the management system of the Company. The Supervisory Committee is of the opinion that the Directors and senior management of the Company diligently performed their responsibilities and were in compliance with the PRC laws and regulations. During the reporting period, no breaches of laws or regulations which were materially prejudicial to the interests of the Company and its Shareholders were discovered.

2. Financial reports give a true and accurate view

The Supervisory Committee seriously and thoroughly reviewed the Group's financial system and financial position, and considers that the Group's 2018 financial report is true and accurate and presents the financial position and operation performance fairly, and that the audit opinion issued by Deloitte Touche Tohmatsu is also true and fair.

3. **Connected transactions**

The Supervisory Committee considers that the connected transactions between the Group and CRCC during the year were entered into in the ordinary and usual course of our business. The transactions were on the principles of openness, fairness and justness and were entered into in the interests of the Group and the shareholders as a whole. After its review, the Supervisory Committee considers that the Group's procedures of connected transactions in 2018 were in compliance with the relevant laws and regulations of the PRC and is not aware of any impairment to the Company and its Shareholders' interests by means of connected transactions.

4. **The implementation of Non-Competition Agreement**

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

5. **The implementation of resolutions of the general meeting**

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

Yu Qiuhua
Chairman of the Supervisory Committee

Kunming, Yunnan, the PRC
28 February 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this Environmental, Social and Governance (ESG) Report, which demonstrates the updates on sustainable development of the Company and its subsidiaries from 1 January 2018 to 31 December 2018 (the "**Reporting Period**"). This section has been prepared based on the ESG Reporting Guide issued by the Hong Kong Stock Exchange, with a purpose of reporting on employment and labour practice, operating practice, community and environment and so on.

During the Reporting Period, the Company has fully complied with all the "comply or explain" provisions of the ESG Reporting Guide.

PART I CORPORATE SOCIAL RESPONSIBILITY GOVERNANCE

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

The Company has set up a comprehensive management system, including three levels of management system, namely GB/T 19001-2016 idt ISO 9001: 2015 quality management system, ISO 14001: 2015 environmental management system and GB/T 28001-2011 occupational health and safety management system. Through the comprehensive management system and providing trainings to employees, the various internal business units within the Company are guided to integrate corporate social responsibility into their operations and activities.

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

PART II EMPLOYMENT AND LABOUR PRACTICE

I. Our Staff

1. Current conditions of staff

We believe that talent is an integrated part for our future development. The Company constantly strengthens the optimisation and management of human resources and strives to create a scientific and reasonable talent team with high quality, high academic qualifications and young age, as well as a staff team with initiative and creativity.

As at 31 December 2018, the Company had a total of 1,907 employees, representing a decrease of 3.05% as compared to the year of 2017.

Indicator	Number of employees in 2018
By gender	
Male	1,540
Female	367
By employment type	
Middle and senior management	105
Production and relevant staff	1,166
Technical staff	636
By age group	
Below 30 years old	460
30 years to 50 years old	1,288
Above 50 years old	159
By education level	
Doctor	2
Master	137
Bachelor	640
Junior college and below	1,128
By geographic area	
The PRC	1,907

2. Staff recruitment

The Company maintains a sound staff recruitment system and complies with the requirements under the Labour Law, the Labour Contract Law, the Law on the Protection of Minors, the Law on the Protection of Rights and Interests of Women and other relevant laws and regulations strictly. The Company respects its staff's differences. Discrimination against language, wealth, social origin, social status, age, gender, race, disability, pregnancy, religion, political ideology, members of the community or marital status is forbidden. The Company neither employs child labour nor uses forced labour. The Company safeguards the employment opportunities for all candidates from various sectors and ensures all employees are respected.

With its main business as guidelines, the Company absorbs talent based on principles of openness, transparency, fairness and merit. The Company recruits new employees through comprehensive assessment in respect of individual performance, education level, working experience, ethics and overall quality.

During the Reporting Period, the Company absorbed talent in following ways:

Internal recruitment:	select suitable employees from the human resources reserve of the Company through internal promotion, job designation, job rotation, orientation training, etc., to engage in vacant or urgently needed jobs.
External recruitment:	absorb high-caliber management talent, professional and technical talent and craftsmen required for the business through recruitment from campus and society, mass media, recruitment by headhunters, introduction of high-caliber talents, etc.

3. Remuneration and benefits

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

The Company guarantees that all employees are entitled to the holidays and festivals and weekends as required by the state and paid leave such as annual leave, family leave, leave for marriage or funeral and family planning leave, and other leave agreed in labour contracts and collective contracts. The Company organises health examination for all employees every year, with an examination coverage rate of 100%. According to the requirements of local government, the Company also provides a well-established benefit package for its employees every year, including pension insurance, work-injury insurance, maternity insurance, medical insurance, unemployment insurance, housing provident fund and other social insurance and legal welfare, with a coverage rate of 100% of each insurance. The Company also provides staff with various voluntary corporate welfare, including corporate annuities, supplemental medical insurance, subsidised canteen, labour protective equipment, and transportation and communication subsidies.

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

II. Employee Occupational Health and Safety

1. Occupational health and safety management system

In light of our business characteristics, the occupational health and safety of employees is considered to be an important social responsibility. The Company passed the GB/T28001-2011 certification of Occupational Health and Safety Management System in 2013 and has been improving and perfecting the system. The Company passed the audit of external certification authority in 2018 once again, and maintained the Occupational Health and Safety Management System Certificate for GB/T28001-2011 standard. The Company has developed a number of occupational health and safety management regulations which passed domestic certification and complied with international standards, implemented manuals and internal policies on safety control processes and standards, and required all employees to comply with relevant regulations.

Occupational Health and Safety Management System Certificate for GB/T28001-2011 Standard

格式：MI1102R03

中国船级社质量认证公司
CHINA CLASSIFICATION SOCIETY CERTIFICATION COMPANY

职业健康安全管理体系认证证书
OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM CERTIFICATE

编号：No.00516S22700R3L

兹证明

中国铁建高新装备股份有限公司
（注册/生产地址：云南省昆明市金马镇羊方旺384号 邮编：650215）

This is to certify that the Occupational Health and Safety Management System (OHSMS) of

CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED
(Registered/Production Add: No.384 YANGFANGWANG, JINMA TOWN, KUNMING CITY, YUNNAN PROVINCE, 650215, P.R.CHINA)

建立的职业健康安全管理体系符合标准：**GB/T 28001-2011/OHSAS18001: 2007。**
has been found to conform to standard: **GB/T 28001-2011/OHSAS18001: 2007.**

本证书对下述范围的职业健康安全管理体系有效：***铁路养路机械及其配件的设计、制造和修理*。**
This certificate is valid to the following scope for OHSMS: ***DESIGN, MANUFACTURE AND REPAIR OF RAILWAY MAINTENANCE MACHINERY AND ITS PARTS*.**

上一认证周期截止时间：2016年12月11日/Last cycle Deadline: 11 December 2016
再认证审核时间：2016年11月14日-2016年11月18日/Recertification audit time: 14 November 2016- 18 November 2016

本证书有效期至：2019年12月11日。
This certificate is valid until: 11 December 2019.

证书专用章 Seal for Certificate CC00

中国认可 管理体系 MANAGEMENT SYSTEM CNAS C005-M

OHSMS

发证日期：2016年12月16日。
Issued on: 16 December 2016.
总经理：
General Manager **Huang Shiyuan**

This certificate continues to be valid only by passing the periodic supervision

2. *Safety production management*

To protect the occupational health and safety of employees, the Company strictly complies with the policies, laws, administrative regulations, local regulations, rules and standards relating to safety production and occupational health which safeguard safety production and employee health, such as the Opinions of the Central Committee of CPC and the State Council on Promoting the Reform and Development in the Field of Safety Production, the Circular of the State Council on Further Strengthening Enterprise Safety Production, the Production Safety Law and the Law on Prevention and Control of Occupational Disease and adheres to the principal of "joint responsibility between party and government, one position bearing two kinds of responsibility, and joint control and management among various departments". The Company has established a production safety (including occupational health) responsibility system, specifying the safety production and occupational health responsibility of all levels and all posts. The leading and management groups of safety production (including occupational health) were set up with full-time safety production and occupational health management personnel. The Company has also developed systems, procedures and processes relating to safety production and occupational health management such as the Regulations on the Administration of Labour Protective Equipment, the Procedures for Controlling Information Exchange and Communication, the Procedures for Monitoring and Controlling the Performance of Environmental and Occupational Health and Safety, and the Approval Process for the Demand Plans for Labour Protective Equipment. The Company guarantees to devote resources to safety production (including occupational health) in strict compliance with applicable laws and regulations and the Company's systems and rules, and provides employees with labour protective equipment that meets national standards and the actual requirements of their posts in sufficient quantities on time. Our employees were also urged to wear the labour protective equipment correctly, to prevent safety accidents and occupational disease hazards from happening effectively.

In 2018, the Company set up a special fund of RMB6,590,164 for labour protective equipment, which was used to provide necessary protective equipment and medical insurance in all its business or business which may cause harm to employees. The Company has also established a safety education and training system, and conducted regular safety reviews, making sure that all employees are aware of hazards and conducts prevention and treatment. We also supported the development of occupational health and safety in the industry.

The Company achieved the following key safety indicators from 2014 to 2018: 1. the Company did not have any employee whose death was due to work; 2. there was no hazardous event such as fire disaster, explosion and special equipment accident; 3. all new employees received three-level safety education, all special operation staff held qualification certificates and all potential safety hazards were rectified; 4. no applicable laws or regulations relating to safe work environment and the avoidance of occupational hazards were violated.

3. Occupational health and safety assessment

To ensure the implementation of occupational health and safety measures, the Company adopts the following inspections and assessments in four aspects: 1. through certifying the occupational health and safety management system, the Company organises regular internal review and audit each year, and invites external certification body to review and audit its occupational health and safety management. Issues identified are rectified in a timely manner to ensure that the system runs effectively and the occupational health and safety management and its performance meet standards; 2. the Company conducts safety production inspection by ways of comprehensive inspection, professional inspection and self-inspection at different levels and grades to eliminate potential safety hazards in a timely manner, thus effectively preventing accidents from happening and avoiding personal injury and health damage; 3. the Company monitors occupational health in workplace regularly, and conducts regular medical examinations on employees exposed to occupational hazards before, during and after work. Issues identified are rectified in a timely manner, thus effectively preventing the occurrence of occupational diseases; 4. the Company assesses safety management on a monthly and annual basis, and awards and punishes each unit and its leader according to the performance of safety production and occupational disease prevention, with a view to promoting the careful fulfillment of occupational health and safety responsibilities by the management at all levels and the effective implementation of occupational health and safety work and its continuous improvement.

III. Caring for Staff

1. Development and training

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

Employee training is our primary means for human resource development. In view of this, the Company collects the training requirements for its subordinate units and its employees every year and proposes and implements training plans accordingly. The categories of training plans include qualification training and adaptive training while the programs include enterprise management, sales, software operation, safety knowledge, property management, key job skills and other aspects. As at 31 December 2018, the Company completed 112 internal and external training programs with 4,102 actual trainees and employee training expenses of RMB2.8 million.

We also encouraged employees to enroll in training courses outside of the Company and the parent, and to enrich themselves and develop their careers through diversified skill training or skill identification.

During the Reporting Period, the employees training activities organised by the Company included:

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

(ii) Internal trainer development program

(iii) Training for marketing talents

(iv) Training for research and development talents

(v) Training on improvement in quality and capability for leadership at middle and above level of the Company

(vi) Intellectual property training for middle-level and above management and technology research and development staff of the Company

(vii) Training for process on newly revised rules

(viii) Disciplinary inspection and supervision business training

(ix) Training on enhanced lean management ability

(x) Continuing education for safety management staff

(xi) Training for special operation and key post personnel

(xii) Professional Qualification training for hazardous chemical management staff

(xiii) Training for the operators of large railway track maintenance machinery

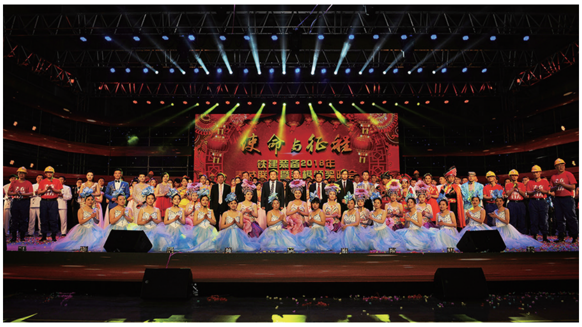
(xiv) Skill training and ability assessment for personnel who apply to skill-based performance assessment

(xv) Training on six categories of production skills

2. *Colorful leisure activities*

During the Reporting Period, the leisure activities organised by the Company included:

(i) In February, the Company held the grand gala with the theme of "Mission and Journey (使命與征程)", celebrating the 2018 Spring Festival gala and labor model awards ceremony.



(ii) In March, the Company organised to watch the movie Amazing China (厲害了，我的國) with the theme of "Watch the movie and talk about your thoughts".

(iii) In March, the Company organised a variety of cultural and sport activities among the female staff.

(iv) In July, the Company organised celebrating activities for the 70th anniversary of the founding of CRCC and the 30th anniversary of the manufacturing business of large road maintenance machinery.

(v) In August, the Company's training centre held a moral lecture for our staff with the theme of "Aspired to be the Pillars of our Great Nation (爭做大國頂梁柱)".

(vi) In September, the Company held a men's basketball match.

(vii) In November, the Company's re-manufacturing general factory held a moral lecture for the staff with the theme of "Eight Merits of Life".

(viii) In December, the Company's manufacture general factory organised activities celebrating the Spring Festival.

IV. Labour Standard

We consider compliance as our minimum responsibility. In 2018, the Company collected and conducted risk assessment on a total of 34 laws and regulations applicable to human resource systems, including national laws, administrative regulations, national and industrial standards and normative requirements. The Company strictly abides by the Labour Contract Law of the People's Republic of China (2012 Revision) issued by the Standing Committee of the National People's Congress in 2012 and enters into labour contracts with newly recruited professional technicians. In addition to archiving the files of new employees in accordance with the relevant requirements under the Archives Law of the People's Republic of China, we also carry out multi-level safety training for them before they are on duty pursuant to the Safety Production Law of the People's Republic of China and rules of safety production required by the Company.

