CRSC

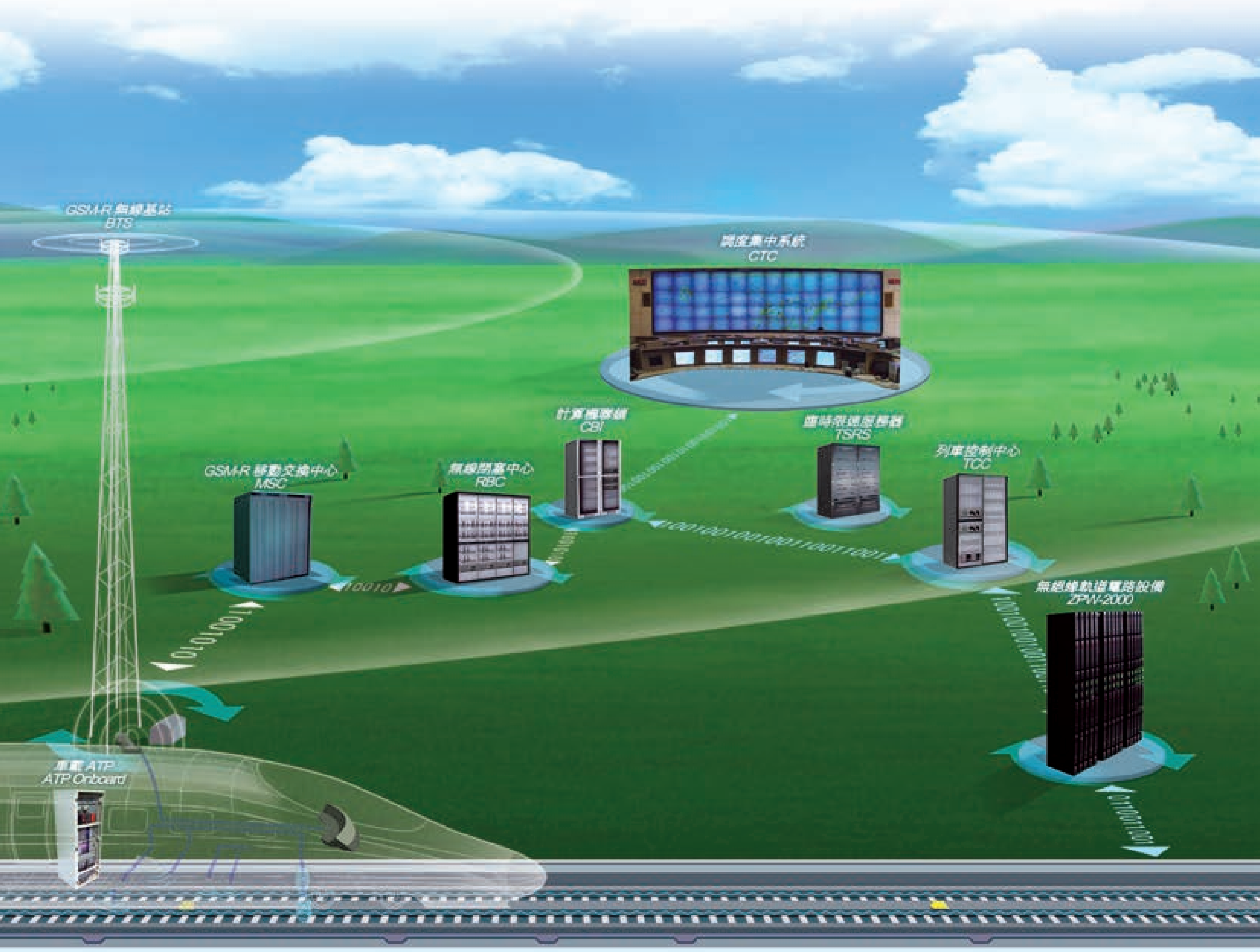
中国通号

China Railway Signal & Communication Corporation Limited*

中國鐵路通信信號股份有限公司

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

Stock code：3969



2018
Annual Report

*For identification only

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CHAIRMAN'S STATEMENT

Dear Shareholders:

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

The Year 2018 was a crucial year of transition not only for our country in carrying on the 13th Five-Year Plan, but also for CRSC in speeding up the implementation of the development strategy of "one core business with diversification into related businesses (一業為主、相關多元)" to strive to achieve quality development. Under the staunch leadership of the SASAC, all cadres and staff of CRSC adhered to the new development philosophy in concerted efforts to work practically and proactively, achieving new records, opening new chapters and embarking on new journeys in various works on corporate reform development and construction of the Communist Party. The Company's operating results continued to grow steadily. During the year, the Company achieved the total value of RMB68.29 billion for newly signed contracts, representing a year-on-year increase of 12.4%; operating revenue of approximately RMB39.84 billion, representing a year-on-year increase of 15.7%; and net profit of approximately RMB3.80 billion, representing a year-on-year increase of 8.0%.

Adhering to the principle of market-orientation, we have taken multiple measures to strengthen the foundation for development. The total value for newly signed contracts of the Group maintained rapid and healthy growth throughout the year. Firstly, we have continued to maintain the leading edge of railway communication and signal system integration. The Group successfully won the bid for 10 key high-speed railway "Four Electric(四電)" integration projects, including the projects of Guangzhou-Qingyuan, Zhengzhou-Wanzhou, Qianjiang-Zhangjiajie-Changde, Xuzhou-Huaian-Yancheng, Lunan, Datong-Zhangjiakou, Lhasa-Linzhi, Fuzhou-Pingtan, Anqing-Jiujiang. The value for newly signed contracts increased by more than 40% over the same period of last year. Secondly, the bids for self-developed CBTC system for the projects of Beijing Metro Line 12, Hefei Metro Line 3, Hohhot Metro Line 2 and Hangzhou-Haining Intercity Railway were won successively, making historic breakthrough. Thirdly, we achieved positive progress in relevant diversified expansion. We pushed forward the construction of Tianshui Tram steadily, newly signed the master contract for Taixing Smart City Project, signed the contract of the first high-speed rail project in Europe "Serbia Section of Hungary-Serbia Railway", and steadily pushed forward Jakarta-Bandung High-Speed Railway Project in Indonesia.

Adhering to the value of independent innovation, we applied core technologies to boost rapid development. Firstly, our critical core technologies of intelligent railway passed the test review. The self-developed automatic train operation system (C3+ATO) for high-speed railway with a speed of 350 kilometers per hour will have its loaded trial run with passengers at Beijing-Shenyang High-Speed Railway, strongly supporting the construction of intelligent Beijing-Zhangjiakou Railway. Secondly, the branding recognition of the technological innovation results on rail transportation control technology, represented by high-speed railway C3, intercity railway C2+ATO, metro CBTC, medium and low speed magnetic levitations MATC, synthetic automation of marshaling yard CIPS, is increasingly prominent, and becomes a vital weapon in assisting the construction of a strong nation in transportation and technology. Thirdly, we safely and efficiently carried out the project on the renovation of train control system technology at Beijing-Tianjin Intercity Railway, and the system has completely replaced imported devices. Fourthly, we assisted Hong Kong high-speed railway to access to the national high-speed railway network, realizing the interconnecting of high-speed railways between Hong Kong and over 40 inland cities. Fifthly, we led the establishment of the Communication and Signal Branch of the China Railway Society (中國鐵道學會通信信號分會) and Communication and Signal Standardization Committee (通信信號標準化委員會), which further enhanced our influence in the industry.

Adhering to the principle of safety first, we are constantly enhancing the bottom line and "red line" awareness. We have firmly established the concept of "Quality is life, safety is greater than everything". Firstly, we stressed the fulfillment of responsibility and assessment, attached great importance to the responsibility of quality and safety at each level, signed the quality and safety responsibility letter, safety and quality responsibility statement, safety production agreement and quality assurance agreement. As a result, safety and quality responsibility was fulfilled by all staff, and we reached safety and quality goal during the year. Secondly, we constantly enhanced quality and safety control ability. We prepared and revised safety and quality management systems, manuals, procedure documents and work instructions; meanwhile, we increased the investment in the safety of production. Thirdly, we have kept global leading position in the industry in the accumulation of case base. The total number of whole system test case bases has already exceeded 40,000, and all cases have been incorporated in the case base and applied to practices, indicating that our ability to solve the problems in rail transportation reached global leading level.

From the perspective of industry development trend, China Railway Corporation will continue to keep its investment intensity and scale in the railway industry. In 2019, it is expected that 6,800 km new routes will be put into production, of which 3,200 km are high-speed railways, and the delivery of train control system shows rapid growth momentum; the construction of intercity railway in Beijing-Tianjin-Hebei, Shandong, Yangtze River Delta and Pearl River Delta will be promoted rapidly; with respect to the market of high-speed railway renovation, after completing Beijing-Tianjin Intercity Railway Signal System Renovation Project in 2018, it is expected that new high-speed railway lines will gradually commence the system renovation projects. In the field of urban transit, the metro construction remains operation at high levels, and the completion mileage will further increase in 2019 as compared with 2018. The opening for operation of metro in cities will enter a peak period in the next two years, which will bring more demand for the delivery of control system; the development of multi-form urban transit has shown thriving vitality. Recently, many cities intensified the planning of light rail and modern trams, and more projects are expected to emerge in the future. In addition, Smart City and overseas markets also have bright prospects, while laying a solid foundation for technology, exploring market opportunities and cultivating customer base are key elements as always. In general, in the next three to five years, the investment and construction in rail transportation still have sufficient market space and growth potential, providing important opportunities for the Company to further its transformation and upgrading, and realizing the sustainable development.