In 2018, the Company newly recruited 73 professional technicians and 49 graduates. The Company has made contributions to social insurance for new employees in strict compliance with the relevant laws and regulations of Yunnan Province and Kunming City, including "Regulation on Collection of Social Insurance of Yunnan Province" and "Notice on the Implementation of the Trial Measures for the Combination of Maternity Insurance and Basic Medical Insurance of Employees in Kunming", and filed the social insurance payment base in accordance with the "Notice on the Report of Salaries for Basic Pension Insurance of Employees" issued by the Yunnan Provincial Social Security Bureau. In 2018, the Company completed procedures of 103 new cases of pension insurance, 79 cases of suspension of pension insurance, filing of 1,663 cases of filing unemployment insurance base, 109 new cases of unemployment insurance and 123 cases of suspension of unemployment insurance.

The Company recognises the period of medical treatment and salaries during such period for employees in strict compliance with the "Regulations on Period of Medical Treatment of Diseases or Non-work-related Injuries of Employees". In 2018, the Company completed filing procedures of maternity insurance for 58 employees. Employees' salaries are determined in strict accordance with "Regulations on the Composition of Total Wages of the National Bureau of Statistics" and "Administration Measures on Budget of Total Salaries of China Railway Construction Corporation Limited" of CRCC. The composition items of employees' salaries and total salaries paid by the Company are under strict control. The actual total salaries did not exceed the amount approved by the Company.

The Company conducts compliance evaluation on relevant laws and regulations every year, and translated into various rules and regulations and well-defined working procedures in a specific form. In 2018, the Company refined and updated twice of the human resource system. During the reporting period, the Company has complied with the relevant laws and regulations in relation to employment and labour practices that have a significant impact on the Company.

We adopt a zero-tolerance policy on the employment of child labour and forced labour, and our strict internal systems such as the "Regulations on Employment Management" demonstrate our prohibition of using child labour and forced labour in strict compliance with the international standards and relevant domestic regulations. Child labour or forced labour is forbidden throughout the operation of the Company, any supplier or subcontractor.

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

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

PART III OPERATION PRACTICE

I. Supplier Chain Management

1. Supplier management

We have established a series of strict supplier assessment mechanisms and practice policies. We select and re-assess appropriate, capable and responsible suppliers with reference to their prices, safety management, environmental protection capabilities, inspection capabilities, infringement histories, production capacities, delivery cycles, after-sales services, and assurance abilities. The management of suppliers during their whole life circles has been substantially achieved, covering the development, identification, risk, performance, termination and document management of suppliers.

We supported and opened door to suppliers who offered green products and services, employee benefits and welfare, and advocated their compliance with laws and regulations, as well as contractual obligations. For instance, the Company has added a supplier selection process which gives preference to suppliers who had been accredited by ISO 14001:2015 Environmental Management System under same conditions. During the annual random on-site review of suppliers, the Company attached great importance to suppliers' environmental protection practices. The Company established an effective anti-corruption supervision system and a management supervision mechanism, for the purpose of identifying and preventing any bribery, fraud or misconduct in the course of procurement and tendering. Incorporating the concept of sustainable development into supply chain, the Company proposed green procurement and production and called on suppliers to act in concert to fulfill corporate social responsibilities, hoping to improve the overall performance of the industry. Should any supplier fail to meet environmental or social policies set by the Company or contractual requirements, the Company would terminate subsequent cooperation, until improvement has been made by the supplier.

2. *Supplier selection and engagement*

We conduct performance evaluation on all suppliers every year on a semiannual basis or irregularly based on specific circumstances. In order to form a positive cycle, the admission and exit channels of suppliers are established based on the results of performance evaluation. This improves the quality of the Company's qualified suppliers and guarantees that the materials, projects and services purchased by the Company meet the requirements of quality, technology, service, delivery, cost, environment and occupational health. We gradually improve the self-management capability of our suppliers through establishing specific systems, thus promoting mutual development.

Based on the suppliers' grade after assessment, the breakdown of existing suppliers of the Company is as follows:

2.1 Potential suppliers:	over 260
2.2 Temporary suppliers:	over 370
2.3 Grade III good suppliers:	over 740
2.4 Grade II excellent suppliers:	19
2.5 Grade I strategic suppliers:	4

3. *Geographical distribution of suppliers*

Number of suppliers by geographical location

1.1 Eastern China:	over 160 (including Shandong, Jiangsu, Anhui, Zhejiang, Fujian, Shanghai);
1.2 Southern China:	over 30 (including Guangdong, Guangxi, Hainan);
1.3 Central China:	over 150 (including Jiangxi, Hunan, Hubei, Henan);
1.4 Northern China:	over 260 (including Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia);
1.5 Northwest China:	4 (including Ningxia, Xinjiang, Qinghai, Shanxi, Gansu);
1.6 Southwest China:	over 430 (including Sichuan, Yunnan, Guizhou, Tibet, Chongqing);
1.7 Northeast China:	3 (including Liaoning, Jilin, Heilongjiang);
1.8 Hong Kong, Macau, Taiwan, Europe and America:	over 40 (including Taiwan, Hong Kong, Macau).

Our supply chain consists of over 1,000 suppliers covering more than 30 provinces in China, Hong Kong, Macau and Taiwan regions, European countries and America. Our suppliers provide us with products and services, such as raw materials, tools, factory equipment, logistics and transportation and packaging.

II. Product Liability

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

1. Quality certification

The Company has passed the ISO9001:2015 Quality Management System certification. With reference to quality inspection procedures of products, the Company sets out rigorous work flows, and initiated several long-term campaigns including "Quality and Effectiveness Improvement", "On-site Safety and Quality Management". All of these demonstrate the Company's determination in quality control on product manufacturing process. In the meantime, we take quality assessment results as important reference for employee remuneration review.

Quality Management System Certificate for ISO 9001:2015 Standard

格式：MI1102R01D

中国船级社质量认证公司
CHINA CLASSIFICATION SOCIETY CERTIFICATION COMPANY

质量管理体系认证证书
QUALITY MANAGEMENT SYSTEM CERTIFICATE

编号：No. CCSC16Q32697R6L

兹证明

中国铁建高新装备股份有限公司
（注册/生产地址：云南省昆明市金马镇羊方旺384号　邮编：650215；组织机构代码：21658661-0）

This is to certify that the Quality Management System (QMS) of

CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED
(Registered/Production Add: No.384 YANGFANGWANG, JINMA TOWN, KUNMING CITY, YUNNAN PROVINCE, 650215, P.R.CHINA; Organizational Code: 21658661-0)

建立的质量管理体系符合标准：**ISO9001:2015**。
has been found to conform to standard: **ISO9001:2015.**

本证书对下述范围的质量管理体系有效：***铁路养路机械及其配件的设计、制造和修理***。
This certificate is valid to the following scope for QMS:***DESIGN, MANUFACTURE AND REPAIR OF RAILWAY MAINTENANCE MACHINERY AND ITS PARTS*.**

上一认证周期截止时间：2016年12月11日/Last cycle Deadline: 11 December 2016
再认证审核时间：2016年11月14日-2016年11月18日/Recertification audit time: 14 November 2016- 18 November 2016

本证书有效期至：**2019年12月11日**。
This certificate is valid until: **11 December 2019.**

中国船级社质量认证公司 证书专用章 Seal for Certificate CC00

QMS

发证日期：**2016年12月16日**。
Issued on: **16 December 2016.**
总经理：
General Manager **Huang Shiyuan**

This certificate continues to be valid only by passing the periodic supervision

This Certificate is issued pursuant to China Classification Society Certification Company (CCSC) Rules for System Certification and related procedures. When the certificate consists of appendix(es), all the appendix(es) together with the certificate are taken as a whole and shall be used simultaneously. No certificate page is valid without bearing the stamp of CCSC. Any part of the certificate including the appendix(es) can not be extracted or abridged by any unit or individual in any form. Related parties who about the authenticity of the certificate may consult with CCSC. The information of this certificate can be inquired through the official website of Certification and Accreditation Administration of the People's Republic of China (www.cnca.gov.cn).

中国船级社质量认证公司　北京市东黄城根南街40号　100006　电话：+86(10)56313400　网址：www.ccs-c.com
40 Dong Huang Cheng Gen Nan Jie, Beijing, 100006, China　Tel.: +86(10)56313400　Website: www.ccs-c.com

2. Quality assurance and service system

The Company insists on the quality principle of "seeking increasing perfection to make the best machinery; striving for excellence to build a first-class brand". Innovation was made on quality management mode in strict compliance with the ISO9001:2015 standard and based on the actual conditions of the Company, and was promoted and implemented. The Company has established a quality management system integrating quality and group management and control and developed over 100 documents relating to management and control system, such as management and control manual, process management standards and relevant quality management system. The Company also improved and perfected the quality management department, established a management mechanism for quality targets, organised the signing of quality assurance and responsibility letters, and assigned the targets level by level and then conducted performance appraisal on each level. The Company carried out standardised management of the processes involving the Company's products which include marketing, material and component purchase, production organisation and control, quality testing and acceptance, complete machine acceptance, product delivery and service in strict compliance with the requirements of the system, and conducted quality control during the whole processes, making sure that the products manufactured by the Company can meet quality requirements and the requirements of users. The Company has established a quality safety risk management system based on the standard of Guidelines on Comprehensive Risk Management of Enterprises Controlled by Central Government and developed an operation and management mechanism for quality safety risks covering the processes such as product design, supply chain management, manufacturing, after-sales services, quality monitoring and assessment. The control of quality risk point in respect of key working procedures, special processes and the "eight prevention" of products (e.g. the prevention of crack, the prevention of separation, the prevention of burning/hot bearing, the prevention of breakage, the prevention of explosion, the prevention of fire, the prevention of split and the prevention of runaway train) were strengthened. Guidance on operation process was followed strictly, and innovative mode for spot check and control was required for critical quality monitoring. The Company improved exception reporting of process quality and the emergency management mechanism of railway traffic accidents and comprehensively promoted quality safety risk management and control, ensuring the quality safety of complete machines and the safety of railway transportation, as well as the consistent fulfilment of its mission of "providing solid support to railway".

The Company collected market information from various sources through an improved marketing service management system and standardised operation of marketing services, paid close attention to market development and the diversified expansion of marketing, and grasped the demands and expectations of customers constantly, ensuring that clients' demands were met with the Company's best efforts. The Company adhered to the service concept of "leaving no regret to customers" as well as the principle of "responding quickly and taking immediate action". A 4S store service mode was introduced for large railway track maintenance machinery, which provided customers with an after-sales service system covering the full life circle of the machinery, and a lifelong accountability system for material design defects was implemented. Professional teams and expert groups for after-sales services were formed to provide users with services during or after the warranty period, on-site technology training service, maintenance and repair service, leasing service and other services. A 24-hours after-sales service hotline was also set up promptly to handle the complaints, issues and information filed by users, and all of which were required to be handled in 24 hours through telephone or onsite within 72 hours. The Company made full use of information-based means such as remote diagnosis to monitor products and provide service in real time. In order to constantly improve the product quality and service of the Company and increase customer satisfaction, we conducted customer satisfaction survey and visited customers regularly, collected opinions broadly and suggestions from customers, conducted analysis on these opinions and suggestions and implemented rectification measures.

3. *Management method*

In order to improve corporate operation and management capability and promote healthy and sustainable corporate development, the Company highly values management innovation and development. Based on the actual conditions, the Company has established and implemented a quality spot check and management mode, comprehensively implemented the process quality control of key points and quality risk control, which effectively improved the production and operation efficiency of the Company. Standardised and efficient operation was achieved by establishing and implementing multiple professional systems and a management and control system featuring integrated group management and control. Under the establishment and implementation of the refined management model of "Four Dimensions and Three Highs", the Company manufactured quality large railway track maintenance machinery from four dimensions, e.g. "design, purchase, production, service" and built a comprehensive product quality management and control system featuring "high standards, high performance and high quality". Supported by key technologies from technology platforms such as postdoctoral workstation for large railway track maintenance machinery, high-tech industrialisation bases for large railway track maintenance machinery applied in national railways, international technology cooperation demonstration bases and the National Railway Large Railway Track Maintenance Machinery Engineering and Technology Research Center, and making full use of the skill innovation and the leading of craftsmen of cross-functional organisations including Kunming Craftsmen Workroom and Yunling Chief Technician Workroom, the Company manufactured quality large railway track maintenance machinery for the international market, with a view to strengthening the competitiveness of railway engineering machinery manufacturing and service in the international market, and improving the management level of the Company in a comprehensive way.

PART IV ANTI-CORRUPTION

In a bid to help employees to cope with conflicts of interests and to resist temptations of illegitimate benefits, the Company worked out the "Administrative Measures on Anti-fraud", the "Administrative Measures on Complaint Letters and Whistle-blowing", the "Measures on Investigating the Dereliction of Duty of Management" and other corporate regulations. In the meantime, the Company propagated anti-corruption policies and relevant measures via various means, and made efforts to nurture a corporate culture that values honesty and diligence. The Company arranges training sessions on laws and regulations, integrity and ethical conduct on an annual basis, requiring all employees to comply with state laws and regulations, industry code of conduct, corporate ethics and regulations, including the "Supervision Law of the People's Republic of China", "The Constitution of the Communist Party of China", "Regulations on Disciplinary Punishment of the Communist Party of China", "Working Rules for Supervision and Discipline of the Discipline Inspection Agency of the Communist Party of China (Trial)".

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

(i) Holding learning session on warning education on anti-corruption in 2018;

(ii) Carrying out learning activities on warning education on anti-corruption;

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

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

(v) Sending anti-corruption notices to management (of middle level and above) when important festivals and holidays were around the corner.

The Company prevents the occurrence of litigation cases related to corruption through the following measures:

1. Strengthening study on the theory of laws and regulations, and enhancing the red line awareness of the laws and regulations of the vast management personnel and workers.

   The Company organised management personnel and workers to learn the newly revised laws and regulations on disciplinary punishments and supervision laws of the Communist Party, and organised all people in the Company to study the "Regulations on Violations of Disciplines and Rules of Employees" by CRCC, and the secretary of the Discipline Inspection Committee gave special learning sessions on education on anti-corruption for the leaders and cadre and invited the leaders of the Discipline Inspection Committee of CRCC to give education on anti-corruption for all management personnel and employees.

2. Enhancing the warning education for key personnel and self-awareness of compliance.

   We regularly organised key personnel such as leaders and cadres, personnel of finance, bidding and procurement to visit the Kunming Anti-corruption Education Base, to give warning education through real cases.

3. Enhancing daily supervision.

   Taking the control of the Party Committee as the center, we promoted the implementation of the "Two Responsibilities" under the principle of strict governance of the Party. At the beginning of each year, we enter into the "Letter on the Responsibility of Incorrupt Construction of the Communist Party" with the Party Committee of the subsidiaries, strictly assess and transfer responsibility and pressure at all levels; we have enhanced inspection on the Party Committee of the subsidiaries and conduct inspection on the selected subsidiaries every year with the identified problems being rectified under strict supervision; we urged the functional departments to strengthen the supervision on the business in their responsibility and made the responsible functional departments accountable for problems causing serious impacts and major losses due to their insufficient supervision; we have prepared prevention and control manual on anti-corruption risks to enhance the daily supervision on anti-corruption risks arising from key sections and key personnel.

4. Establishing integrity records for cadres.

   We collected the basic information, the resume, the main members of the family, the audits involved, the clues and handling of the complaints and whistleblowing-related issues of the leaders and cadres, and implemented the dynamic management, to effectively strengthen the daily supervision on leaders and cadres, and consolidate the foundation of anti-corruption work.

5. Seriously implement the system of discipline and accountability, strengthen the investigation and punishment of violations of disciplines, and form a high-pressure situation of discipline and accountability, and give effective warnings to prevent the occurrence of litigation cases related to corruption.

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

PART V COMMUNITY

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

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

(i) Offering support to employees and encouraging and arranging them to participate in volunteer activities, such as visiting nursing homes and senior apartments regularly, organising blood donation, and etc.;

(ii) Making donations in the form of money, goods and materials or services to directly support and fund various public welfare projects. While making donations by ourselves, we also called on related parties for donations;

(iii) Sharing responsibilities in community construction, promoting interaction with community members by offering shuttle bus services and establishing entertainment centers for the elderly;

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

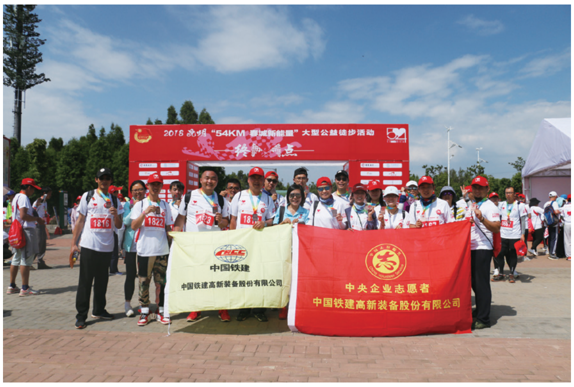
During the Reporting Period, the Company organised the following public welfare activities (partial):

(i) In March, volunteers from the Company's re-manufacturing factory went to the Sunshine Elderly Home to make dumplings for the elderly.

The young volunteers from the Southern Plant of the re-manufacturing Plant came to the "Sunshine Elderly Apartment" in Xishan District, Kunming City, and brought rice, oil, meat, milk, fruit, wood and other necessities to the elderly, and brought them greetings from all employees of the manufacturing plant. Under the leadership of the person in charge of the apartment, the young workers helped the elderly to clean indoor and outdoor environment, wiped the tables, and chatting about daily family issues. What they did and said had brought warmth to the hearts of the elderly.

(ii) In May, the Company organised employees to participate in the 54KM charity walk.

On 26 May, the "54KM New Energy of the Spring City", a large-scale charity walk activity sponsored by the Kunming Youth League Committee and the Kunming Youth Development Foundation, was officially launched in Yunnan Ethnic Village Square. The Company's Youth League Committee and the Country Hiking Society organised 20 volunteers to participate in the event and the volunteers completed the competition successfully.



(iii) In August, members from the Company's discipline inspection, audit, law and logistics departments came to Zhatang Village, Xinjie Township, Huize County to carry out assistance activities.

Guided by the comrades of the Ministry of Precision Poverty Alleviation and the local village committee cadres, the volunteers of the Company visited six "documented" poor households, and gave two bags of 25-kg rice and 2 barrels of 5-liter edible oil to each of these households.

(iv) In September, the volunteers of the Company walked into the Xifule Elderly Homes and launched the volunteer service activity of "Extending filiality to the elderly, passing love to those in need".

On 1 September, more than 10 Communist Party members of the Company directly affiliated to the Xifulou Senior Apartment in Shangchong Village, Unity Township, Xishan District, Kunming City to carry out the "Extending filiality to the elderly, passing love to those in need" volunteer service theme party day activities, made condolence visit to more than 30 orphaned elderly people living there, giving them donated daily necessities and expressing our love.

(v) In December, the quality management department of the Company went to the Douda School of Tuanshan Primary School in Yiliang to carry out the "Warm Winter Action" charity donation activity.

The volunteers of the Company purchased a number of items for 21 children, including 21 sets of "warm winter bags" (including clothes, pants, shoes, gloves, scarves, socks), 21 blankets, 21 sets of stationery and daily necessities, as well as several other public sports goods, etc.

PART VI ENVIRONMENTAL PROTECTION

I. Environmental Management

1. Environmental management system certification

The Company established its environmental management system certification according to the GB/T24001:2004 environmental management system standard and passed the certification in 2013. The Company updated the system according to the ISO14001:2015 version and passed the certification in 2016.

Environmental Management System Certificate for ISO14001:2015 Standard

格式：MI1102R02

中国船级社质量认证公司
CHINA CLASSIFICATION SOCIETY CERTIFICATION COMPANY

环境管理体系认证证书
ENVIRONMENTAL MANAGEMENT SYSTEM CERTIFICATE

编号：No. CCSC16E32699R1L

兹证明

中国铁建高新装备股份有限公司
（注册/生产地址：云南省昆明市金马镇羊方旺384号　邮编：650215）

This is to certify that the Environmental Management System (EMS) of

CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED
(Registered/Production Add: No.384 YANGFANGWANG, JINMA TOWN, KUNMING CITY, YUNNAN PROVINCE, 650215, P.R.CHINA)

建立的环境管理体系符合标准：**ISO 14001:2015**。
has been found to conform to standard: **ISO 14001:2015.**

本证书对下述范围的环境管理体系有效：***铁路养路机械及其配件的设计、制造和修理***。
This certificate is valid to the following scope for EMS: ***DESIGN, MANUFACTURE AND REPAIR OF RAILWAY MAINTENANCE MACHINERY AND ITS PARTS*.**

上一认证周期截止时间：2016年12月11日/Last cycle Deadline: 11 December 2016
再认证审核时间：2016年11月14日-2016年11月18日/Recertification audit time: 14 November 2016- 18 November 2016

本证书有效期至：**2019年12月11日**。
This certificate is valid until: **11 December 2019**.

发证日期：**2016年12月16日**。
Issued on: **16 December 2016.**
总经理：
General Manager **Huang Shiyuan**

2. *Establishing environmental management system*

The Company collects, identifies and obeys the requirements of national laws, regulations and standards, and incorporates applicable provisions into its own management system. The Company also implements ISO environmental management system and establishes relevant management system, pursuant to which compliance assessment is conducted annually. The Company has established various systems in respect of wastewater, waste gas and waste discharge, such as "Management and Control Procedures of Pollutant Emission", "Management System on Waste Goods and Materials", "Monitoring & Measuring Control Procedures of Environmental and Occupational Health and Safety Performance", "Control Procedures of Environmental Resources" and so on. The Company complies with "Integrated Emission Standard of Air Pollutants", "Integrated Wastewater Discharge Standard" and "Emission Standard for Industrial Enterprises Noise at Boundary" respectively in respect of the emission of waste gas, wastewater and noise at boundary. Companies with monitoring qualification were commissioned to monitor the discharge of pollutants, and found all discharges were complied with relevant standards. No unexpected environmental incident and environmental pollution accident occurred.

3. *Measures on environmental management*

During the Reporting Period, main measures taken by the Company regarding environmental protection include:

(i) Establishing an environmental management system, conducting regular internal inspection and audit on an annual basis and engaging external certification institution to inspect and audit the environmental management of the Company. Ensuring the effectiveness of the system. The Company passed the supervision and audit on the environmental management system by China Classification Society Quality Assurance Center in 2018;

(ii) Establishing an emergency plan for unexpected environmental incidents and conducting drills according to the drill plan each year;

(iii) Highlighting the monitoring of hazardous waste and establishing a management system, under which hazardous waste should be stored in the designated place, handled by dedicated personnel and with clear accounts. In 2018, the Company passed the assessment of standardised management of hazardous waste conducted by Kunming Environmental Protection Bureau.

II. Emission Management

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

1. Strictly complying with national laws and regulations

The Company strictly complies with applicable national and industry requirements, including the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China, the Law on Prevention and Control of Atmospheric Pollution of the People's Republic of China, the Water Law of the People's Republic of China, the Law on Prevention and Control of Water Pollution of the People's Republic of China, the Law on the Prevention and Control of Environmental Pollution by Solid Waste of the People's Republic of China, and the Measures for the Administration of Energy Efficiency Labeling, etc. The Company has established various systems in respect of wastewater, waste gas and waste discharge. Compliance assessment is conducted annually, the results of which are in compliance with laws and regulations. No violations occurred between 2014 and 2018. Three wastes discharge met with relevant standards, with emissions (concentration) falling within the scope of the pollutant discharge permit as approved.

The main pollutants of the Company's exhaust emissions are benzene, toluene and xylene. The main pollutants of wastewater discharged are chemical oxygen demand (COD), ammonia nitrogen and total phosphorus. In 2018, the Company treated 245,130 tons of wastewater, of which 243,077 tons were recycled, and discharged 2,053 tons of wastewater, 0.057 ton of COD, 0.002 ton of ammonia nitrogen, 0.09718 ton of benzene, 0.0152 ton of toluene and 0.0342 ton of xylene.

Statistics of total greenhouse gas generated from the consumption of gasoline and diesel oil during the Company's production process in 2018 are summarized as follows:

Type	Active data	Type of greenhouse gas	Emission (tCO_2e)
Diesel oil	318 tons	CO_2	831.25
		CH_4	0.97
		N_20	7.08
Gasoline	55 tons	CO_2	129.8
		CH_4	0.23
		N_20	19.44

Statistics of various kinds of waste goods and materials during the Company's production process in 2018 are summarized as follows:

General waste goods and materials (innocuous)

Category	Weight
Steel scrap	920.1144 tons
Iron scurf	254.94 tons
Aluminium scrap	3.534 tons
Waste wire	1.415 tons
Copper scale	2.966 tons
Oxidising slag	119.35 tons
Waste wooden boards	38.8 tons
Waste oil barrels	865

Hazardous waste (harmful)

Category	Weight (ton)
Waste spongy filter	12.035
Emulsion	15.17
Waste paints	5.545
Waste paint pot	11.175
Mineral oils	22.33

Pursuant to the requirements under its pollutant discharge permit, the Company organises environmental monitoring annually, and the results of each emission and the total amount of emission met relevant standards. The Company conducts maintenance and repair to its power supply units annually, and has used photovoltaic electricity starting from 2018 so as to substantially reduce the emission of greenhouse gas. The Company complied with first class A standard of the "Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant" for the emission of pH, SS, COD, BOD, NH3-N, PO43--P, LAS of wastewater and gasoline, the second class standard of "Integrated Emission Standard of Air Pollutants" for the emission of dust and benzene series of waste gas, and type II standard of "Emission Standard for Industrial Enterprises Noise at Boundary" for noise at boundary.

2. Measures and technology of pollutants prevention and treatment

We require and encourage all the staff to conduct responsible behaviors, and to promote environmental protection concept throughout our supply chain and relevant markets. We adopt advanced exhaust emission processing equipment for our large railway track maintenance machines, making sure that each function of our products and system could meet the high standards in relation to environmental protection and comply with relevant operation standards as well. Moreover, we will continue to keep an eye on research and development of environmental protection equipment and technology. We understand and monitor the influence on environment of our normal operation through continuous review and announcement of the organised exhaust emissions by the Company. The Company has introduced large ventilation and dust-removing system, welding fume purifier, sewage treatment and water reclaiming system to reduce smoke dust emission and minimise land pollution, through which, we carry out 6S management in our operation sites and enhance placement and management on materials or wastes.

During the Reporting Period, The Company mainly conducted the following with respect to emission:

(i) Wastewater treatment;

The Company has a sewage treatment station which treats wastewater with A/O2 method with daily treatment capacity of 800 cubic meters. Reclaimed water will be discharged upon reaching first class level A standard of "Wastewater Discharge Standard", and most of it will be reused in the Company's greening, dust reduction, car washing and so on, and the rest will be discharged to East Baisha River after meeting relevant standard.

(ii) Waste gas treatment;

General dust is discharged into high-altitude air through centrifugal air compressor after filtered by dust extractor of the equipment, and more than 90% of the dust will be reduced. Welding fume is generally treated by layered air-supplying method, of which the treatment system is comprised of air treatment system (dust extracting), secondary air stream supplying system and controlling system. With a filter core made of durable polyester which is of low absorbability for viscous materials, the dust extractor reaches efficiency of 99.9%.

As for spray painting, the Company adopts integrated equipment with functions of spray painting, drying and purification, through which painting mist is filtered, absorbed and purified through an organic waste gas purification device with segmented two-stage dry filter cotton + activated carbon fiber during the process of air purification, and then discharged upon meeting with relevant standards.

(iii) Noise at boundary treatment;

The Company applies anti-vibration devices to equipment which generates great noise, such as using flexible joints for draught fans and inlet and outlet pipes of pump, installing silencers to draught fans and air compress tubes of compressors, erecting closed solid walls in workshops equipped with equipment generating great noise, and planting plants with great noise reduction effect outside the walls to form planting strip in order to reduce the grade of noise.

(iv) Treatment of solid waste

Each year, the Company signs disposal agreements with companies with qualification in the dispose of hazardous waste for related hazardous waste materials in a legally manner as accredited by national authorities for environmental protection, and entrusts them to transfer and dispose of hazardous waste. In 2018, based on the types and number of hazardous wastes produced in the Company's production process, the Company signed an entrusted disposal agreement with three hazardous waste disposal companies. For non-hazardous waste materials, such as scrap steel, iron chippings and shavings, etc., the Company conducts online public bidding each year, and signs the contract for the sale of waste materials with companies with legal qualification in disposal and acquisition of waste and obsolete materials. Based on the different types of acquisition by different acquisition companies, the Company has signed respective acquisition contracts with three acquisition companies for processing.