Adhering to the overall strategy of "Focusing on safety, adjusting structure, grasping reform, strengthening management and control, and facilitating transformation", and embracing the overall concepts of being strong, remarkable, innovative and powerful, the Company will continually consolidate the long-term mechanism of safety and quality, accelerate the pace of technological innovations, speed up transformation and upgrading progress, firmly deepen the reform, focus on innovating mechanism, improve modern enterprise system and capitalize on the advantages of integrating the industrial chain, so as to unremittingly strive to develop CRSC into a world-class enterprise with global competitiveness, serving our society, generating returns for Shareholders and rewarding our staff with sustainable and sound operating results.

Chairman
ZHOU Zhiliang

27 March 2019

CORPORATE INFORMATION

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

LEGAL NAME OF THE COMPANY

中國鐵路通信信號股份有限公司

OFFICIAL ENGLISH NAME OF THE COMPANY

China Railway Signal & Communication Corporation Limited*

DIRECTORS

Executive Directors

Mr. ZHOU Zhiliang *(Chairman)*
Mr. YIN Gang *(President)*
Mr. YANG Yongsheng *(Deputy secretary of the Party Committee)* Note 1

Independent Non-executive Directors

Mr. WANG Jiajie
Mr. CHEN Jin'en
Mr. CHAN Ka Keung Peter Note1
Mr. YAO Guiqing Note 1
Mr. SUN Patrick Note 2
Mr. GAO Shutang Note 2

SUPERVISORS

Ms. TIAN Liyan *(Chairwoman)*
Mr. WU Zuowei Note 3
Mr. CHEN Shikui Note 1
Mr. GAO Fan Note 4
Ms. ZHAO Xiumei Note 2

JOINT COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

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

BOARD COMMITTEES

Strategy and Investment Committee

Mr. ZHOU Zhiliang *(Chairman)*
Mr. YIN Gang Note 1
Mr. YANG Yongsheng Note 1
Mr. CHEN Jin'en
Mr. YAO Guiqing Note 1
Mr. WANG Jiajie Note 2
Mr. GAO Shutang Note 2

Remuneration and Evaluation Committee

Mr. CHEN Jin'en *(Chairman)* Note 1
Mr. GAO Shutang *(Chairman)* Note 2
Mr. CHAN Ka Keung Peter Note1
Mr. YAO Guiqing Note 1
Mr. SUN Patrick Note 2

Audit and Risk Management Committee

Mr. CHAN Ka Keung Peter *(Chairman)* Note 1
Mr. SUN Patrick *(Chairman)* Note 2
Mr. WANG Jiajie
Mr. CHEN Jin'en Note 1
Mr. GAO Shutang Note 2

Nomination Committee

Mr. ZHOU Zhiliang *(Chairman)* Note 1
Mr. CHEN Jin'en *(Chairman)* Note 2
Mr. WANG Jiajie
Mr. YAO Guiqing Note 1

* *For identification only.*

Quality and Safety Committee

Mr. YIN Gang *(Chairman)*
Mr. WANG Jiajie Note 1
Mr. YAO Guiqing Note 1
Mr. GAO Shutang Note 2

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG Note 5

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

STOCK ABBREVIATION AND STOCK CODE

CHINA CRSC (03969)

H SHARE REGISTRAR

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Shops 1712-1716
17th Floor, Hopewell Centre
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Wanchai, Hong Kong

COMPANY WEBSITE

www.crsc.cn

INVESTOR RELATIONS

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Postal Code:	100070

LEGAL ADVISORS

Hong Kong Legal Adviser

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

PRC Legal Adviser

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

AUDITORS

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

Note 1: Appointed on 28 August 2018.
Note 2: Resigned on 28 August 2018.
Note 3: Appointed on 25 May 2018.
Note 4: Resigned on 25 May 2018.
Note 5: With effect from 30 July 2018, the Company has changed its principal place of business in Hong Kong.

CORPORATE INFORMATION

LANGUAGE AND MEANS OF RECEIPT OF CORPORATE COMMUNICATIONS

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

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

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

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

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

FINANCIAL HIGHLIGHTS

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

Unit: RMB'000 (except for percentages)

	2018	2017	Increase (%)
Revenue	**39,844,006**	34,433,683	15.7
Profit attributable to equity owner of the Company	**3,501,246**	3,310,045	5.8
Basic earnings per share (RMB/share)	**0.39**	0.38	2.6
Diluted earnings per share (RMB/share)	**0.39**	0.38	2.6
Weighted average rate of return on net assets (%)	**13.7**	14.7	Decrease of 1 percentage point

	31 December 2018	31 December 2017	Increase (%)
Total assets	**79,678,536**	61,244,644	30.1
Total liabilities	**49,406,454**	36,020,046	37.2
Total equity attributable to equity owner of the Company	**28,908,397**	24,019,051	20.4

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2018, adhering to the main keynote of seeking progress while maintaining stability and focusing on quality development requirements, the Group optimized its industrial layout, seized market opportunities, fully expanded new markets, promoted technological innovation, attached great importance to quality and safety, strengthened internal management, and deepened cost cutting and efficiency enhancement, prompting enterprises to continue to maintain rapid and sound development momentum.

During the reporting period, the operating results of the Group continued to maintain a growth momentum and recorded an annual revenue of RMB39,844.0 million, representing an increase of RMB5,410.3 million or 15.7% as compared to that in the previous year. Profit before tax was RMB4,598.6 million, representing an increase of RMB312.9 million or 7.3% as compared to that in the previous year; profit attributable to equity Shareholders of the Group was RMB3,501.2 million, representing an increase of 5.8% as compared to that in the previous year. During the reporting period, there were no material changes to the composition or sources of the profit of the Group.

FINANCIAL REVIEW

I. Analysis on Principal Business

Analysis of changes in the relevant items of the income statement

Unit: RMB million (except for percentages)

	2018	2017	Increase (Decrease) (%)
Revenue	**39,844.0**	34,433.7	15.7
Cost of sales	**(30,931.9)**	(26,043.3)	18.8
Other income and gains	**469.4**	380.5	23.4
Selling and distribution expenses	**(701.6)**	(692.6)	1.3
Administrative expenses	**(3,831.5)**	(3,415.5)	12.2
Finance costs	**(139.0)**	(51.8)	168.3
Profit before tax	**4,598.6**	4,285.7	7.3
Income tax expense	**(802.9)**	(772.6)	3.9
Profit for the year	**3,795.7**	3,513.1	8.0

The Group realized revenue of RMB39,844.0 million, representing an increase of 15.7% as compared to the preceding year, with design and integration, equipment manufacturing, system implementation, construction contracting and other businesses accounting for 21.3%, 16.5%, 33.1%, 28.9% and 0.2% of the total revenue, respectively. The increase in revenue of the Group's principal businesses was mainly because: (i) the PRC government continued to increase its investments in urban infrastructure construction such as rail transportation, and the Group gave full play to its operating advantages of full industry chain, strengthened high-end operations, and deepened the regional market, leading to a significant increase in orders for rail transit business throughout the year, which further resulted in an increase in revenue; (ii) following the development strategy of "one core business with diversification into related businesses", the Group accelerated its industry layout and actively explored emerging businesses related to rail transportation such as tramcar and Smart Cities, further expanding the Group's revenue scale.

Analysis of orders

During the reporting period, the total aggregate amount of external contracts signed by the Group was RMB68,290 million, representing an increase of 12.4% over the same period in 2017. In particular, the total amount of external contracts signed by the Group in the railway sector was RMB25,080 million, representing an increase of 44.8% over the same period in 2017; the total amount of external contracts signed by the Group in the urban transit sector was RMB11,610 million, representing an increase of 6.4% over the same period in 2017; In particular, the amount of newly signed contract in subway was RMB11,600 million, representing an increase of 20.2% over the same period in 2017; the total amount of external contracts signed by the Group in the overseas business sector was RMB950 million, representing a decrease of 64.8% over the same period in 2017; the total amount of external contracts signed by the Group in the construction contracting business and other businesses sector was RMB29,850 million, representing an increase of 0.3% over the same period in 2017; the total amount of external contracts signed by the Group in the Smart Cities business sector was approximately RMB800 million.

Cost of sales

During the reporting period, the cost of sales of the Group amounted to RMB30,931.9 million, representing an increase of 18.8% as compared to the preceding year, which was mainly due to an increase in sales business volume that resulted in an increase in the cost of sales. Gross profit of the Group was RMB8,912.1 million, representing an increase of 6.2% as compared to the preceding year. Gross profit margin was 22.4%, representing a decrease of 2 percentage points as compared to the preceding year, which was mainly due to the adjustment of business structure of the Group resulting in the decline in gross profit margin.

Other income and gains

During the reporting period, other income and gains of the Group amounted to RMB469.4 million, representing an increase of 23.4% as compared to the preceding year, mainly due to the increase in interest income from bank deposits and exchange gains.

Selling and distribution expenses, administrative expenses and finance costs

During the reporting period, the three items of expenses of the Group amounted to RMB4,672.1 million, representing an increase of 12.3% or RMB512.2 million as compared to RMB4,159.9 million in the preceding year. The three items of expenses accounted for 11.7% of revenue, representing a decrease of 0.4 percentage point as compared to 12.1% in the preceding year, among which: (i) the selling and distribution expenses were RMB701.6 million, representing an increase of 1.3% as compared to the preceding year; (ii) the administrative expenses were RMB3,831.5 million, representing an increase of 12.2% as compared to the preceding year, primarily due to an increase in cost of employee remuneration and R&D investment; (iii) the finance costs were RMB139.0 million, representing an increase of 168.3% as compared to the preceding year, primarily due to an increase in interest expense generated from increased borrowings for ordinary production and operational use.

Profit before tax

For the foregoing reasons, during the reporting period, the Group's profit before tax was RMB4,598.6 million, representing an increase of 7.3% as compared to the preceding year.

Income tax expense

During the reporting period, the Group's income tax expense was RMB802.9 million, representing an increase of 3.9% as compared to the preceding year. The effective tax rate of the Group was 17.5%, representing a decrease of 0.5 percentage point as compared to the preceding year, primarily due to an increase in the number of subsidiaries of the Group recognized as high-tech enterprises, resulting in a decrease in corresponding effective income tax rate.

Profit for the year

For the foregoing reasons, during the reporting period, the Group's profit for the year was RMB3,795.7 million, representing an increase of 8.0% as compared to the preceding year.

II. Segment Results

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

Unit: RMB million (except for percentages)

Segment results	Revenue	Cost of sales	Gross profit margin (%)	Increase (Decrease) in revenue compared to preceding year (%)	Increase (Decrease) in cost of sales compared to preceding year (%)	Increase (Decrease) in gross profit margin compared to preceding year Percentage point (s)
Rail transportation control system						
Design and integration	8,502.9	5,555.4	34.7	(1.2)	8.7	(5.9)
Equipment manufacturing	6,561.6	3,766.2	42.6	13.3	12.1	0.6
System implementation	13,202.7	11,597.6	12.2	29.4	30.3	(0.5)
Construction contracting	11,516.9	9,993.5	13.2	19.5	17.4	1.6
Other businesses	59.9	19.2	67.9	(70.3)	(88.0)	47.6
Total	39,844.0	30,931.9	22.4	15.7	18.8	(2.0)

Design and integration: revenue from the design and integration business is mainly derived from the provision of engineering design and system integration services for rail transportation control system projects, and integrated solutions designed to achieve the functionality and performance of the control systems. During the reporting period, revenue from the design and integration business was RMB8,502.9 million, representing a year-on-year decrease of 1.2%. Gross profit margin was 34.7%, representing a year-on-year decrease of 5.9 percentage points, primarily due to the long implementation period of the railway projects and the communication and signal engineering being post-station project, and most of the new railway projects undertaken by the Group commenced large-scale main construction in the second half of the year, thus resulting in a decrease in revenue and gross profit generated from design and integration business segment compared with previous years.

Equipment manufacturing: revenue from the equipment manufacturing business is mainly derived from the manufacturing and sale of signal system products, communication information system products and other products. During the reporting period, revenue from the equipment manufacturing business was RMB6,561.6 million, representing a year-on-year increase of 13.3%. Gross profit margin was 42.6%, representing a year-on-year increase of 0.6 percentage point, primarily due to: (1) an increase in business volume from equipment manufacturing segment driving by the Chinese government increasing investment in rail transportation infrastructure to expand domestic demand; (ii) the continuous increase in business volume from equipment manufacturing segment, resulting from equipment manufacturing enterprises strictly complying with industry standards, striving to improve the level of technology, and actively providing customers with safe, reliable, technologically advanced products and services, thus winning widespread trust and support from customers; (iii) an increase in gross profit generated from equipment manufacturing segment as the Group proactively promoted cost-effective management.

System implementation: revenue from the system implementation business is mainly derived from the provision of construction, installation, testing, maintenance and other services for rail transportation control system projects. During the reporting period, revenue from the system implementation business was RMB13,202.7 million, representing a year-on-year increase of 29.4%. Gross profit margin was 12.2%, representing a year-on-year decrease of 0.5 percentage point, which was primarily because: (i) the Chinese government continued to increase investment in construction of urban rail transit, resulting in a significant increase in orders for system implementation services segment; and (ii) the Group vigorously carried forward the "spirit of craftsmanship", continuously summarized, optimized and implemented standardized management, and comprehensively deepened quality management, so that the construction technology was highly praised by railway owners. Through accomplishing a batch of quality projects such as upgrade and transformation of the project on the renovation of train control system technology at Beijing-Tianjin intercity railway, Hangzhou-Huangshan high-speed railway and Beijing–Shenyang passenger dedicated railway, the brand image and influence of CRSC have been effectively promoted, the capacity to independently undertake business has been steadily strengthened year by year, and the market competitive advantages have also been highlighted, which promoted the rapid growth of revenue in this segment.

Construction contracting: revenue from construction contracting business is mainly derived from municipal engineering contracting and related construction services. During the reporting period, revenue from construction contracting business was RMB11,516.9 million, representing a year-on-year increase of 19.5%, and gross profit margin was 13.2%, representing an increase of 1.6 percentage points as compared to the preceding year, primarily due to a rapid increase in revenue and profit generated from construction contracting segment as the Group accelerated the construction of investment projects such as Smart Cities, tramcar and sponge cities matching with the rail transit system, under the development strategy of "one core business with diversification into related businesses".

Other businesses: revenue from other businesses is mainly derived from bidding agency. During the reporting period, revenue from other businesses was RMB59.9 million, representing a year-on-year decrease of 70.3%. Gross profit margin was 67.9%, representing a year-on-year increase of 47.6 percentage points, primarily due to (i) a continuous decrease in revenue from other businesses as the Group continued to reduce the scale of trading business; and (ii) an increase in gross profit contributing to the higher gross profit margin of bidding agency and other businesses during this year.

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

Unit: RMB million (except for percentages)

	2018		2017		
	Revenue	**Percentage (%)**	Revenue	Percentage (%)	Increase (Decrease) (%)
Domestic market	**39,309.6**	**98.7**	33,650.6	97.7	16.8
Railway	**18,372.8**	**46.1**	16,606.2	48.2	10.6
Urban transit	**9,360.0**	**23.5**	7,207.7	20.9	29.9
Construction contracting	**11,516.9**	**28.9**	9,635.3	28.0	19.5
Other business	**59.9**	**0.2**	201.4	0.6	(70.3)
Sub-total	**39,309.6**	**98.7**	33,650.6	97.7	16.8
Overseas market	**534.4**	**1.3**	783.1	2.3	(31.8)
Total	**39,844.0**	**100.0**	34,433.7	100.0	15.7

During the reporting period, the Group's operating revenue from domestic market was RMB39,309.6 million, representing a year-on-year increase of 16.8%, primarily due to: (i) the continuous increase in investment to the construction of rail transit by Chinese government, driving the growth of the Group's domestic railway and subway market business; (ii) an increase in revenue generated from the construction contracting business as the Group vigorously impelled the construction of emerging businesses related to principal business such as Smart Cities and tramcars by adhering to the development strategy of "one core business with diversification into related businesses".

During the reporting period, the Group's operating revenue from overseas market was RMB534.4 million, representing a year-on-year decrease of 31.8%, primarily due to the adverse impact of international political and economic situation in 2018, the construction schedule of some projects was delayed compared with the plan, resulting in a delay in the collection of overseas business revenue and a reduction in revenue amount of this year.

III. Analysis of Statement of Cash Flows

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

Unit: RMB million

	2018	2017
Net cash flow used in operating activities	**(1,586.3)**	(886.0)
Net cash flow used in investing activities	**(642.3)**	(1,729.2)
Net cash flow generated from/(used in) financing activities	**1,621.6**	(140.2)

During the reporting period, the Group's net cash flow used in operating activities was RMB1,586.3 million, as compared to a net cash flow of RMB886.0 million used in operating activities during last year, primarily because (i) the Group proactively promoted the construction of investment projects related to primary businesses, such as tramcars and Smart Cities, and continuously expanded the investment in research and development, thus increasing the investment funds; (ii) affected by the government's macro policies of lowering leverage and reducing liabilities in 2018, the owners had control over the financing scale for projects, which made it difficult to return funds for certain projects; (iii) during this year the cash flow generated from operating activities increased as the Group promoted the payment of private enterprise accounts, according to the major decisions and arrangements proposed by Party Central Committee and the State Council on requiring central enterprises to clean up the accounts of private enterprises.

During the reporting period, the Group's net cash flow used in investing activities was RMB642.3 million, as compared to a net cash flow of RMB1,729.2 million used in investing activities last year, primarily due to a decrease in the amount of fixed deposits with a term of more than three months during the year.