During the Reporting Period, the Company monitored the emission of wastewater, waste gas and noise at boundary, with results thereof reaching the relevant standards. During the Reporting Period, there is no occurrence of environment emergency for which the Company shall be liable.

III. Management on Energy Use

1. Energy-saving and consumption-reducing

Adhering to the aim of constructing a resource-saving and eco-friendly enterprise, the Company actively made efforts towards energy saving and emissions reduction, with focus on limiting production of high energy consumption and high pollutant while developing energy-saving and eco-friendly industries as well as promoting uses of energy-saving products. The Company vigorously developed new high-tech and high value-added products of high-end underground equipment series to facilitate continuous reduction in energy consumption per unit of output value and energy consumption per unit product of the enterprise. In compliance with national and industrial requirements, the Company rolled out reasonable adjustment to corporate structure, product structure and energy consumption structure, eliminated backward production capacity and reduced pollutant discharge in order to become a green corporation.

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

Statistics of total energy consumption during the production process of the Company in 2018 are summarised as follows:

Type	Total consumption
Electricity	10,850,000 kwh
Gasoline	55 tons
Diesel oil	318 tons
Lubricating oil	105 tons
Water	406,940 tons

Statistics of total usage of packaging materials during the production process of the Company in 2018 are summarised as follows:

Type	Total usage (ton)
Wire	1.89
Tape	0.2
Rubber	2.09
Wire rope	0.42
Buckle	0.08
Wood log	0.53
Bronze lock	0.51

2. *Integrated control and management*

In 2018, with the support of the Company's leaders and joint effort of the energy management office, the Company strictly followed requirements stipulated in relevant documents of CRCC and the local governments to implement two "Subdivision" regarding energy management. Firstly, as to refining energy management, the Company enhanced control and management of indicators of energy consumption with increased institutional and managerial efforts, through which the Company is able to find out the key reason and make response in time in case of abnormal movement of energy consumption data. Secondly, the Company subdivided the indicators of energy saving. In October 2016, the Company revised and circulated the "Administration Measures on Energy Management of the Company" and "Assessment and Administration Measures on Indicators of Energy Consumption of the Company", aiming to regulate energy consumption and assessment of the energy consuming production departments. The office of energy management of the Company requires all energy consuming production departments to file a statement of energy consumption each month, thus conducting real-time control of energy consumption. Since the circulation and implementation of the above two measures, the Company has conducted assessments twice to indicators of energy consumption of each energy consuming production departments, imposed severe punishment to departments that exceeded the standard limits of energy consumption and that had weaker performance in terms of energy saving, and circulated the results through the intranet of the Company. Through implementing this policy stringently, the Company has further improved its energy management, and tended to carry out work actively instead of passively. With shifts in thinking, employees proactively cooperated with the Company to carry out energy saving in good order. All of the above have laid a solid foundation for the Company to achieve target of energy saving for the national "13th Five-Year" plan in the next step.

3. *Efficiency of control and management*

The Company is committed to the development of energy-saving and environmentally friendly industries, and has been promoting the use of energy-saving products as well as clean energy. Taking full advantage of the geographical advantages and abundant solar energy resources in Kunming, the Company has been actively introducing photovoltaic power generation projects. This project was completed and put into production in July 2018. It can offer a total installed capacity of 6,500KVA, and the power generated is distributed to the Company's 10KV power distribution system. All of the power generated will be used for production in the factory area, while the surplus power will be distributed to the municipal network for sale. By the end of December, the Company had consumed a total of 1,966,640KWh of electricity generated by photovoltaic power generation facilities, saving electricity costs of a total amount of RMB590,000 for the Company. At the same time, all equipment of the project is supplied by domestic manufacturers, which is of great significance to support the development of domestic photovoltaic power generation equipment industry.

According to the "Power Market Trading Implementation Plan of Yunnan for the Year 2018", the Company actively participated in the power market trading in Yunnan province. According to statistics, in 2018, the Company was involved in the trading of 8,883,360KWh of electricity on the power market in Yunnan, saving electricity costs of a total amount of RMB2.28 million for the Company.

At the same time, the Energy Management Office of the Company actively promoted the technical transformation of lighting in the manufacturing plant, replacing traditional metal halide lamps with energy-saving LED lamps, and the illumination level fully met the criteria for acceptance. By the end of December, the Company had replaced a total of 217 sets of LED lights. This work will continued to be proceeded in 2019.

According to the requirements under the document of "Notice of Commission of Industry and Information Technology of Yunnan Province on Forwarding the Document of Ministry of Industry and Information Technology regarding Carrying out Supervision and Inspection for 2012 on the Implementation of Standard Limits of Energy Consumption of Unit Product and High Energy-Consumption Outdated Electrical and Mechanical Equipment (Products) Catalog", members of the Company's energy management office conduct check on electric machines equipped on mechanical equipment for production twice a year, during which electric machines equipped on mechanical equipment which are found to be listed on the catalog will be arranged stocktaking at the end of year and included on the list of equipment for condemnation and then eliminated. In 2018, the Company invested RMB3.03 million to purchase production equipment, with 17 sets of advanced equipment, which were mainly high energy-consumption electrical and mechanical equipment. When studying and selecting equipment, relevant personnel from the Company's energy management office takes equipment that are certified by the country as their first choice, striving to further enhance the energy management of the Company and all relevant energy consuming departments, increase efficiency of energy utilisation, propel technical improvement and optimise industrial structure.

The Company keeps reinforcing energy management and continues to improve the management system of water use. In 2018, third parties were engaged for the continuous improvement in the balance of water in areas such as production areas. As of August 2018, the water balance test technical service had been completed. The schematic diagram of the water supply pipe network and the unit water supply and drainage system map were evaluated by the expert group and obtained the Water Balance Test Certificate issued by the Kunming City Plan Water Supply and Water Conservation Office. The Company actively promoted the implementation of reuse of grey water, which was mainly for large-scale road maintenance machinery raining test, cleaning as well as greening, etc. As of December 2018, a total of 275,467 m3 of grey water was used. The conditions for the use of tap water had reached national water use standard requirements, and no water leakage problem was identified, thus laying a solid foundation for the Company's next-step initiative in energy management.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED
(incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of CRCC High-Tech Equipment Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 101 to 192, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") 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**"). 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 International Ethics Standards Board for Accountants' 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 judgment, 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.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of investment on the H-share listed company	
As at 31 December 2018, the investments measured at fair value through other comprehensive income were significant to the consolidated financial statements. As disclosed in note 4 to the consolidated financial statements, the fair value of equity investments is calculated according to market quotation and non-liquidity effect. This assessment of fair value involves significant management estimates in determining the non-liquidity discount ratio. Further details are included in notes 4, 15 and 37 to the consolidated financial statements.	Our procedures in relation to the fair value measurement of equity instruments mainly included: – Obtaining the management's calculation table of the fair value of the equity instruments, and evaluating the accuracy by recalculating and referring to the report of stock market value at the end of reporting period; – Involving our valuation specialists to assist us in evaluating the methodologies and assumptions used by management for determination of the non-liquidity discount ratio.
Impairment of goodwill	
Management recorded goodwill of approximately RMB91,367,000 with regard to the acquisitions of CE cideon engineering Verwaltungs GmbH, CE cideon engineering GmbH & Co. KG and CE cideon engineering Schweiz AG. Significant judgement is involved in the annual impairment assessment of goodwill. The assessment process and sensitivity analyses require significant management judgement, and are affected by expected future market conditions. The assumptions in the annual impairment assessment of goodwill and other details are included in notes 4 and 16 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill mainly included: – Evaluating the appropriateness of the methodologies in determining the recoverable amount of cash-generating unit to which goodwill has been allocated in the impairment assessment; – Evaluating the appropriateness of management's key assumptions and bases in the impairment assessment such as future cash flow forecast, long term growth rates and the discount rate; – Performing sensitivity analyses around key assumptions of future cash flow forecast.

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
The expected credit losses ("**ECL**") on trade receivables are assessed individually for debtors which are credit impaired and collectively using a provision matrix with appropriate groupings. In determining the ECL of trade receivables, significant management judgement is involved. Further details are included in notes 4, 22 and 35(c) to the consolidated financial statements.	Our procedures in relation to the impairment of trade receivables mainly included: – Testing the key internal controls relating to the management's assessment of the impairment of trade receivables; – Evaluating the appropriateness of the ECL model applied; – Evaluating the appropriateness of management's assessment of impairment provision taking into consideration of the forward-looking information; – For trade receivable in which the impairment is assessed individually, obtaining the management's assessment details and supporting evidences and reviewing whether the amount of provision is reasonable.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with ISAs, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Mok Sau Fan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 February 2019

	Notes	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue	*6*	**2,410,714**	1,818,308
Cost of sales		**(1,835,346)**	(1,328,857)
Gross profit		**575,368**	489,451
Other income and gains	*7*	**87,600**	67,693
Impairment losses, net of reversal	*8*	**(28,869)**	(14,155)
Selling and distribution expenses		**(52,892)**	(59,323)
Administrative expenses		**(211,750)**	(227,377)
Research and development expenses		**(156,730)**	(147,641)
Other expenses		**(40,338)**	(8,258)
Finance costs	*9*	**–**	(35,960)
Profit before tax	*8*	**172,389**	64,430
Income tax expense	*10*	**(16,029)**	(9,343)
Profit for the year		**156,360**	55,087
Other comprehensive (expense) income			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(28,528)**	–
Re-measurement loss of defined benefit pension plan		**(10)**	(110)
Income tax effect		**4,281**	17
		(24,257)	(93)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Changes in fair value		**–**	46,544
Income tax effect		**–**	(6,982)
Exchange differences arising on translation of foreign operations		**220**	(1,157)
		220	38,405

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**Year ended 31/12/2018 RMB'000**	Year ended 31/12/2017 RMB'000
Other comprehensive expense (income) for the year, net of income tax		**(24,037)**	38,312
Total comprehensive income for the year		**132,323**	93,399
Profit attributable to:			
Owners of the Company		**156,360**	55,087
Non-controlling interests		**–**	–
		156,360	55,087
Total comprehensive income attributable to:			
Owners of the Company		**132,323**	93,399
Non-controlling interests		**–**	–
		132,323	93,399
EARNINGS PER SHARE:	*13*		
Basic and diluted (expressed in RMB per share)		**0.10**	0.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Available-for-sale investments	*14*	–	270,758
Equity instruments at fair value through other comprehensive income	*15*	242,230	–
Goodwill	*16*	91,367	91,367
Property, plant and equipment	*17*	959,306	995,702
Prepaid land lease payments	*18*	408,615	419,421
Other intangible assets	*19*	8,244	9,888
Trade receivables	*22*	164,067	156,988
Long-term prepayments	*23*	19,155	33,897
Deferred tax assets	*20*	31,448	33,441
Total non-current assets		1,924,472	2,011,462
CURRENT ASSETS			
Prepaid land lease payments	*18*	10,831	10,831
Inventories	*21*	1,160,315	1,706,510
Trade and bills receivables	*22*	2,534,841	1,429,263
Contract assets		2,379	–
Prepayments, deposits and other receivables	*23*	42,149	79,531
Pledged deposits	*24*	3,958	45,931
Cash and cash equivalents	*24*	1,789,207	1,556,406
Total current assets		5,543,680	4,828,472
CURRENT LIABILITIES			
Trade and bills payables	*25*	1,649,316	1,252,961
Other payables and accruals	*26*	242,177	167,972
Contract liabilities	*27*	42,161	–
Tax payable		5,748	2,409
Defined benefit obligations		130	380
Provisions	*28*	4,751	4,988
Total current liabilities		1,944,283	1,428,710
Net current assets		3,599,397	3,399,762
Total assets less current liabilities		5,523,869	5,411,224

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT LIABILITIES			
Defined benefit obligations		**40**	240
Deferred tax liabilities	*20*	**28,390**	32,669
Total non-current liabilities		**28,430**	32,909
Net assets		**5,495,439**	5,378,315
EQUITY			
Issued capital	*29*	**1,519,884**	1,519,884
Reserves	*30*	**3,975,555**	3,858,431
Total equity		**5,495,439**	5,378,315

Zhao Hui
Executive director

Tong Pujiang
Executive director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Issued capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Special reserve RMB'000	Exchange fluctuation reserve RMB'000	Available-for-sale/ fair value through other comprehensive income investments reserve RMB'000	Defined benefit plan revaluation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2018	1,519,884	3,224,727	84,382	–	(693)	185,118	(10,262)	375,159	5,378,315
Profit for the year	–	–	–	–	–	–	–	156,360	156,360
Other comprehensive income (expense) for the year:									
Investments in equity instruments at fair value through other comprehensive income	–	–	–	–	–	(24,249)	–	–	(24,249)
Exchange differences related to foreign operations	–	–	–	–	220	–	–	–	220
Re–measurement loss on defined benefit plan, net of tax	–	–	–	–	–	–	(8)	–	(8)
Total comprehensive income/(expense) for the year	–	–	–	–	220	(24,249)	(8)	156,360	132,323
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	(15,199)	(15,199)
Appropriation to special reserve *(note (a))*	–	–	–	5,220	–	–	–	(5,220)	–
Utilisation of special reserve *(note (a))*	–	–	–	(5,220)	–	–	–	5,220	–
Appropriation to statutory surplus reserve *(note (b))*	–	–	20,088	–	–	–	–	(20,088)	–
At 31 December 2018	1,519,884	3,224,727	104,470	–	(473)	160,869	(10,270)	496,232	5,495,439

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Issued capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Special reserve RMB'000	Exchange fluctuation reserve RMB'000	Available-for-sale/ fair value through other comprehensive income investments reserve RMB'000	Defined benefit plan revaluation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2017	1,519,884	3,229,898	75,888	–	464	145,556	(10,169)	571,747	5,533,268
Profit for the year	–	–	–	–	–	–	–	55,087	55,087
Other comprehensive income (expense) for the year:									
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	39,562	–	–	39,562
Exchange differences related to foreign operations	–	–	–	–	(1,157)	–	–	–	(1,157)
Re-measurement loss on defined benefit plan, net of tax	–	–	–	–	–	–	(93)	–	(93)
Total comprehensive (expense)/income for the year	–	–	–	–	(1,157)	39,562	(93)	55,087	93,399
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	(243,181)	(243,181)
Business combinations involving entities under common control *(note c)*	–	(5,171)	–	–	–	–	–	–	(5,171)
Transfer to special reserve *(note a)*	–	–	–	9,946	–	–	–	(9,946)	–
Utilisation of special reserve *(note a)*	–	–	–	(9,946)	–	–	–	9,946	–
Appropriation to statutory surplus reserve *(note b)*	–	–	8,494	–	–	–	–	(8,494)	–
At 31 December 2017	1,519,884	3,224,727	84,382	–	(693)	185,118	(10,262)	375,159	5,378,315

Notes:

(a) The Group has appropriated certain amount of retained profits to a special reserve fund for safety production as required by directives issued by the relevant government authorities in the People's Republic of China (the "**PRC**"). The Group charged the safety production expense to profit or loss when such expense was incurred, and at the same time an equal amount of special reserve fund was utilised and transferred back to the retained profits.