During the reporting period, the Group's net cash flow generated from financing activities was RMB1,621.6 million, as compared to a net cash flow of RMB140.2 million used in financing activities during last year, primarily due to receipt of perpetual debt equity investment during the year.

IV. Financial Ratios

	2018	2017
Current ratio(1)	**137.2%**	142.5%
Quick ratio(2)	**128.7%**	132.8%
Gearing ratio(3)	**7.6%**	7.4%
Return on total assets(4)	**5.4%**	6.3%
Return on equity(5)	**13.7%**	14.7%

Notes

(1) Current ratio is calculated by dividing total current assets by total current liabilities as at the relevant date and multiplying by 100%.

(2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the relevant date and multiplying by 100%.

(3) Gearing ratio is calculated by dividing total debt by total equity as at the relevant date and multiplying by 100%. Total debt means the sum of long-term and short-term interest-bearing debts.

(4) Return on total assets is calculated by dividing profit for the year by average balance of total assets at the beginning and at the end of the year and multiplying by 100%.

(5) Return on equity is calculated by dividing profit for the year by average balance of the total equity at the beginning and at the end of the year and multiplying by 100%.

V. Liabilities

Unit: RMB million (except for percentages)

	31 December 2018		31 December 2017		
	Amount at the end of the year		Amount at the end of the year		
	Amount	**Proportion to total liabilities (%)**	Amount	Proportion to total liabilities (%)	Increase (Decrease) (%)
Total current liabilities	**47,631.6**	**96.4**	34,473.6	95.7	38.2
Including: Interest-bearing bank and other borrowings	**1,437.7**	**2.9**	1,328.8	3.7	8.2
Trade and bills payables	**36,018.8**	**72.9**	24,232.7	67.3	48.6
Other payables and accruals	**2,562.5**	**5.2**	5,199.4	14.4	(50.7)
Contract liabilities	**7,033.2**	**14.2**	—	—	N/A
Amount due to contract customers	**—**	**—**	3,244.8	9.0	(100.0)
Total non-current liabilities	**1,774.8**	**3.6**	1,546.4	4.3	14.8
Including: Interest-bearing bank and other borrowings	**856.2**	**1.7**	547.0	1.5	56.5
Total liabilities	**49,406.4**	**100.0**	36,020.0	100.0	37.2

As at the end of the reporting period, short-term interest-bearing bank and other borrowings in the Group's current liabilities increased by 8.2% as compared to last year, mainly due to the increased demand for borrowings to support regular production operations.

As at the end of the reporting period, trade and bills payables in the Group's current liabilities increased by 48.6% as compared to last year, primarily due to the increase in business scale of the Group.

As at the end of the reporting period, other payables and accruals in the Group's current liabilities decreased by 50.7% as compared to last year, primarily due to the impact of the Group's adoption of IFRS 15 on the reclassification of financial statement line items.

As at the end of the reporting period, new contract liabilities in the Group's current liabilities amounted to RMB7,033.2 million. At the same time, amount due to contract customers decreased by 100.0% as compared to last year, primarily due to the impact of the Group's adoption of IFRS 15 on the reclassification of financial statement line items.

As at the end of the reporting period, long-term interest-bearing bank borrowings and other borrowings in the Group's non-current liabilities increased by 56.5% as compared to last year, primarily due to the increase in borrowings of the Group.

Borrowings

As at the end of the reporting period, the Group had total interest-bearing bank and other borrowings of approximately RMB2,293.9 million, representing an increase of 22.3% from RMB1,875.8 million of last year, primarily due to the increased demand for borrowings to support regular production operations.

As at the end of the reporting period, the Group's total interest-bearing bank and other borrowings were denominated in RMB. As at the end of the reporting period, the long-term interest-bearing borrowings and short-term interest-bearing borrowings of the Group amounted to RMB856.2 million and RMB1,437.7 million, respectively. The table below sets forth the maturity profile of interest-bearing bank and other borrowings repayable by the Group as at 31 December 2018 and 31 December 2017:

Unit: RMB million

	31 December 2018	31 December 2017
Bank loans		
Within one year	**1,417.6**	1,328.7
In the second year	**—**	417.0
After five years	**856.1**	109.7
	2,273.7	1,855.4
Other borrowings		
Within one year	**20.1**	0.1
In the second to fifth years, inclusive	**0.1**	20.3
	20.2	20.4
Total	**2,293.9**	1,875.8

As at the end of the reporting period, the Group's total bank and other borrowings at floating interest rates amounted to RMB1,934.0 million, as compared to RMB542.7 million as at 31 December 2017.

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

As of the reporting period, interest-bearing bank and other borrowings of the Group included guaranteed and pledged borrowings of RMB967.6 million.

Pledged assets

As at the end of the reporting period, certain assets of the Group with a total carrying value of RMB267.8 million (last year: RMB319.2 million) were pledged for issuing of bank acceptance bills, security deposits for letters of guarantee and performance bonds. Such assets included bills receivable in the amount of RMB107.3 million (last year: RMB131.4 million) and bank deposits in the amount of RMB160.5 million (last year: RMB187.8 million).

Liquidity

As at the end of the reporting period, the Group had credit facilities of approximately RMB58,000.0 million granted by commercial banks to the Group, of which approximately RMB49,740.0 million was unused and unrestricted. As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB11,552.0 million, of which RMB10,290.1 million was denominated in Renminbi, RMB248.2 million was denominated in US dollars, RMB15.1 million was denominated in Euros, RMB971.7 million was denominated in Hong Kong dollars, RMB26.6 million was denominated in rupees and RMB0.3 million was denominated in Indonesian rupiah.

VI. Capital Expenditures and Capital Commitments

As of the reporting period, capital expenditures of the Group amounted to RMB1,070.3 million, including property, plant and equipment of RMB984.6 million and other intangible assets of RMB85.7 million.

As at the end of the reporting period, the Group had capital commitments of RMB560.7 million contracted for but not yet incurred, which would be mainly used for capital allocation to the PPP project company. The table below sets forth the commitments of the Group as at 31 December 2018 and 31 December 2017:

Unit: RMB million

	2018	2017
Contracted but not provided for:		
– Property, plant and equipment	**100.0**	188.0
Investment commitments	**460.7**	549.2
	560.7	737.2

VII. Contingent Liabilities

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

VIII. Employees and Remuneration Policies

As of the reporting period, the Group had 19,215 full-time employees and its total staff costs for the year reached RMB4,537.9 million. The employee recruitment and retention policy reflects numerous factors including the market environment, business needs and expansion plans. The Group plans to recruit, nurture and retain professional talents by a series of procedures including the recruitment and training phases, together with attractive performance-based remuneration packages and development opportunities. The Group performs regular employee performance evaluation with the remuneration and bonus linked with performance. In addition, the Group implements training schemes according to different work requirements and believes that these measures will help enhance employees' productivity.

IX. Business Outlook for 2019

Competition landscape and development trend of the industry

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

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

As of the reporting period, for the urban transit transportation market, the Group's core railway transportation control system products and services covered 20 provinces or autonomous regions in China and the four municipalities, namely Beijing, Shanghai, Tianjin and Chongqing, obtaining contract value of approximately 40% in the urban transit signal system market and enjoying a leading position in the market. With the CBTC systems established through independent R&D by the subsidiary design institute of CRSC and by CRSC CASCO, the Group will continue to enjoy a leading advantage in terms of market share in the future.

Development trend: in terms of railway construction, railway construction is a crucial measure for the country to strengthen its infrastructure to improve weak links and the investment in national railway fixed assets will continue to maintain robust, and railway construction will continue to be promoted scientifically, orderly and steadily. The investment scale in national railway fixed assets in 2019 is expected to be RMB800,000 million, the mileage of new routes which will be commenced operation is planned to be 6,800 km (of which 3,200 km are high-speed railways). With the centralized implementation of railway constructions under "13th Five-Year Plan", the business volume from the Group's signal system and related equipment will continue to grow. In addition, CRSC will keep in step with the rapid growth period of high speed railway operation and maintenance market, strive for the general contracting project of technical upgrading and transformation in train control system, consolidate and expand the new profit growth point brought by the operational and maintenance market. Furthermore, according to Medium- and Long-term Railway Network Plan, while giving priority to making use of the intercity train service function of high-speed railway and normal speed railway, our country plans to build intercity passenger railways in urban agglomerations that support and lead the development of new type of urbanization, effectively connect large and medium-sized cities with central towns, and serve commuters, among which, urban agglomerations, such as Beijing-Tianjin-Hebei, Yangtze River Delta, Pearl River Delta, the middle reaches of the Yangtze River, Chengdu-Chongqing, central China, Shandong Peninsula, will be built as intercity railway network; urban agglomerations, such as the west coast of the Taiwan Straits, Harbin-Changchun, Liaozhongnan, Guanzhong and Beibu Gulf will be built as intercity railway skeleton network; urban agglomerations, such as Central Yunnan, Central Guizhou, northern slope of Tianshan Mountain, along the Yellow River in Ningxia and Hohhot- Baotou- Erdos- Yulin will be built as intercity railway backbone channel. With the dominant right of investment and construction of intercity railway delegated to a lower level, the enthusiasm of investing and constructing intercity railway and municipal railway in various provinces and regions become pretty higher. According to the China Transportation White Paper, by 2020, China will have built intercity railway with a mileage of more than 3,000 kilometers. The investment scale will reach RMB1.7-2.0 trillion. The construction of the national intercity railway is expected to keep its sound momentum in 2019. Among them, the Beijing-Tianjin-Hebei, the Yangtze River Delta and the Pearl River Delta are the key areas for CRSC to explore the intercity railway market. The Group's good operation record and technical advantages on automated driver control system for intercity railways have laid a good foundation for expansion in the intercity railway market share.

In terms of urban transit, the investment in China's urban transit will continue to maintain a steady growth in the next few years. It is expected that by 2020 China will have completed urban transit and subway of 6,200 kilometers. The urban transit automated control system owned by CRSC will benefit from the rapid expansion of market size in urban transit and will become a key point of growth driving business development of the Group. In addition, in the rail transit industry, according to the Suggestions of the General Office of the State Council of the People's Republic of China on Further according to the Strengthening the Management of Urban Rail Transit Planning and Construction (Guo Ban Fa [2018] No. 52) (《國務院辦公廳關於進一步加強城市軌道交通規劃建設管理的意見》(國辦發[2018]52號)) published in 2018, the tramcars only need to be examined and approved by the provincial development and reform departments. This policy will greatly promote the rapid development of the tramcar business, and the average annual investment in the field of tramcars will reach RMB100 billion in the next few years. With the entire industrial chain layout including tramcar capital operation, civil construction, electromechanical construction, vehicle production and supply, and communication signal equipment supply, CRSC will enjoy strong competitive advantages in the tramcar industry, and the industry will become a crucial strategic development target for CRSC.

In terms of Smart Cities, our country has successively issued the National New-type Urbanization Plan for 2014-2020 (《國家新型城鎮化規劃(2014-2020年)》) and The Guidance on Promoting Smart City Sound Development (《關於促進智慧城市健康發展的指導意見》) and other policies to promote the construction of Smart Cities. It is expected that by 2020, "a group of Smart Cities with distinctive characteristics" will have been built. At present, 290 cities have been selected as pilots for national Smart Cities, and the total investment scale is expected to reach one trillion yuan. The next few years will be the year of centralized implementation, which will bring good market opportunities for the Group to implement its Smart Cities solutions.

In terms of overseas market, as China participates in the reform of the global economic governance system, not only has it enhanced China's international voice and influence, but it has also brought us new development opportunities. At present, with the in-depth advancement of "One Belt, One Road" initiative and the step of China's high-speed railway "going global" accelerated, the demand for rail transit construction along the route has become increasingly exuberant, and the cooperation opportunities for overseas railway projects have gradually increased. The Hungary-Serbia, Jakarta-Bandung, China-Laos, China-Thailand Railway and other projects are actively being advanced, and several railway cooperation projects under the "One Belt, One Road" initiative have entered into the stage of planning and approval. In general, we are facing a relatively good external market development environment, and overseas markets continue to show sound development momentum.

According to comprehensive research and judgment, obvious changes in national macroeconomic policies have been occurred in 2019. The high-quality development of the country has entered into a new stage by accelerating the optimization and upgrading of the economic structure. The state has expanded the construction of infrastructure and other fields to greatly enhance weak links, which will greatly increase the scale of local government special bonds to support the construction of key projects. It has brought rare historical opportunities for CRSC to participate in infrastructure projects for improving weak links, such as rail transit and information engineering.

In addition, emerging business markets such as Smart Cities have also shown a booming trend, at the national level, a number of policies related to Smart Cities construction have been introduced, including National New-type Urbanization Plan for 2014-2020 and The Guidance on Promoting Smart City Sound Development. It is quite clear that by 2020, "a group of Smart Cities with distinctive characteristics" will have been built. Currently, 290 cities have been selected as pilots of the national Smart Cities. As of the end of 2017, Smart Cities have been clearly proposed to be built or under construction in more than 500 cities, including 100% of China's sub-provincial cities and 89% of the prefecture-level cities, in the government work report or the "13th Five-Year Plan". It is estimated that the total investment scale will reach a level of trillion yuan. The next few years will be the year of centralized implementation, which will bring good market opportunities for the Group to implement its Smart Cities solutions. Overseas markets will continue to show sound development momentum, a number of railway and subway projects are being constructed busily under progress.

Development strategies of the Group

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

Operational plans

Based on the “seven business sectors” confirmed by the medium and long term strategy, the Group accelerated technological innovation, transformation and upgrading, leveraging the advantages of industry chain integration and by way of investment and mergers and acquisitions as well as resources consolidation to strengthen the foundation of traditional businesses while developing emerging businesses. To achieve the operations targets, the Group will further strengthen its two-tier operation system and enhance its sales and marketing layout; step up sales and marketing efforts to increase market share; adapt to the trend of railway transportation integration process, take full advantages of the existing technology and brand, refine product competition strategy, increase the efforts of differentiated operations in our core businesses, consolidate the existing advantages through different hierarchies and levels; create innovative business and commercial models to strongly expand investment business in emerging sectors such as the tramcar and Smart Cities, accelerate the formation of new poles of economic growth; and strengthen overseas market development to accelerate the progress of internationalization.

X. Potential risks and risk management

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

Macro-economic and policy risks

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

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

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

Business risks

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

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

Credit risks

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

Credit risks of the Group mainly arise from cash and cash equivalents, pledged deposits, trade and bills receivables, financial receivables, available-for-sale investments and financial assets included in prepayments, deposits and other receivables. The Group has formulated policies to manage the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in the PRC, which management believes are of high credit quality.

Liquidity risks

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

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

Core competitiveness

The Company has the following core competitiveness:

1. *Strong technological innovation and system integration capabilities*

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

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

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

3. *Leading technical professionals within the industry*

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

4. *Excellent customer relationship*

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

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

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

REPORT OF THE DIRECTORS

The Board hereby presents this report of the Directors, annual report as well as the Group's audited consolidated financial statements for 2018 prepared in accordance with the IFRS to the Shareholders.

CORPORATE INFORMATION AND INITIAL PUBLIC OFFERING

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

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

BUSINESS REVIEW

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

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

- *Design and integration:* mainly includes providing engineering design and system integration services for rail transportation control system projects, and integrated solutions designed to achieve functionality and performance of control system;

- *Equipment manufacturing:* mainly includes manufacturing and sale of signal system products, communication information system products and other products;

- *System implementation:* includes providing construction, installation, testing and maintenance services for rail transportation control system projects; and

- *Construction contracting:* mainly includes the contracting of municipal projects and related construction services.

The discussion and analysis of the Group's business performance for the year and the key factors affecting its business results and financial position and future development are set out in "Financial Highlights" and "Management Discussion and Analysis" on pages 7 to 24, this "Report of the Directors", and "Significant Events" on pages 52 to 54 of this report.

Details of the major subsidiaries, joint ventures and associates of the Company will be set out in the note 1, note 17 and note 18 to financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE OF THE COMPANY

In 2018, the Group continuously paid close attention to energy conservation and environmental protection, striving to create a green, safe and comfortable working environment. The Group achieved remarkable results in building a paperless office by establishing various means to handle work via electronic means, including the construction of an IT-oriented platform. Meanwhile, the Group also endeavoured to raise the awareness on energy conservation and environmental protection and to minimize the consumption of water, electricity, coal, gas and other resources through management of energy conservation and consumption reduction in its office areas. In addition, the Group encouraged its staff to convene meetings in the form of teleconference to reduce the use of vehicles and to avoid travel, so as to minimize carbon emission and energy consumption arising from business trips.

Further details of the environmental policies and performance of the Company are set out in the "Environmental, Social and Governance Report" to be published within 3 months of the date of the 2018 annual report of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

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

The discussion and analysis of legal risks the Company is exposed to are set out in "Management Discussion and Analysis" on pages 8 to 24 of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

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

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

As at the end of the reporting period, the total extraction from the special account of proceeds raised to the special accounts of projects amounted to RMB5,497.4 million, of which, RMB2,518.6 million was used in the construction of the CRSC Railway Transportation Research Center and long-term R&D on scientific research projects; RMB1,377.8 million was used in the technical overhaul of CRSC Xi'xin, our subsidiary, and fixed assets investments of Changsha Industrial Park; RMB108.0 million was used in general equity acquisition; RMB593.0 million was used in investments in PPP project associated with railway transportation, such as the Tianshui Tramcar Project; and RMB900.0 million was used in replenishing liquidity of funds. The Company confirmed that the aforesaid use of proceeds is consistent with the use of proceeds as disclosed in the Prospectus.