(b) 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 relevant accounting principles applicable to enterprises established in the PRC, 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.

(c) On 24 June 2017, the Company obtained control over CRCC Yukun Limited through business combinations involving entities under common control.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**172,389**	64,430
Adjustments for:		
Finance costs	**–**	35,960
Foreign exchange (gains)/losses, net	**(7,538)**	2,884
Interest income	**(29,912)**	(25,071)
Dividends from available-for-sale investments	**–**	(4,410)
Dividends from equity investments at fair value through other comprehensive income	**(4,410)**	–
Depreciation of property, plant and equipment	**52,543**	59,089
Amortisation of other intangible assets	**5,710**	6,837
Amortisation of prepaid land lease payments	**10,806**	10,806
Amortisation of long-term deferred expenses	**–**	14
Impairment loss, net of reversal		
– trade receivables	**28,777**	14,021
– other receivables	**80**	134
– contract assets	**12**	–
Write-down of inventories to net realisable value	**7,290**	2,433
Loss on disposal of property, plant and equipment	**19**	97
Operating cash flows before movements in working capital	**235,766**	167,224
Decrease/(increase) in inventories	**538,915**	(238,738)
(Increase)/decrease in trade and bills receivables	**(1,133,757)**	939,121
Decrease/(increase) in prepayments, deposits and other receivables	**51,046**	(31,702)
Decrease/(increase) in pledged deposits	**41,973**	(45,931)
Increase in contract assets	**(2,391)**	–
Increase in trade and bills payables	**401,542**	117,016
Increase/(decrease) in other payables and accruals	**143,924**	(68,229)
Decrease in contract liabilities	**(27,558)**	–
Decrease in defined benefit obligations	**(460)**	(750)
Decrease in provisions	**(237)**	(4,105)
Cash generated from operations	**248,763**	833,906
Interest received	**22,455**	21,429
Income taxes paid	**(9,737)**	(58,781)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	**Year ended 31/12/2018 RMB'000**	Year ended 31/12/2017 RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		**261,481**	796,554
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of items of property, plant and equipment		**(25,324)**	(107,204)
Payments for acquisition of other intangible assets		**(200)**	(4,743)
Proceeds from disposal of items of property, plant and equipment		**95**	410
Dividend income from available-for-sale investments		**–**	4,410
Dividend income from equity investments at fair value through other comprehensive income		**4,410**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(21,019)**	(107,127)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest-free other borrowings		**–**	(105,393)
Interest paid		**–**	(349)
Dividends paid		**(15,508)**	(243,181)
Payments for business combinations involving entities under common control		**–**	(5,171)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(15,508)**	(354,094)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**224,954**	335,333
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,556,406**	1,223,957
Effect of exchange rate changes on cash and cash equivalents		**7,847**	(2,884)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*24*	**1,789,207**	1,556,406

1. GENERAL INFORMATION

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

The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are principally engaged in the manufacture and sale of large railway track maintenance machinery, and relevant parts and components, special equipments, and the provision of overhaul services, railway line maintenance services, and rail vehicles engineering and technical services.

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts and the related interpretations*.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Manufacture and sale of large railway track maintenance machinery
- Manufacture and sale of parts and components
- Provision of overhaul services, railway line maintenance services, and rail vehicles engineering and technical services

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 6 and 3 respectively.

Summary of effects arising from initial application of IFRS 15

There was no material impact of transition to IFRS 15 on retained profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15 *(Continued)*

	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
Current liabilities			
Other payables and accruals	167,972	(69,719)	**98,253**
Contract liabilities	–	69,719	**69,719**

Note: As at 1 January 2018, advances from customers of RMB69,719,000 in respect of sales of machinery, parts and components contracts and railway line maintenance services contracts previously included in other payables and accruals were reclassified to contract liabilities.

The following table summarises the impact of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Current assets			
Amounts due from customers for contract work	**–**	**2,379**	**2,379**
Contract assets	**2,379**	**(2,379)**	**–**
Current liabilities			
Other payables and accruals	**242,177**	**42,161**	**284,338**
Contract liabilities	**42,161**	**(42,161)**	**–**

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Operating activities			
Increase in trade and bills receivables	**(1,133,757)**	**(2,391)**	**(1,136,148)**
Increase in contract assets	**(2,391)**	**2,391**	**–**
Decrease in contract liabilities	**(27,558)**	**27,558**	**–**
Increase in other payables and accruals	**143,924**	**(27,558)**	**116,366**

2.2 IFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and other items (for example, contract assets).

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.2 IFRS 9 Financial Instruments and the related amendments (Continued)

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	AFS investments RMB'000	Equity instruments at FVTOCI RMB'000
Closing balance at 31 December 2017	270,758	–
Effect arising from initial application of IFRS 9:		
Reclassification from available-for-sale ("**AFS**") investments to equity instruments at fair value through other comprehensive income ("**FVTOCI**")	(270,758)	270,758
Opening balance at 1 January 2018	–	270,758

Note: The Group elected to present in other comprehensive income for the fair value changes of its equity investment previously classified as available for sale. The investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB270,758,000 was reclassified from AFS investments to equity instruments at FVTOCI. The fair value gains of RMB217,788,000 relating to the investments previously carried at fair value continued to accumulate in equity.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected.

	31 December 2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current assets				
Property, plant and equipment	995,702	–	–	**995,702**
Prepaid land lease payments	419,421	–	–	**419,421**
Other intangible assets	9,888	–	–	**9,888**
Long-term prepayments	33,897	–	–	**33,897**
Goodwill	91,367	–	–	**91,367**
AFS investments	270,758	–	(270,758)	**–**
Equity instruments at FVTOCI	–	–	270,758	**270,758**
Deferred tax assets	33,441	–	–	**33,441**
Trade receivables	156,988	–	–	**156,988**
	2,011,462	–	–	**2,011,462**
Current assets				
Prepaid land lease payments	10,831	–	–	**10,831**
Inventories	1,706,510	–	–	**1,706,510**
Trade and bills receivables	1,429,263	–	–	**1,429,263**
Prepayments, deposits and other receivables	79,531	–	–	**79,531**
Pledged deposits	45,931	–	–	**45,931**
Cash and cash equivalents	1,556,406	–	–	**1,556,406**
	4,828,472	–	–	**4,828,472**

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation (Continued)

	31 December 2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Current liabilities				
Trade and bills payables	1,252,961	–	–	**1,252,961**
Other payables and accruals	167,972	(69,719)	–	**98,253**
Contract liabilities	–	69,719	–	**69,719**
Tax payable	2,409	–	–	**2,409**
Defined benefit obligations	380	–	–	**380**
Provisions	4,988	–	–	**4,988**
	1,428,710	–	–	**1,428,710**
Net current assets	3,399,762	–	–	**3,399,762**
Total assets less current liabilities	5,411,224	–	–	**5,411,224**
Non-current liabilities				
Defined benefit obligations	240	–	–	**240**
Deferred tax liabilities	32,669	–	–	**32,669**
	32,909	–	–	**32,909**
Net assets	5,378,315	–	–	**5,378,315**

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation (Continued)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[2]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material* [5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement* [1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

The Directors anticipate that the application of the above new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations and goodwill

Business combinations, other than business combination 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. Acquisition-related costs are expensed as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for any non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net amount of the identifiable 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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 is, from the acquisition date, allocated to each of the Group's cash-generating units (or group of cash-generating units) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is so allocated represents the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset'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 (or a cash-generating unit) 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 (or a cash-generating unit). An impairment loss is charged to profit or loss in the period in which it arises in the 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 recognized impairment loss of an asset (or a cash-generating unit) is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset (or cash-generating unit), 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 in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

3. 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;

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

3. 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. 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.

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

Categories	Annual rates
Buildings and structures	2.71%
Machinery	9.50%
Production equipment	9.50%-19.00%
Measurement and experimental equipment	19.00%
Vehicles	19.00%
Other equipment	19.00%-31.67%

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Office software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 2 years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as liabilities and as a reduction of rental expense over the lease term on a straight-line basis.

3. 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.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at amortised cost as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments at FVTOCI.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income and gains line item in profit or loss.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and bills receivables, deposits and other receivables) and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors which are credit impaired and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lenders would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the below basis:

- Nature of financial instruments (i.e. the Group's trade receivables and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and.
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognises an impairment gain or loss in profit or loss for all financial assets subject to ECL by adjusting their carrying amount through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Classification of financial assets

At initial recognition financial assets within the scope of IAS 39 are classified into the following specified categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and AFS financial assets, 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 the Group's financial assets depends on their classification as follows:

(i) 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.

(ii) AFS investments

AFS 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.

After initial recognition, AFS investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to profit or loss. Dividends earned whilst holding the AFS investments are reported as dividend income and are recognised in profit or loss as other income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

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.

(i) Financial assets at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

(ii) AFS investments

For AFS 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.

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 recognized 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities measured at amortised cost, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables and other payables.

Subsequent measurement

Financial liabilities at amortised cost

After initial recognition, financial liabilities of the Group including trade and bills payables and other payables are subsequently measured at amortised cost, using the effective interest rate method. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity *(Continued)*

Financial liabilities (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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.

Provisions

Provisions for product warranties granted by the Group on certain products are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax 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, 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

Government grants

Government grants are recognised 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.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2) (Continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

(a) Revenue from the sale of machinery, parts and components is recognised when the goods are delivered and titles have passed;

(b) Revenue from the rendering of overhaul services is recognised when services are provided;

(c) Revenue from the rendering of railway line maintenance services and rail vehicles engineering and technical services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is established by reference to the value of the services transferred to the customer to date relative to the remaining goods or services promised under the contract;

(d) Dividend income from investments is recognised when the shareholders' right to receive payment has been established; or

(e) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Employee benefits

Retirement benefits

1. Social pension plans

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

2. Annuity plan

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Retirement benefits *(Continued)*

3. Post-employment benefit plan

The Group provides a benefit plan for long-term post-leaving personnel, which are considered as defined benefit plans. The Group does not put any funds in the plan. The obligation recognised in the consolidated statement of financial position in respect of these defined benefit plans is the present value of the defined benefit obligations at the end of the reporting period. The defined benefit obligation is calculated by an independent qualified actuarial firm, which is engaged by CRCC, using the projected cumulative unit credit method annually, or when any material changes in the plans and key assumptions occur. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities of the currency and term consistent with the currency and term of the defined benefit plan. Re-measurements arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

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 in the consolidated statement of profit or loss and other comprehensive income by function:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees under the relevant laws and regulations of the PRC. These include housing fund, basic and supplementary medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

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

3. 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the consolidated financial statements.

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a nonmonetary 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).

The functional currencies of certain overseas subsidiaries are currencies other than the 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 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 profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purposes of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. 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. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Useful lives and residual values of items of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods. Further details are set out in note 17.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The Group assessed and concluded that indications of material impairment for non-financial assets did not exist during the reporting period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for trade receivables by groupings of various debtors that have similar loss patterns. The provision rates are based on the Group's historical default rates taking into consideration of reasonable and supportable forward-looking information that is available without undue cost or effort. At end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables which are credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 3 and 22 respectively.

Provision against obsolete inventories

Management reviews the condition of inventories of the Group at the end of each reporting period and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for use or sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of each reporting period. Further details are set out in note 21.

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. The carrying amount of goodwill at 31 December 2018 was RMB91,367,000 (2017: RMB91,367,000). Further details are set out in note 16.

Provisions for warranties

Provisions for product warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs, discounted to their present values as appropriate. Further details are set out in note 28.

Development costs

The Group capitalises development costs for a project in accordance with the relevant accounting policy for research and development costs in note 3. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. During the year, all development costs are expensed based on management's assessment.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Fair value measurement of equity investments

As disclosed in note 15, certain of the Group's financial assets amounting to RMB242,232,000 as at 31 December 2018 (2017: RMB270,758,000 in note 14) are measured at fair values which were determined based on market quotation and non-liquidity effect. Judgement and estimation are required for determination of the non-liquidity discount ratio. Changes in assumptions relating to these factors could affect the reported fair values of these instruments.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2018 was RMB1,651,000 (2017: RMB11,804,000). Further details are set out in note 20.

5. OPERATING SEGMENT INFORMATION

The Group's revenue and contribution to consolidated results are mainly derived from the provision of products and services in the large railway track maintenance machinery industry, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management, being the chief operating decision maker, for the purposes of resources allocation and performance assessment. Accordingly, no segment information is presented other than entity-wide disclosures.

Geographical information

(a) Revenue from external customers

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Mainland China	**2,351,837**	1,747,043
Other countries/regions	**58,877**	71,265
	2,410,714	1,818,308

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

5. OPERATING SEGMENT INFORMATION (Continued)

Geographical information (Continued)

(b) Non-current assets

	31/12/2018 RMB'000	31/12/2017 RMB'000
Mainland China	**1,392,958**	1,456,225
Other countries/regions	**93,729**	94,050
	1,486,687	1,550,275

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and financial instruments.