Save for the use of proceeds mentioned above, the Company's remaining amount of proceeds was approximately HK$1,108.9 million, and RMB2,757.4 million remained unused and was deposited in the special account of proceeds raised maintained by the Company in the bank. The funds in special account of proceeds raised, which have not yet been drawn, are expected to be used up in next three years, of which, approximately RMB212.6 million is proposed to use in long-term R&D; approximately RMB443.0 million is proposed to use in fixed assets investments; approximately RMB1,712.8 million is proposed to use in equity acquisitions; approximately RMB1,227.7 million is proposed to use in investments in PPP projects associated with railway transportation. The Company confirmed that the aforesaid proposed use of proceeds is consistent with the use of proceeds as disclosed in the Prospectus.

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

REPORT OF THE DIRECTORS

PERFORMANCE AND DISTRIBUTION

The performance of the Group for the year ended 31 December 2018 is set out in the audited consolidated statement of profit or loss or other comprehensive income on page 105 of this report. The financial position of the Group for the year ended 31 December 2018 is set out in the audited consolidated statement of financial position on pages 107 to 108 of this report.

According to the “Profits Distribution Plan for 2017” considered and approved by the Shareholders of the Company at the 2017 annual general meeting held on 25 May 2018, the Company distributed cash dividend of RMB0.15 per Share (tax inclusive) as final dividend for 2017 to Shareholders whose names appeared in the register of members of the Company on 6 June 2018. The 2017 final dividend distributed was denominated and declared in RMB, in respect of which domestic Shareholders were paid in RMB and H Shareholders were paid in Hong Kong dollars. The exchange rate of Hong Kong dollars was calculated in accordance with the average central parity rate (i.e., RMB0.81316 to HK$1.00) published by the PBOC during the three working days (including the day of declaring dividend, i.e., from 23 May 2018 to 25 May 2018) prior to the annual general meeting, and therefore the amount of dividend payable for each H Share would be HK$0.184466 (tax inclusive). For details, please refer to the announcement of the Company dated 25 May 2018. The final dividend was paid on 25 July 2018.

DISTRIBUTION PLAN AND POLICY OF DIVIDEND

Special Dividend

To actively promote and ensure the A Share Offering and Listing, and safeguard the interests of the Company and all Shareholders as a whole, on 15 April 2019, the distribution of the Special Dividend on the remaining distributable profits (after deducting the actual dividends paid in 2018) for the year ended 31 December 2017 was considered and approved at the 2019 first extraordinary general meeting. The Special Dividend will be distributed to Shareholders whose names appear on the register of members of the Company on Wednesday, 24 April 2019 with a cash dividend of RMB0.20 per Share (tax inclusive) (“the Special Dividend”). The Special Dividend to be distributed is denominated and announced in RMB, of which domestic Shareholders will be paid in RMB and H Shareholders will be paid in HK dollars. The exchange rate of HK dollars will be calculated in accordance with the average central parity rate (i.e., RMB0.85614 to HK$1.00) published by the People’s Bank of China at the three working days prior to the date on which the dividend is declared (including the date on which the dividend is declared, i.e., from 11 April 2019 to 15 April 2019), and therefore the amount of dividend payable for each H Share would be HK$0.233606 (tax inclusive). For details, please refer to the announcement of the Company dated 15 April 2019. The Special Dividend is scheduled to be distributed on Friday, 10 May 2019.

The register of members of the Company will be closed from Friday, 19 April 2019 to Wednesday, 24 April 2019 (both days inclusive). In order to be qualified to receive above Special Dividend, all transfer documents must be lodged with the Company’s H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for holders of H Shares no later than 4:30 p.m. on Thursday, 18 April 2019.

Special Dividend income tax applicable to overseas Shareholders

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

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementing rules and the requirements under the Notice on the Issues Concerning Withholding and Payment of the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation (國家稅務總局《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)), the Company will withhold and pay EIT at the rate of 10% when it distributes the Special Dividend to overseas non-resident enterprise holders of H Shares (including any H Shares of the Company registered in the name of HKSCC Nominees Limited, but excluding any H Shares of the Company registered in the name of HKSCC Nominees Limited which are held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder on behalf of investors who invest in the H Shares of the Company through Shanghai Connect).

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

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

- For individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these individual H Shareholders in the distribution of the Special Dividend;

- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of these individual H Shareholders in the distribution of the Special Dividend. If relevant individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice. Qualified Shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to the competent tax authorities and, after their examination and if and when the documents are approved, the Company will assist in refunding the excess amount of tax withheld and paid;

- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these individual H Shareholders in the distribution of the Special Dividend; and

- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these individual H Shareholders in the distribution of the Special Dividend.

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

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

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

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

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

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

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

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

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

Final Dividend

The Board of Directors recommended that no final dividend would be distributed on the profits for the year ended 31 December 2018.

ISSUED SHARE CAPITAL

As of 31 December 2018, the total share capital of the Company was RMB8,789,819,000, divided into 8,789,819,000 Shares with a nominal value of RMB1.00 each. Details of the change of the share capital of the Company during the reporting period are set out in the note 35 to financial statements.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group for 2018 are set out in the note 13 to financial statements.

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

TAXATION

Details of the taxation of the Group for 2018 are set out in note 9 to the financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date of the Group are set out in the note 49 to financial statements.

CAPITAL RESERVE, SURPLUS RESERVE AND SPECIAL RESERVE

Details of the capital reserve, surplus reserve and special reserve of the Group for 2018 are set out in the note 36 to financial statements.

DISTRIBUTABLE RESERVE

As at 31 December 2018, the distributable reserve (retained earnings) of the Company amounted to RMB8,680.3 million.

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

There is no discrepancy between the net assets at the end of 2018 as calculated by the Group in accordance with the accounting rules of the PRC and the IFRS. The distributable reserve of the Company as of 31 December 2018 are set out in the note 36 to financial statements.

The Board proposes to set aside 10% of the profit after taxation as the statuary surplus reserve in accordance with the Company Law and the Articles of Association, and not to set aside discretionary reserve. This proposal will be submitted to the 2018 annual general meeting for consideration and approval.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, total sales to the Company's five largest customers represented approximately 12.4% of total revenue for the year, among which total sales to the largest customer accounted for approximately 2.9% of total revenue for the year.

For the year ended 31 December 2018, total purchase from the Company's five largest suppliers represented approximately 5.4% of total cost of sales for the year, among which total purchase from the largest supplier accounted for approximately 1.7% of total cost of sales for the year.

In 2018, none of the Directors, close associates of the Directors or Shareholders of the Company (who, to the knowledge of the Directors, hold more than 5% of the issued share capital of the Company) had interests in the five largest customers or the five largest suppliers of the Group.

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

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

REPORT OF THE DIRECTORS

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

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

STAFF

Staff is the key for the Group's sustainable development. Details of the staff of the Group are set out in "Directors, Supervisors, Senior Management and Employees-Employees" on pages 88 to 99.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group as of 31 December 2018 are set out in the note 30 to financial statements.

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

As of 31 December 2018, the Group had no entrusted deposits with financial institutions in China, or term deposits which were overdue but unrecovered.

EXTERNAL DONATIONS

In 2018, the Company donated a total of RMB3.6 million to various organizations including local charities and governments of impoverished counties.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets out the information on the Directors, the Supervisors and Senior Management of the Company in 2018.

Name	Position held in the Company	Date of appointment
Directors *note 1*		
Mr. ZHOU Zhiliang	Chairman and executive Director	31 January 2012
Mr. YIN Gang	Executive Director and president	21 May 2015
Mr. YANG Yongsheng	Executive Director and Deputy secretary of the Party Committee	28 August 2018
Mr. WANG Jiajie	Independent non-executive Director	21 May 2015
Mr. CHEN Jin'en	Independent non-executive Director	21 May 2015
Mr. CHAN Ka Keung Peter	Independent non-executive Director	28 August 2018
Mr. YAO Guiqing	Independent non-executive Director	28 August 2018
Supervisors *note 2*		
Ms. TIAN Liyan	Chairwoman of the Supervisory Committee	21 May 2015
Mr. WU Zuowei	Supervisor	25 May 2018
Mr. CHEN Shikui	Employee representative Supervisor	28 August 2018
Senior Management *note3*		
Mr. YIN Gang	President and executive Director	22 May 2015
Mr. KONG Ning	Vice president	27 July 2016
Mr. HU Shaofeng	Chief accountant and Board secretary	27 July 2016
Mr. ZHAO Xiaodong (Appointed as vice president on 21 January 2019)		
Mr. HUANG Weizhong	Vice president	18 April 2013
Mr. ZHANG Zhihui (Appointed as vice president on 21 January 2019)		

Note 1:
Mr. SUN Patrick resigned as an independent non-executive Director on 28 August 2018
Mr. GAO Shutang resigned as an independent non-executive Director on 28 August 2018

Note 2:
Mr. GAO Fan resigned as a Supervisor on 25 May 2018
Ms. ZHAO Xiumei resigned as an Employee representative Supervisor on 28 August 2018

Note 3:
Mr. CHEN Hong resigned as vice president on 23 June 2018
Ms. TIAN Liyan resigned as general counsel on 24 December 2018

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 25 May 2018, at the 2017 annual general meeting, the Company deliberated and approved the resolution of electing Mr. WU Zuowei as a Supervisor of the second session of the Supervisory Committee of the Company, whose term of office shall end upon expiry of the term of the incumbent Supervisory Committee. In addition, due to personal job changes, Mr. GAO Fan has resigned as Supervisor of the Company, effective from 25 May 2018.

On 28 August 2018, the Company deliberated and approved the appointment of members of the third session of the Board of Directors of the Company at the first extraordinary general meeting for 2018. Of them, Mr. ZHOU Zhiliang, Mr. YIN Gang and Mr. YANG Yongsheng were appointed as executive Directors of the third session of the Board of Directors; and Mr. WANG Jiajie, Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing were appointed as independent non-executive Directors of the third session of the Board of Directors, respectively, effective from 28 August 2018.

On 28 August 2018, the Board of Directors of the Company deliberated and approved the appointment of the chairmen and members of specialized committees of the third session of the Board of Directors of the Company. Of them, Mr. ZHOU Zhiliang was appointed as chairman of the Nomination Committee and continued to serve as chairman of the Strategy and Investment Committee; Mr. YIN Gang was appointed as a member of the Strategy and Investment Committee and continued to serve as chairman of the Quality and Safety Committee; Mr. YANG Yongsheng was appointed as a member of the Strategy and Investment Committee; Mr. WANG Jiajie was appointed as a member of the Quality and Safety Committee, continued to serve as a member of the Audit and Risk Management Committee and the Nomination Committee, and ceased to be a member of the Strategy and Investment Committee; Mr. CHEN Jin'en was appointed as a member and chairman of the Audit and Risk Management Committee, continued to serve as a member of the Strategy and Investment Committee, and ceased to be chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee; Mr. CHAN Ka Keung Peter was appointed as a member and chairman of the Audit and Risk Management Committee; Mr. YAO Guiqing was appointed as a member of the Strategy and Investment Committee, Nomination Committee, Remuneration and Evaluation Committee, and Quality and Safety Committee, effective from 28 August 2018.

In addition, Mr. SUN Patrick and Mr. GAO Shutang, members of the second session of the Board of Directors, would not seek re-election after the expiration of their term of office. Of them, Mr. SUN Patrick has ceased to be an independent non-executive Director of the Company, chairman of the Audit and Risk Management Committee and a member of the Remuneration and Evaluation Committee, effective from 28 August 2018; and Mr. GAO Shutang has ceased to be an independent non-executive Director of the Company, chairman of the Remuneration and Evaluation Committee, and a member of the Strategy and Investment Committee, Audit and Risk Management Committee, and Quality and Safety Committee, effective from 28 August 2018.

On 28 August 2018, the Company deliberated and approved the appointment of the third session of the Supervisory Committee of the Company at the first extraordinary general meeting for 2018. Of them, Ms. TIAN Liyan was appointed as the Shareholder representative Supervisor of the third session of the Supervisory Committee; Mr. WU Zuowei was appointed as the external Supervisor of the third session of the Supervisory Committee, effective from 28 August 2018. At the same time, upon approval at the staff representative assembly held on 28 August 2018, Mr. CHEN Shikui was appointed as employee representative Supervisor of the third session of the Supervisory Committee, effective from 28 August 2018.

In addition, Ms. ZHAO Xiumei, a member of the second session of the Supervisory Committee, would not seek re-election after the expiration of her term of office. Ms. ZHAO Xiumei has ceased to be an employee representative Supervisor of the Company, effective from 28 August 2018.

Mr. CHEN Hong has ceased to act as the vice president of the Company with effect from 23 June 2018, due to work reason.

On 24 December 2018, Ms. TIAN Liyan has resigned as general counsel of the Company. The Company has submitted to the SASAC the proposed candidate for the new general counsel, who is expected to assume office before June 2019, subject to the approval time of the SASAC.

On 21 January 2019, the Company deliberated and approved the proposal of appointing Mr. ZHAO Xiaodong and Mr. ZHANG Zhihui as vice presidents of the Company at the fifth meeting of the third session of the Board of Directors. Therefore Mr. ZHAO Xiaodong and Mr. ZHANG Zhihui were appointed as vice presidents of the Company, effective from 21 January 2019.

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and Senior Management are set out on pages 88 to 99 of this report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company, the principal particulars of which comprise: (1) the term being from the date of appointment and until the date of the expiration of the incumbent Board/the incumbent Supervisory Committee; and (2) termination provisions in accordance with their respective terms.

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

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

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

INTERESTS OF DIRECTORS IN COMPETING BUSINESSES

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

DIRECTORS AND SUPERVISORS SERVING IN COMPETING BUSINESSES

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

The following table summarizes the particulars of the Director of the Company serving in CRSC Group:

Name	Main Position in the Group	Main Position in CRSC Group
Mr. ZHOU Zhiliang	Chairman and executive Director of the Company	Chairman of CRSC Corporation Group
Mr. YIN Gang	Executive Director and president of the Company	Director and general manager of CRSC Corporation Group
Mr. YANG Yongsheng	Executive Director and Deputy secretary of the Party Committee of the Company	Employee representative director of CRSC Corporation Group

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

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

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

As at 31 December 2018, none of the Directors, Supervisors or chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

DIRECTORS' INSURANCE

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

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

For the shareholdings of substantial Shareholders in the Company, please refer to "Changes in Share Capital and Information of Shareholders - Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares" on pages 59 to 61.

ARRANGEMENTS FOR SHARE PRE-EMPTIVE RIGHT AND STOCK OPTION

In 2018, no arrangement for Share pre-emptive right and stock option was made by the Company, as there are no specific provisions under the China laws or the Articles of Associations of the Company regarding Share pre-emptive right.

COMPLIANCE OF CRSC CORPORATION GROUP WITH THE NON-COMPETITION UNDERTAKING

The Company has received the confirmation letter from CRSC Corporation Group, which confirms that, in 2018, CRSC Corporation Group was in compliance with all undertakings as set out in its "Letter of Non-competition Undertaking" issued to the Company. Please refer to the Prospectus for details.

PUBLIC FLOAT

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

CONNECTED TRANSACTIONS

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

EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

Property Leasing Framework Agreement between CRSC Corporation Group and the Company

Reference is made to the Property Leasing Framework Agreement entered into by and between the Company and CRSC Corporation Group on 19 July 2015. Since the Property Leasing Framework Agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company intends to continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has entered into a new Property Leasing Framework Agreement ("New Property Leasing Framework Agreement") with CRSC Corporation Group on 20 December 2017. Pursuant to the New Property Leasing Framework Agreement, the Group and CRSC Corporation Group and/or its associates may lease properties, including land and buildings, from each other according to actual demands.

The principal terms of the New Property Leasing Framework Agreement include: (1) rental pricing policy (see below); (2) that the Group and CRSC Corporation Group and/or its associates must enter into specific agreements to stipulate specific terms and conditions, including property rental, payment method and other usage fees, in respect of the relevant leasing property and facilities based on the principles as set out in the New Property Leasing Framework Agreement; and (3) that the New Property Leasing Framework Agreement will have a term of three years, commencing from 1 January 2018 to 31 December 2020, and may be renewed with mutual consent after negotiation.

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

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

General Services Framework Agreement between CRSC Corporation Group and the Company

Reference is made to the general services framework agreement entered into by and between the Company and CRSC Corporation Group on 19 July 2015. Since the general services framework agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has entered into a new general services framework agreement ("New CRSC Corporation Group General Services Framework Agreement") with CRSC Corporation Group on 20 December 2017. Pursuant to the New CRSC Corporation Group General Services Framework Agreement, CRSC Corporation Group and/or its associates may provide integrated services, such as logistics, to us according to actual needs, and we can provide property entrustment, technical services and other integrated services to CRSC Corporation Group and/or its associates.

The principal terms of the New CRSC Corporation Group General Services Framework Agreement include: (1) pricing policy of service fee (see below); (2) except for public tender, both parties must confirm the service demand plan for the next year or the service adjustment plan of the current year on a stipulated date of each year; (3) the Group and CRSC Corporation Group and/or its associates must enter into specific agreements to stipulate specific terms and conditions, including specific scope of service, form of service and payment method, in respect of the relevant services based on the principles as set out in the New CRSC Corporation Group General Services Framework Agreement; and (4) the New CRSC Corporation Group General Services Framework Agreement will have a term of three years, commencing from 1 January 2018 to 31 December 2020, and may be renewed with mutual consent after negotiation.

According to the pricing policy of the New CRSC Corporation Group General Services Framework Agreement, the provision of logistics and other integrated services to the Group by CRSC Corporation Group and/or its associates is priced at the cost of the service without making any profit to ensure the service fee is fair and reasonable or more favorable to the Group than being available from Independent Third Parties. The service fees of property entrustment service provided by the Group to CRSC Corporation Group and/or its associates will be determined at arm's length negotiations between the relevant parties by reference to the market price of service fees required by local properties with similar size and quality. The pricing of technical services provided by the Group to CRSC Corporation Group and/or its associates shall comply with the terms of agreement between CRSC Corporation Group and the contractual party of the project. CRSC Corporation Group will purchase technical services from the Group at the price agreed between itself and the contractual party of the project and then supply the same to the contractual party of the project, without making any profit.