Information about a major customer

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

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
China Railway Corporation	**776,611**	606,575
China Railway Construction Heavy Industry Co., Ltd.	**487,528**	122,435
Total	**1,264,139**	729,010
Proportion of revenue	**52%**	40%

6. REVENUE

A. For the year ended 31 December 2018

(a) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018					
	Sales of machinery RMB'000	Overhaul services RMB'000	Sales of parts and components RMB'000	Railway line maintenance services RMB'000	Rail engineering and technical services RMB'000	Total RMB'000
Timing of revenue recognition						
At a point in time	1,597,463	493,850	208,472	–	–	2,299,785
Over time	–	–	–	41,528	69,401	110,929
Total	1, 597,463	493,850	208,472	41,528	69, 401	2,410,714

(b) Performance obligations for contracts with customers

Sales of machinery

For sales of large railway track maintenance machinery ("**machinery**"), revenue is recognised when control of the machinery has transferred, being at the point that the acceptance certificates for installation and debugging are signed by the Group and the customers together. The trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three to six months upon delivery. Warranties associated with sales of machinery cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications.

Overhaul services

Revenues from overhaul services are mainly generated from the services of repairment and reconstruction. Revenue is recognised in accordance with each performance obligation at a point in time when the services are fully rendered and accepted by the customers. Warranties associated with overhaul services cannot be purchased separately and they serve as an assurance that the services provided comply with agreed-upon specifications.

6. REVENUE (Continued)

A. For the year ended 31 December 2018 (Continued)

(b) *Performance obligations for contracts with customers* (Continued)

Sales of parts and components

Revenues from sales of parts and components are mainly generated from sales of parts and components of large railway track maintenance machinery. Revenue is recognised when control of the parts and components has transferred, being at the point that the parts and components are delivered to the customers.

Railway line maintenance services

Revenues from railway line maintenance services are mainly generated from the maintenance services of railway line. Revenue is recognised over time based on the stage of completion of the contract using output method.

Rail vehicles engineering and technical services

Revenues from rail vehicles engineering and technical services are mainly generated from the technical support and repair services of rail vehicles. Revenue is recognised over time based on the stage of completion of the contract using output method.

(c) *Transaction price allocated to the remaining performance obligation for contracts with customers*

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Sales of machinery RMB'000	Overhaul services RMB'000	Sales of parts and components RMB'000	Railway line maintenance services RMB'000	Rail vehicles engineering and technical services RMB'000	Total RMB'000
Within one year	760,058	70,935	56,574	10,990	–	898,557
After one year	68,713	215,085	–	2,283	–	286,081
	828,771	286,020	56,574	13,273	–	1,184,638

6. REVENUE (Continued)

B. For the year ended 31 December 2017

An analysis of revenue is as follows:

	2017 RMB'000
Sales of machinery	968,227
Overhaul services	486,611
Sales of parts and components	256,798
Railway line maintenance services	25,966
Rail vehicles engineering and technical services	80,706
	1,818,308

7. OTHER INCOME AND GAINS

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Interest income	**29,912**	25,071
Government grants	**25,262**	24,890
Training income	**5,803**	5,200
Dividend income from equity instruments at FVTOCI	**4,410**	–
Dividend income from AFS investments	**–**	4,410
Rental income	**3,573**	1,889
Sale of scrap materials	**1,578**	1,751
Net exchange gain	**7,538**	–
Others	**9,524**	4,482
	87,600	67,693

8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Depreciation of item of property, plant and equipment	**52,543**	59,089
Amortisation of prepaid land lease payments	**10,806**	10,806
Amortisation of other intangible assets	**5,710**	6,837
Amortisation of long-term deferred expenses	**–**	14
Total depreciation and amortisation *(note a)*	**69,059**	76,746
Impairment of trade receivables	**28,777**	14,021
Impairment of deposits and other receivables	**80**	134
Impairment of contract assets	**12**	–
Total impairment losses, net *(note b)*	**28,869**	14,155
Write-down of inventories to net realisable value	**7,290**	2,433
Lease expense under operating leases of buildings and equipment	**5,400**	12,016
Auditors' remuneration	**1,180**	1,950
Employee benefit expenses (including directors', supervisors' and chief executive's remuneration *(note 11)*:		
Wages, salaries and allowances	**212,581**	238,408
Defined contribution scheme expenses	**47,643**	46,040
Defined benefit scheme expenses	**–**	30
Welfare and other expenses	**154,341**	129,522
Total employee benefit expenses *(notes c and d)*	**414,565**	414,000
Research and development costs recognised as an expense *(note d)*	**156,730**	147,641
Provisions for warranties, net of reversal	**9,212**	2,690
Impairment losses on prepayments	**12,319**	–
Loss on disposal of items of property, plant and equipment	**19**	97
Interest income	**(29,912)**	(25,071)
Dividend income from equity instruments at FVTOCI	**(4,410)**	–
Dividend income from AFS investments	**–**	(4,410)
Foreign exchange (gains)/losses, net	**(7,538)**	2,884
Government grants *(note e)*:	**(25,262)**	(24,890)

8. PROFIT BEFORE TAX (Continued)

Notes:

(a) Depreciation of approximately RMB51,823,000 (2017: RMB40,972,000) is included in cost of sales for the year ended 31 December 2018.

(b) Details of impairment assessment for the year ended 31 December 2018 are set out in note 35(c).

(c) Employee benefit expenses of approximately RMB264,743,000 (2017: RMB282,847,000) are included in cost of sales for the year ended 31 December 2018.

(d) Employee benefit expenses of approximately RMB46,917,000 (2017: RMB50,713,000) are included in research and development costs for the year ended 31 December 2018.

(e) Most of the government grants are received by the Group as financial subsidies for its research activities. There are no unfulfilled conditions or contingencies relating to these grants.

9. FINANCE COSTS

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Bills discount interest	–	349
Discount interest on trade receivables	–	35,611
Total finance costs	–	35,960

10. INCOME TAX EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollars ("**HKD**") 2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

10. INCOME TAX EXPENSE (Continued)

The Company was entitled to a preferential income tax rate of 15% for the years ended 31 December 2018 and 2017, and will continue to benefit from this preferential income tax policy until 31 December 2020 under the "Tax Incentives of Western Development Policy".

One subsidiary of the Company has been identified as "high and new technology enterprises" and was entitled to a preferential income tax rate of 15% from 1 January 2018 to 31 December 2020 in accordance with the PRC Corporate Income Tax Law.

Other entities within the Group in Mainland China are subject to corporate income tax at a statutory rate of 25%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Current tax:		
PRC Enterprise Income Tax	**12,942**	21,431
Other jurisdictions	**773**	99
Under provision in prior year:		
PRC Enterprise Income Tax	**359**	2,612
Deferred tax	**1,955**	(14,799)
Tax charge for the year	**16,029**	9,343

10. INCOME TAX EXPENSE (Continued)

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate for the years ended 31 December 2018 and 2017 is as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Profit before tax	**172,389**	64,430
Income tax charge at the statutory income tax rate of 25%	**43,097**	16,107
Adjustments in respect of current tax of previous periods	**359**	2,612
Effect of preferential income tax rate for some group entities	**(9,019)**	766
Additional deduction of research and development costs *(Note)*	**(15,804)**	(9,940)
Tax effect of expenses not deductible for tax purpose	**502**	661
Tax effect of income not taxable for tax purpose	**(1,103)**	(1,103)
Deferred tax changes resulting from changes in applicable tax rates	**(2,197)**	–
Others	**194**	240
Tax charge at the effective rate	**16,029**	9,343

Note:

On 20 September 2018, Ministry of Finance of the People's Republic of China passed the "Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses" (the "**Notice**"). Pursuant to the Notice, the Group enjoys super deduction of 175% (2017: 150%) on qualifying research and development expenditures for the year ended 31 December 2018.

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

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

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

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Fees	**372**	274
Other emoluments:		
Salaries, allowances and benefits in kind	**594**	957
Performance related bonuses	**1,004**	222
Pension scheme contributions	**113**	163
	2,083	1,616

Bonuses are determined based on the Group's performance for such financial year.

The names of the directors, supervisors and chief executive and their remuneration for the years ended 31 December 2018 and 2017 are as follows:

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

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

Year ended 31/12/2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors					
Mr. Tong Pujiang (Chief executive)	–	192	547	37	776
Mr. Chen Yongxiang	–	192	394	37	623
Mr. Liu Feixiang	–	–	–	–	–
Mr. Zhao Hui	–	–	–	–	–
Non-executive directors					
Mr. Wu Zhixu	78	–	–	–	78
Mr. Li Xuefu *(note i)*	–	–	–	–	–
Mr. Sha Mingyuan *(note ii)*	–	–	–	–	–
Independent non-executive directors					
Mr. Yu Jiahe	98	–	–	–	98
Mr. Sun Linfu	98	–	–	–	98
Mr. Wong Hin Wing	98	–	–	–	98
	372	384	941	74	1,771
Supervisors					
Mr. Lyu Jianming	–	97	63	24	184
Mr. Yu Qiuhua *(note iii)*	–	113	–	15	128
Mr. Wang Huaming	–	–	–	–	–
Mr. Wang Shuchuan	–	–	–	–	–
	–	210	63	39	312
	372	594	1,004	113	2,083

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

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

Year ended 31/12/2017

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors					
Mr. Ren Yanjun *(note iv)*	–	202	–	31	233
Mr. Jiang He *(note v)*	–	202	–	30	232
Mr. Yu Yuanlin *(note iv)*	–	167	–	30	197
Mr. Chen Yongxiang *(note vi)*	–	118	–	21	139
Mr. Tong Pujiang (Chief executive) *(note vii)*	–	69	–	12	81
Mr. Liu Feixiang *(note viii)*	–	–	–	–	–
Mr. Zhao Hui *(note viii)*	–	–	–	–	–
Non-executive directors					
Mr. Wu Zhixu	78	–	–	–	78
Mr. Li Xuefu	–	–	–	–	–
Independent non-executive directors					
Mr. Sun Linfu	–	–	–	–	–
Mr. Yu Jiahe	98	–	–	–	98
Mr. Wong Hin Wing	98	–	–	–	98
	274	758	–	124	1,156
Supervisors					
Mr. Lyu Jianming	–	199	222	39	460
Mr. Zhang Zhumin *(note ix)*	–	–	–	–	–
Mr. Wang Huaming	–	–	–	–	–
Mr. Wang Shuchuan *(note x)*	–	–	–	–	–
	–	199	222	39	460
	274	957	222	163	1, 616

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

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

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Notes:

(i) Mr. Li Xuefu resigned as a non-executive director effective from 29 June 2018.

(ii) Mr. Sha Mingyuan was appointed as a non-executive director effective from 29 June 2018.

(iii) Mr. Yu Qiuhua was appointed as a supervisor effective from 29 June 2018.

(iv) Mr. Ren Yanjun and Mr. Yu Yuanlin resigned as executive directors effective from 15 September 2017.

(v) Mr. Jiang He resigned as chief executive effective from 28 July 2017, and resigned as an executive director effective from 15 September 2017.

(vi) Mr. Chen Yongxiang was appointed as an executive director effective from 22 June 2017.

(vii) Mr. Tong Pujiang was appointed as chief executive effective from 28 July 2017, and was appointed as an executive director effective from 15 September 2017.

(viii) Mr. Liu Feixiang and Mr. Zhao Hui were appointed as executive directors effective from 15 September 2017.

(ix) Zhang Zhumin resigned as a supervisor effective from 15 September 2017.

(x) Mr. Wang Shuchuan was appointed as a supervisor effective from 15 September 2017.

(b) Five highest paid employees

The five highest paid employees within the Group for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
Chief executive	**–**	–
Directors	**–**	–
Supervisors	**–**	–
Non-director and non-supervisor employees	**5**	5
	5	5

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

(b) Five highest paid employees (Continued)

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

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

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Salaries, allowances and benefits in kind	**5,455**	5,239
Performance related bonuses	**–**	–
Pension scheme contributions	**–**	–
	5,455	5,239

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

	2018	2017
Nil to HKD1,000,000	**1**	2
HKD1,000,001 to HKD1,500,000	**4**	3
	5	5

During the years ended 31 December 2018 and 2017, no directors, supervisors, chief executive or any of the non-director and non-supervisor highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors, supervisors, chief executive or any of the non-director and non-supervisor highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

Dividends for the year ended 31 December 2018 are set out below:

	2018 RMB'000	2017 RMB'000
Declared:		
Dividend declared to owners of the Company *(note i)*	**15,199**	243,181
Proposed:		
Final dividend–RMB0.05 (2017: RMB0.01) per share *(note ii)*	**75,994**	15,199

Note:

(i) A final dividend of RMB0.01 (2017: final dividend in respect of the year ended 31 December 2016 of RMB0.16) per share in respect of the year ended 31 December 2017 was approved in the Company's annual general meeting held on 7 June 2018.

(ii) The board of directors of the Company proposed, on 28 February 2019, a final dividend of RMB0.05 per share in respect of the year ended 31 December 2018. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share amount is based on the profit for the year attributable to the owners of the Company, and the number of ordinary shares of 1,519,884,000 (2017: 1,519,884,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to the owners of the Company, used in the basic earnings per share calculation	**156,360**	55,087

13. EARNINGS PER SHARE (Continued)

	2018	2017
	'000	'000
Numbers of shares		
Number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,519,884**	1,519,884

14. AVAILABLE-FOR-SALE INVESTMENTS

	31/12/2017
	RMB'000
Equity investments:	
Domestic shares in a Hong Kong listed company	270,758
Analysed for reporting purposes as:	
Current assets	–
Non-current assets	270,758
	270,758

15. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31/12/2018
	RMB'000
Equity investments:	
Domestic shares in a Hong Kong listed company	**242,230**

Note:

The above equity investments represent domestic ordinary shares of a PRC entity listed in Hong Kong. These investments are not held for trading, instead, they are held for long-term strategic purposes. The Directors have elected to designate these investments in equity instruments as at FVTOCI at the date of initial application of IFRS 9 as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

16. GOODWILL

	2018	2017
	RMB'000	RMB'000
COST		
At 1 January and at 31 December	**91,367**	91,367

Impairment assessment of goodwill

Goodwill acquired through business combinations is allocated to rail vehicles engineering and technical services cash-generating unit for impairment assessment:

The recoverable amount of the rail vehicles engineering and technical services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 9.45% (2017: 9.45%) per annum. The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2017: 3%) per annum.

Any reasonably possible change in the key assumptions, in particular the cash flows, long term growth rates and the discount rate, on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

The carrying amount of goodwill allocated to rail vehicles engineering and technical services cash-generating unit is as follows:

	Rail vehicles engineering and technical services	
	31/12/2018	31/12/2017
	RMB'000	RMB'000
Carrying amount of goodwill	**91,367**	91,367

The key assumptions on which management has based its cash flow projections to undertake impairment assessment of goodwill are as follows:

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

Discount rates – the discount rates used are before tax and reflect specific risks relating to the relevant units.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery, production equipment and measurement and experimental equipment RMB'000	Vehicles RMB'000	Structures and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2018	770,555	456,475	29,619	189,535	115,014	1,561,198
Additions	–	4,991	–	6,419	8,727	20,137
Transfers from construction in progress	12,704	–	–	681	(13,385)	–
Transfers to other intangible assets	–	–	–	–	(3,866)	(3,866)
Disposals and others	–	(1,263)	(1,171)	–	–	(2,434)
At 31 December 2018	783,259	460,203	28,448	196,635	106,490	1,575,035
Depreciation and impairment:						
At 1 January 2018	(157,667)	(298,498)	(23,101)	(86,230)	–	(565,496)
Depreciation charge for the year	(21,093)	(24,395)	(1,356)	(5,699)	–	(52,543)
Disposals	–	1,199	1,111	–	–	2,310
At 31 December 2018	(178,760)	(321,694)	(23,346)	(91,929)	–	(615,729)
Net carrying amount:						
At 31 December 2018	604,499	138,509	5,102	104,706	106,490	959,306
At 1 January 2018	612,888	157,977	6,518	103,305	115,014	995,702

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Machinery, production equipment and measurement and experimental equipment RMB'000	Vehicles RMB'000	Structures and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2017	759,380	475,115	34,799	157,297	59,028	1,485,619
Additions	1,743	22,300	2,882	3,695	102,386	133,006
Transfers from construction in progress	11,231	–	–	28,678	(39,909)	–
Transfers to other intangible assets	–	–	–	–	(4,057)	(4,057)
Disposals and others	(1,799)	(40,940)	(8,062)	(682)	(2,434)	(53,917)
Exchange realignment	–	–	–	547	–	547
At 31 December 2017	770,555	456,475	29,619	189,535	115,014	1,561,198
Depreciation and impairment:						
At 1 January 2017	(137,104)	(295,610)	(29,192)	(75,895)	–	(537,801)
Depreciation charge for the year	(20,563)	(26,706)	(1,568)	(10,252)	–	(59,089)
Disposals	–	23,818	7,659	398	–	31,875
Exchange realignment	–	–	–	(481)	–	(481)
At 31 December 2017	(157,667)	(298,498)	(23,101)	(86,230)	–	(565,496)
Net carrying amount:						
At 31 December 2017	612,888	157,977	6,518	103,305	115,014	995,702
At 1 January 2017	622,276	179,505	5,607	81,402	59,028	947,818

At 31 December 2018, 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 RMB7,755,000 (31 December 2017: RMB23,219,000). The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter would not have any significant impact on the Group's financial position as at 31 December 2018.

18. PREPAID LAND LEASE PAYMENTS

	31/12/2018	31/12/2017
	RMB'000	RMB'000
Carrying amount at 1 January	**430,252**	441,058
Amortisation	**(10,806)**	(10,806)
Carrying amount at 31 December	**419,446**	430,252
Portion classified as current assets	**(10,831)**	(10,831)
Non-current portion	**408,615**	419,421

19. OTHER INTANGIBLE ASSETS

	Office software RMB'000	Others RMB'000	Total RMB'000
Cost:			
At 1 January 2017	44,620	6,869	51,489
Additions	686	–	686
Transfers from construction in progress	4,057	–	4,057
Disposals	(18)	–	(18)
Exchange realignment	379	–	379
At 31 December 2017	49,724	6,869	56,593
Additions	200	–	200
Transfers from construction in progress	3,866	–	3,866
At 31 December 2018	**53,790**	**6,869**	**60,659**
Accumulated amortisation:			
At 1 January 2017	(38,076)	(1,467)	(39,543)
Amortisation for the year	(5,901)	(936)	(6,837)
Disposals	6	–	6
Exchange realignment	(331)	–	(331)
At 31 December 2017	(44,302)	(2,403)	(46,705)
Amortisation for the year	(4,774)	(936)	(5,710)
At 31 December 2018	**(49,076)**	**(3,339)**	**(52,415)**
Net carrying amount:			
At 31 December 2018	**4,714**	**3,530**	**8,244**
At 31 December 2017	5,422	4,466	9,888

20. DEFERRED TAX ASSETS/LIABILITIES

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

Deferred tax assets:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
At 1 January	**33,441**	18,625
Deferred tax (charged)/credited to profit or loss	**(4,152)**	14,799
Effect of change in tax rate credited to profit or loss	**2,197**	–
Deferred tax credited to other comprehensive income	**2**	17
At 31 December	**31,488**	33,441

Deferred tax liabilities:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
At 1 January	**32,669**	25,687
Deferred tax (credited)/charged to other comprehensive income	**(4,279)**	6,982
At 31 December	**28,390**	32,669

20. DEFERRED TAX ASSETS/LIABILITIES (Continued)

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Deferred tax assets:		
Deductible tax losses	1,651	11,804
Allowance for impairment loss of financial assets and contract assets	13,116	7,542
Allowance for impairment loss of prepayments	1,848	–
Unrealised gains arising from intra-group transactions	2,135	5,626
Discount on long-term trade receivables	3,677	4,796
Accruals and provisions	6,315	1,811
Impairment of inventories	2,746	1,559
Government grants received not yet recognised as income	–	303
	31,488	33,441

	31/12/2018 RMB'000	31/12/2017 RMB'000
Deferred tax liabilities:		
Fair value change on equity instruments at FVTOCI/AFS investments	28,390	32,669

As at 31 December 2018 and 2017, there were no unrecognised deferred tax assets in respect of deductible temporary differences and unused tax losses.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

21. INVENTORIES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Raw materials and parts and components	**600,509**	907,100
Materials in transit	**12,553**	4,382
Work in progress	**360,722**	460,371
Finished goods	**204,215**	345,051
	1,177,999	1,716,904
Allowance for impairment	**(17,684)**	(10,394)
	1,160,315	1,706,510

Movements in the allowance for impairment losses are as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Impairment:		
At 1 January	**10,394**	7,961
Impairment losses	**7,290**	2,433
At 31 December	**17,684**	10,394

22. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has control to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customer. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing. They are stated at net of provisions.

	31/12/2018 RMB'000	31/12/2017 RMB'000
Trade receivables	**2,141,528**	1,564,964
Less: Allowance for credit losses	**(79,057)**	(50,280)
Trade receivables, net	**2,062,471**	1,514,684
Bills receivable	**636,437**	71,567
	2,698,908	1,586,251
Less: Non-current portion	**(164,067)**	(156,988)
Current portion	**2,534,841**	1,429,263

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within 6 months	**1,289,392**	605,957
6 months to 1 year	**669,575**	393,758
1 to 2 years	**302,640**	313,460
2 to 3 years	**232,294**	88,023
Over 3 years	**40,940**	28,065
	2,534,841	1,429,263

All bills received by the Group are with a maturity period of less than one year.

22. TRADE AND BILLS RECEIVABLES (Continued)

Movement in the allowance for impairment losses is as follows:

	Year ended 31/12/2017 RMB'000
At 1 January	36,259
Impairment losses	14,021
At 31 December	50,280

As at 31 December 2017, the ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	31/12/2017 RMB'000
Neither past due nor impaired	535,590
Past due but not impaired:	
Less than 6 months past due	–
Over 6 months past due	–
	535,390

Details of the outstanding balances with related parties included in trade and bills receivables are set out in note 38.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Deposits and other receivables	**10,924**	22,076
Less: Allowance for deposits and other receivables	**(328)**	(248)
	10,596	21,828
Prepayments	**45,158**	62,322
Deductible input VAT	**683**	23,804
Tax receivables	**4,867**	5,474
	61,304	113,428
Less: Long-term prepayments	**(19,155)**	(33,897)
Current portion	**42,149**	79,531

The movement in allowance for deposits and other receivables is as follows:

	Year ended 31/12/2017 RMB'000
At 1 January	220
Impairment losses	134
Written off	(106)
At 31 December	248

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

As at 31 December 2017, an ageing analysis of deposits and other receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	31/12/2017 RMB'000
Neither past due nor impaired	13,691
Past due but not impaired:	
Less than 6 months past due	–
Over 6 months past due	6,190
	19,881

Details of the outstanding balances with related parties included in prepayments, deposits and other receivables are set out in note 38.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Cash	**1**	41
Bank balances	**1,789,206**	1,556,365
Pledged deposits	**3,958**	45,931
	1,793,165	1,602,337
Less: Pledged deposits for guarantees of sales contracts	**(3,958)**	(45,931)
Cash and cash equivalents in the consolidated statements of financial position and cash flows	**1,789,207**	1,556,406

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB1,765,720,000 (2017: RMB1,222,445,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

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

Details of the outstanding balance with a related party included in cash and cash equivalents are set out in note 38.

25. TRADE AND BILLS PAYABLES

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

	31/12/2018	31/12/2017
	RMB'000	RMB'000
Within 1 year	**1,614,878**	1,205,436
1 to 2 years	**22,778**	26,609
2 to 3 years	**407**	531
Over 3 years	**11,253**	20,385
	1,649,316	1,252,961

Trade payables are non-interest-bearing and are normally settled within the agreed periods.

Details of the outstanding balances with related parties included in trade and bills payables are set out in note 38.

26. OTHER PAYABLES AND ACCRUALS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Advance lease payments	1,667	1,430
Advances from customers	–	69,719
Accrued salaries, wages and benefits	22,201	31,701
Other tax payables	96,526	11,908
Other payables	121,783	53,214
	242,177	167,972

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

Details of the outstanding balances with related parties included in other payables and accruals are set out in note 38.

27. CONTRACT LIABILITIES

	31/12/2018 RMB'000	1/1/2018 RMB'000 *(Note)*
Contract liabilities	42,161	69,719
	42,161	69,719
Current	42,161	69,719
Non-current	–	–
	42,161	69,719

Note: The amounts in this column are after the adjustments upon the application of IFRS 15.

The Group's contract liabilities represent advances from customers in respect of sales of machinery, parts and components contracts, overhaul services and railway line maintenance services contracts. The contract liabilities are recognised as revenues on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the liabilities relate.

27. CONTRACT LIABILITIES (Continued)

The following table shows the total amount of the revenue recognized in the current year relates to carried-forward contract liabilities.

	Sales of machinery RMB'000	Overhaul services RMB'000	Sales of parts and components RMB'000	Railway line maintenance services RMB'000	Rail vehicles engineering and technical services RMB'000	Total RMB'000
Revenue recognised that was included in the contract liability balance at beginning of the year	33,121	7,216	12,282	17,100	–	69,719

28. PROVISIONS

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Provisions for product warranties:		
At 1 January	**4,988**	9,093
Additional provision, net	**9,212**	2,690
Amounts utilised during the year	**(9,449)**	(6,795)
At 31 December	**4,751**	4,988

The Group provides approximately one year warranties to its customers on certain products, under which faulty products will be repaired or replaced. The amount of the provisions for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

29. ISSUED CAPITAL

	Number of shares		Share capital	
	Year ended 31/12/2018 '000	Year ended 31/12/2017 '000	**Year ended 31/12/2018 RMB'000**	Year ended 31/12/2017 RMB'000
Issued and fully paid				
At beginning of the year and at end of the year	**1,519,884**	1,519,884	**1,519,884**	1,519,884

30. RESERVES

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

31. CONTINGENT LIABILITIES

At 31 December 2018, the Group did not have any material contingent liabilities not provided for in the consolidated financial statements (2017: Nil).

32. OPERATING LEASE COMMITMENTS

The Group as lessor

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within one year	**2,583**	982
In the second to fifth year, inclusive	**9,787**	–
	12,370	982

32. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/2018	31/12/2017
	RMB'000	RMB'000
Within one year	**357**	2,296
In the second to fifth year, inclusive	**–**	2,143
	357	4,439

33. CAPITAL COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

	31/12/2018	31/12/2017
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**44,089**	47,403
	44,089	47,403

34. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognised Bills**") to certain of its suppliers with a carrying amount in aggregate of RMB47,823,000 (2017: RMB83,713,000) in order to settle the trade payables due to such suppliers. The Derecognised Bills had a maturity of less than one year at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have the recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2018, the Group has not recognised any gains or losses on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables and equity instruments at FVTOCI. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(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.

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on cash and cash equivalents based on or by reference to the interest rates promulgated by the People's Bank of China. No sensitivity analysis has been presented for bank balances as the Directors consider that the fluctuation in interest rates on bank balances is minimal.

The Group did not have any interest-bearing borrowings as at 31 December 2018 and 2017.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's business transacted in RMB, the aforesaid currency is defined as the functional currency of the Company and its principal subsidiaries. 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 99% 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 24.

(c) Credit risk and impairment assessment

The Group trades only with recognised and creditworthy third parties 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.

According to the Group's credit risk management policy, the Group always recognises lifetime ECL for trade receivables and contract assets. If there is any evidence indicating the receivable or contract asset is credit-impaired, the Group recognises the ECL individually.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk and impairment assessment (Continued)

The carrying amounts of cash and cash equivalents and pledged deposits represent the Group's maximum exposure to credit risk in relation to these 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 table below details the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

31 December 2018	*Note*	12-month or lifetime ECL	Gross carrying amount RMB'000
Financial assets at amortised costs			
Trade receivables	*(i)*	Lifetime ECL	2,141,528
Other receivables		12-month ECL	10,924
Other items			
Contract assets	*(i)*	Lifetime ECL	2,391

Note:

(i) The Group has applied the simplified approach in IFRS 9 to measure the loss allowance for trade receivables and contract assets at lifetime ECL. Except for debtors which are credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk and impairment assessment (Continued)

Provision matrix

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its all operations because these customers are with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL. Debtors which are credit impaired with gross carrying amounts of RMB83,280,000 as at 31 December 2018 were assessed individually.

	Expected credit loss rates	Gross carrying amount of trade receivables RMB'000
Within 6 months	0.20%	1,304,046
6 months to 1 year	0.20%	185,532
1 to 2 years	3%	312,000
2 to 3 years	5%	177,182
3 to 4 years	15%	29,575
4 to 5 years	35%	24,473
Over 5 years	100%	25,440
		2,058,248

The expected credit loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided RMB7,417,000 impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of RMB21,360,000 were made on debtors which are credit-impaired debtors.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk and impairment assessment (Continued)

Provision matrix *(Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under IAS 39	32,048	18,232	50,280
Adjustment upon application of IFRS 9	–	–	–
As at 1 January 2018	32,048	18,232	50,280
Changes due to financial instruments recognised as at 1 January:			
– Transfer to credit-impaired	(5,176)	5,176	–
– Impairment losses recognised	15,135	21,360	36,495
– Impairment losses reversed	(10,697)	–	(10,697)
New trade receivables originated during the year	2,979	–	2,979
As at 31 December 2018	**34,289**	**44,768**	**79,057**

No material additional impairment has been recognised upon application of expected loss approach on 1 January 2018.

As disclosed in note 5, the Group generates substantial proportion of revenue from a small number of customers. As a result, it faces concentration of credit risk. The Group manages this risk by maintaining a strict control over its outstanding receivables and senior management regularly reviews the overdue balances. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. As the Group's major customers are either PRC government agencies at the national, provincial and local levels or other state-owned entities, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. Senior management of the Company keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period based on contractual undiscounted payments.

31 December 2018

	Within 1 year RMB'000
Trade and bills payables	**1,649,316**
Financial liabilities included in other payables and accruals	**121,783**
	1,771,099

31 December 2017

	Within 1 year RMB'000
Trade and bills payables	1,252,961
Financial liabilities included in other payables and accruals	53,214
	1,306,175

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from equity instruments at FVTOCI (note 15) as at 31 December 2018. The Group's equity investment represents domestic ordinary shares of an entity listed on the Hong Kong Stock Exchange and is valued based on quoted market prices after considering non-liquidity discount effect at the end of each reporting period.

The market equity index for the following stock exchange, at the close of business of the nearest trading day in the year to the end of each reporting period, and its respective highest and lowest points during the reporting period were as follows:

	31 December 2018 RMB'000	**High/low RMB'000**	31 December 2017 RMB'000	High/low RMB'000
Hong Kong		**32,967**		30,200
– Hang Seng Index	**25,846**	**24,586**	29,919	21,884

The following table demonstrates the sensitivity to every 10% change in the fair value of the equity investments, with all other variables held constant, based on their carrying amounts at the end of each reporting period. For the purposes of this analysis, for the equity investments, the impact for the year ended 31 December 2017 is deemed to be on the AFS reserve and no account is given for factors such as impairment which might impact profit or loss.

	Increase /(decrease) in carrying amount of equity investments	**Increase/(decrease) in equity**	
		2018 RMB'000	2017 RMB'000
Equity investments:	10%	**20,590**	–
Equity instruments at FVTOCI	(10%)	**(20,590)**	–
AFS investments	10%	**–**	23,015
	(10%)	**–**	(23,015)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Capital management

The Group's primary objective for managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, by pricing services and good products commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debts. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

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

The Group's strategy is to maintain the gearing ratio at a healthy level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its businesses. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Trade and bills payables	**1,649,316**	1,252,961
Financial liabilities included in other payables and accruals	**121,783**	53,214
Cash and cash equivalents	**(1,789,207)**	(1,556,406)
Pledged deposits	**(3,958)**	(45,931)
Net debt	**(22,066)**	(296,162)
Equity attributable to owners of the Company	**5,495,439**	5,378,315
Net debt and equity attributable to owners of the Company	**5,473,373**	5,082,153
Gearing ratio	**(0.4%)**	(6%)

36. FINANCIAL INSTRUMENTS

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

Financial assets

	31/12/2018 RMB'000	31/12/2017 RMB'000
Financial assets at amortised cost:		
Trade and bills receivables	2,698,908	
Financial assets included in prepayments, deposits and other receivables	10,596	–
Pledged deposits	3,958	–
Cash and cash equivalents	1,789,207	–
Loans and receivables (including cash and cash equivalents):		
Trade and bills receivables	–	1,586,251
Financial assets included in prepayments, deposits and other receivables	–	21,828
Pledged deposits	–	45,931
Cash and cash equivalents	–	1,556,406
Equity instruments at FVTOCI	242,230	–
AFS investments	–	270,758
	4,744,899	3,481,174

Financial liabilities

	31/12/2018 RMB'000	31/12/2017 RMB'000
Financial liabilities at amortised cost:		
Trade and bills payables	1,649,316	1,252,961
Financial liabilities included in other payables and accruals	121,783	53,214
	1,771,099	1,306,175

37. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	31/12/2018	31/12/2017	**31/12/2018**	31/12/2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets:				
Equity instruments at FVTOCI	**242,230**	–	**242,230**	–
AFS investments	**–**	270,758	**–**	270,758
Trade receivables, non-current portion	**164,067**	156,988	**164,401**	156,988

Management has assessed that the fair values of cash and cash equivalents and pledged deposits, the current portion of trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, 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 finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair value of the non-current portion of trade receivables has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of non-current portion of trade receivables disclosed as at the end of the reporting period is categorised within level 2 of the fair value hierarchy.

The Group's equity instruments measured at fair value as at the end of the reporting period represent domestic ordinary shares of an entity listed in Hong Kong, are categorised within level 2 of the fair value hierarchy and the fair values of which are based on quoted market prices, after considering the non-liquidity discount effect. The non-liquidity discount ratio applied to the calculation of the fair value of equity investment is 65% (2017: 65%) as at 31 December 2018, which is determined based on the price quotations of similar financial instruments.

During the year, there were no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3 for both financial assets and financial liabilities (2017: Nil).

38. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the years ended 31 December 2018 and 2017:

	2018 RMB'000	2017 RMB'000
Sales of machinery:		
Fellow subsidiaries	525,175	151,877
Sales of parts and components:		
Fellow subsidiaries	767	3,176
Overhaul services provided to:		
Fellow subsidiaries	4,905	–
Railway line maintenance services provided to:		
Fellow subsidiaries	18,850	6,487
Rail vehicles engineering and technical services provided to:		
A fellow subsidiary	10,574	17,984
Receiving services from:		
A fellow subsidiary	1,254	6,405
Bills payable issuance fee paid to:		
A fellow subsidiary	80	135
Interest income received from:		
A fellow subsidiary	12,097	7,650

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

In addition, the above related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

	31/12/2018 RMB'000	31/12/2017 RMB'000
Cash and cash equivalents:		
Deposits in a fellow subsidiary	756,609	729,195
Trade and bills receivables:		
Due from fellow subsidiaries	562,003	186,844
Prepayments, deposits and other receivables:		
Due from fellow subsidiaries	–	1,034
Trade and bills payables:		
Due to fellow subsidiaries	245,362	287,842
Other payables and accruals:		
Due to fellow subsidiaries	17,487	20,004

Cash and cash equivalents are unsecured and earn interest pursuant to the financial services framework agreement with the fellow subsidiary.

Trade and bills receivables are unsecured, non-interest-bearing and have similar credit terms with other customers of the Group.

Trade and bills payables are unsecured, non-interest-bearing and have similar credit terms with other suppliers of the Group.

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

38. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Short-term employee benefits	**4,465**	3,338
Pension scheme contributions	**341**	458
	4,806	3,796

Further details of directors', supervisors' and chief executive's remuneration are disclosed in note 11.

39. CORPORATE AND GROUP INFORMATION

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiary	Place of registration and business	Registered/ issued capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Beijing Ruiweitong Engineering Machinery Co., Ltd. * ("北京瑞維通工程機械有限公司")	Beijing, China	RMB 584,370,622	100%	–	Provision of overhaul services, and manufacturing and sale of parts and components
Kunming Aotongda Railway Machinery Co., Ltd. * ("昆明奧通達鐵路機械有限公司")	Kunming, China	RMB 50,000,000	100%	–	Manufacturing and sale of parts and components

39. CORPORATE AND GROUP INFORMATION (Continued)

Name of subsidiary	Place of registration and business	Registered/ issued capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Beijing Kunweitong Railway Mechanization , Engineering Co., Ltd. * ("北京昆維通鐵路機械化工程有限公司")	Beijing, China	RMB 60,000,000	100%	–	Provision of railway line maintenance services
CRCC Yukun Limited	Hong Kong	HKD10,000	100%	–	Investment holding
CE cideon engineering GmbH & Co. KG	Bautzen, Germany	Euro ("**EUR**") 500,000	–	100%	Provision of rail vehicles engineering and technical services
CE cideon engineering Verwaltungs GmbH	Bautzen, Germany	EUR 26,000	–	100%	Investment holding
CE cideon engineering Schweiz AG	Basel, Switzerland	Swiss Franc 160,000	–	100%	Provision of rail vehicles engineering and technical services

* The English names of the companies registered in the PRC represent the best efforts of management of the Company in translating the Chinese names of the companies as no official English names have been registered.

40. EVENT AFTER THE REPORTING PERIOD

As disclosed in note 12, the board of directors of the Company proposed, on 28 February 2019, a final dividend of RMB0.05 per share in respect of the year ended 31 December 2018. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	31/12/2018	31/12/2017
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**431,876**	461,876
AFS investments	**–**	270,758
Equity instruments at FVTOCI	**242,230**	–
Property, plant and equipment	**826,460**	863,075
Prepaid land lease payments	**241,108**	247,391
Other intangible assets	**3,713**	4,337
Trade receivables	**164,067**	156,988
Long-term prepayments	**19,155**	19,152
Deferred tax assets	**20,769**	23,190
Total non-current assets	**1,949,378**	2,046,767
CURRENT ASSETS		
Prepaid land lease payments	**6,283**	6,283
Inventories	**796,444**	1,280,687
Trade and bills receivables	**2,167,042**	1,046,293
Prepayments, deposits and other receivables	**321,371**	324,213
Pledged deposits	**721**	40,806
Cash and cash equivalents	**1,661,504**	1,504,190
Total current assets	**4,953,365**	4,202,472

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	31/12/2018 RMB'000	31/12/2017 RMB'000
CURRENT LIABILITIES		
Trade and bills payables	1,290,643	877,759
Other payables and accruals	184,268	128,547
Contract liabilities	28,025	–
Defined benefit obligations	130	380
Provisions	1,970	1,787
Total current liabilities	1,505,036	1,008,473
Net current assets	3,448,329	3,193,999
Total assets less current liabilities	5,397,707	5,240,766
NON-CURRENT LIABILITIES		
Defined benefit obligations	40	240
Deferred tax liabilities	28,390	32,669
Total non-current liabilities	28,430	32,909
Net assets	5,369,277	5,207,857
EQUITY		
Issued capital	1,519,884	1,519,884
Reserves *(note)*	3,849,393	3,687,973
Total equity	5,369,277	5,207,857

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Capital reserve RMB'000	Special reserve RMB'000	Surplus reserve RMB'000	AFS/ FVTOCI investments reserve RMB'000	Defined benefit plan revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2017	3,276,616	–	75,888	145,556	(10,169)	324,028	3,811,919
Profit for the year	–	–	–	–	–	84,937	84,937
Other comprehensive income/ (expense) for the year:							
Changes in fair value of AFS investments, net of tax	–	–	–	39,562	–	–	39,562
Re-measurement loss on defined benefit plan, net of tax	–	–	–	–	(93)	–	(93)
Total comprehensive income/ (expense) for the year	–	–	–	39,562	(93)	84,937	124,406
Dividends declared	–	–	–	–	–	(243,181)	(243,181)
Appropriation to statutory surplus reserve	–	–	8,494	–	–	(8,494)	–
Transfer to special reserve	–	5,156	–	–	–	(5,156)	–
Utilisation of special reserve	–	(5,156)	–	–	–	5,156	–
Business combinations involving entities under common control	(5,171)	–	–	–	–	–	(5,171)
At 31 December 2017	**3,271,445**	**–**	**84,382**	**185,118**	**(10,262)**	**157,290**	**3,687,973**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**200,876**	**200,876**
Other comprehensive expense for the year:							
Investments in equity instruments at FVTOCI, net of tax	**–**	**–**	**–**	**(24,249)**	**–**	**–**	**(24,249)**
Re-measurement loss on defined benefit plan, net of tax	**–**	**–**	**–**	**–**	**(8)**	**–**	**(8)**
Total comprehensive (expense)/ income for the year	**–**	**–**	**–**	**(24,249)**	**(8)**	**200,876**	**176,619**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**(15,199)**	**(15,199)**
Appropriation to statutory surplus reserve	**–**	**–**	**20,088**	**–**	**–**	**(20,088)**	**–**
Transfer to special reserve	**–**	**3,386**	**–**	**–**	**–**	**(3,386)**	**–**
Utilisation of special reserve	**–**	**(3,386)**	**–**	**–**	**–**	**3,386**	**–**
At 31 December 2018	**3,271,445**	**–**	**104,470**	**160,869**	**(10,270)**	**322,879**	**3,849,393**

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 February 2019.

BASIC CORPORATE INFORMATION

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

6	Legal advisers	*As to Hong Kong laws:* Baker & McKenzie 14th Floor, One Taikoo Place 979 King's Road Quarry Bay Hong Kong *As to the PRC laws:* Jia Yuan Law Offices F408, Ocean Plaza 158 Fuxing Men Nei Street Xicheng District Beijing, China
7	Auditor	Deloitte Touche Tohmatsu 35/F One Pacific Place 88 Queensway Hong Kong

"Articles"	the Articles of Association of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"Company"	CRCC High-Tech Equipment Corporation Limited (中國鐵建高新裝備股份有限公司), a joint stock company incorporated in the PRC
"CRCC"	China Railway Construction Corporation Limited (中國鐵建股份有限公司), the controlling shareholder of the Company
"CRCCG"	China Railway Construction Corporation (中國鐵道建築有限公司), the indirect controlling shareholder of the Company
"CRCHI"	China Railway Construction Heavy Industry Co., Ltd. (中國鐵建重工集團有限公司)
"Deloitte"	Deloitte Touche Tohmatsu
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign shares in the share capital of the Company with the nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"PRC" or "China"	The People's Republic of China

DEFINITIONS

"PRC Company Law"	Company Law of the People's Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People's Congress on 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on 28 December 2013 to take effective on 1 March 2014
"Shareholder(s)"	holder(s) of shares of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Supervisor(s)"	the supervisor(s) of the Company

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