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

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

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

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

Service Agreement between CRSC CASCO and ALSTOM IC

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

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

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

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

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

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

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

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

Reference is made to the Alstom General Services Framework Agreements entered into by and between the Company and ALSTOM Transport S.A. and Alstom Transport Holdings B.V. (the "Alstom Transport Holdings"), respectively, on 13 July 2015. Since the Alstom General Services Framework Agreements will expire after three years commencing from the Listing Date, their corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreements after 31 December 2017, therefore, the Company has entered into New General Services Framework Agreements ("New Alstom General Services Framework Agreements") with ALSTOM Transport S.A. and Alstom Transport Holdings on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020. They are subject to renewal after mutual negotiation. Under the New Alstom General Services Framework Agreements, we may engage in mutual supply of technical services with ALSTOM Transport S.A. and Alstom Transport Holdings and/or their respective subsidiaries.

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

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

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

Reference is made to the Alstom General Services Framework Agreement entered into by and between the Company, ALSTOM Transport S.A. and Alstom Transport Holdings, respectively, on 13 July 2015. Since the Alstom General Services Framework Agreements will expire after three years commencing from the Listing Date, their corresponding annual caps will be expired on 31 December 2017, and the Company will continue to conduct transactions under the agreements after 31 December 2017, therefore, the Company has entered into New Alstom General Services Framework Agreements with ALSTOM Transport S.A. and Alstom Transport Holdings on 20 December 2017 for a term of three years, commencing from 1 January 2018 to 31 December 2020. They are subject to renewal after mutual negotiation. Under the New Alstom General Services Framework Agreements, we may procure or sell products from ALSTOM Transport S.A. and Alstom Transport Holdings and/or their respective subsidiaries.

According to the pricing policy of the New Alstom General Services Framework Agreements: the sales are based on the Alstom's project conditions, scale, demand, and costs for labor, materials, transportation & logistics, as well as comprehensive consideration of market supply & demand; with respect to procurement of products required by the Company, the Company generally selects suppliers through tender process, the price will be determined by considering comprehensively, among others, the specific competitive bidding in the market, price quotation from ALSTOM, specific conditions of the project and product cost. If the tender process will not be carried out, then the price will be determined with reference to historical price through negotiations and communications between the parties.

The New Alstom General Services Framework Agreements were entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, all relevant annual "applicable percentage ratios" of the relevant transactions are less than 0.1%. The transaction above constitutes a connected transaction under the Listing Rules only because it involves a connected person at the subsidiary level, therefore, according to Rule 14A.76(1) (b) of the Listing Rules, the aforesaid continuing connected transactions are exempt from the requirements of reporting, annual review, announcement and approval by independent Shareholders under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

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

Reference is made to the purchases and sales framework agreement entered into by and between the Company and CRSC Corporation Group on 19 July 2015. Since the purchases and sales framework agreement will expire after three years commencing from the Listing Date, its corresponding annual caps will be expired on 31 December 2017, and the Company intends to continue to conduct transactions under the agreement after 31 December 2017, therefore, the Company has entered into a new purchases and sales framework agreement ("New CRSC Corporation Group Purchases and Sales Framework Agreement") with CRSC Corporation Group on 20 December 2017. Pursuant to the New CRSC Corporation Group Purchases and Sales Framework Agreement, the Group and CRSC Corporation Group may purchase, among others, raw materials, excipients, accessories, components and parts, packaging materials, semi-finished products, finished products, commodities and related products from each other or sell the same to each other.

The principal terms of the New CRSC Corporation Group Purchases and Sales Framework Agreement include: (1) pricing policy (see below); (2) that except for public tender, both parties must confirm the demand plan for the next year or the demand adjustment plan of the current year on a stipulated date of each year; (3) that the Group and CRSC Corporation Group must enter into specific agreements to stipulate specific terms and conditions, including specific scope of business, quality standards and payment method, in respect of the relevant business based on the principles as set out in the New CRSC Corporation Group Purchases and Sales Framework Agreement; and (4) that the New CRSC Corporation Group Purchases and Sales Framework Agreement will have a term of three years, commencing from 1 January 2018 to 31 December 2020, and may be renewed with mutual consent after negotiation.

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

During the reporting period, the caps of the purchases/sales of this continuing connected transaction for 2018 were RMB99,000 thousand and RMB42,000 thousand, respectively. The actual total transaction amounts of purchases/sales by the Group and CRSC Corporation Group under the aforesaid agreements were RMB76,758.2 thousand and RMB5,315.7 thousand, respectively.

CONFIRMATION BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDITOR'S LETTER

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

(a) nothing has come to Ernst & Young's attention that causes it to believe that the aforesaid continuing connected transactions have not been approved by the Board;

(b) in relation to the transactions involving products and services supplied by the Group, nothing has come to Ernst & Young's attention that causes it to believe that the transactions have not followed the Group's pricing policy in any material aspect;

(c) nothing has come to Ernst & Young's attention that causes it to believe that the transactions have not been carried out in any material aspect in accordance with the relevant agreements;

(d) in relation to the aggregate amounts for each of the aforesaid continuing connected transactions, nothing has come to Ernst & Young's attention that causes it to believe that the actual transaction amount of any of the aforesaid continuing connected transactions has not exceeded the cap determined by the Company for the year.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with the relevant parties considered to be "related parties" pursuant to applicable accounting standards during the reporting period. Details of the related party transactions entered into by the Group during the reporting period are disclosed in the note 44 to the financial statements. Save as those disclosed in the section "Report of the Directors – Connected Transactions" in this annual report, the related parties transactions disclosed in the note 44 were either not considered to be connected transactions or be exempted from the reporting, announcement and Shareholders' approval requirements pursuant to the Hong Kong Listing Rules.

NON-EXEMPT CONNECTED TRANSACTIONS

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

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has reviewed the annual results and the annual report of the Company for 2018 as well as the audited consolidated financial statements for the year ended 31 December 2018 prepared in accordance with IFRS.

ACCOUNTING POLICIES

The principal accounting policies adopted by the Company for the preparation of its audited consolidated financial statements for 2018 are consistent with those adopted for the preparation of its audited consolidated financial statements for the year ended 31 December 2017.

AUDITORS

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

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

REPORT OF THE DIRECTORS

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

In March 2019, the Board proposed to appoint Ernst & Young Hua Ming LLP as the auditor for the A Share Offering and Listing, and proposed to Shareholders' general meeting the authorization to the Board of the Company to finalize the audit fees based on market prices and audit workload. This proposal will be effective upon approval at the 2019 first extraordinary general meeting of the Company.

In March 2019, the Board proposed to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company's financial statements for 2019 to be prepared under IFRS and CASBE, respectively. Their terms of appointment were proposed to be effective upon conclusion of the 2018 annual general meeting of the Company and until the conclusion of 2019 annual general meeting of the Company, and this proposal will be effective upon approval at the 2018 annual general meeting of the Company.

By order of the Board
China Railway Signal & Communication Corporation Limited
Zhou Zhiliang
Chairman

REPORT OF SUPERVISORY COMMITTEE

In 2018, the Supervisory Committee of the Company abode by the principle of good faith, conscientiously performed its supervisory duties and effectively safeguarded the legitimate rights and interests of the Company, its Shareholders and employees based on the principle of accountability to all the Shareholders of the Company, in strict compliance with relevant rules and regulations such as the Company Law, the Articles of Association and the Rules of Procedure of the Supervisory Committee. The work report of the Supervisory Committee was as follows:

1. MEETINGS

In 2018, the Supervisory Committee of the Company has held three meetings as follows:

On 29 March 2018, the sixth meeting of the second session of the Supervisory Committee was convened onsite at the headquarters of the Company by the Supervisory Committee of the Company. 3 Supervisors were entitled to be present at the meeting and 3 Supervisors attended the meeting. The procedures for convening and holding the meeting were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Supervisory Committee. The meeting considered and approved the following resolutions: Resolution in Relation to the 2017 Annual Report and Annual Result Announcement, Resolution in Relation to the 2017 Financial Close Report (Draft), Resolution in Relation to the 2017 Profit Distribution Proposal (Draft) and Resolution in Relation to the 2017 Work Report of the Supervisory Committee.

On 9 July 2018, the seventh meeting of the second session of the Supervisory Committee was convened onsite at the headquarters of the Company by the Supervisory Committee of the Company. 3 Supervisors were entitled to be present at the meeting and 3 Supervisors attended the meeting. The procedures for convening and holding these meetings were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Supervisory Committee. The meeting considered and approved Resolution in Relation to the Nomination of Candidates for Shareholder Representative Supervisor of the Third Session of the Supervisory Committee of the Company.

On 28 August 2018, the first meeting of the third session of the Supervisory Committee was convened onsite at the headquarters of the Company by the Supervisory Committee of the Company. 3 Supervisors were entitled to be present at the meeting and 3 Supervisors attended the meeting. The procedures for convening and holding these meetings were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Supervisory Committee. The meeting considered and approved the following resolutions: Resolution in Relation to Electing Tian Liyan as the Chairwoman of the Supervisory Committee of the Company and Resolution in Relation to the 2018 Interim Result Announcement of CRSC.

2. ATTENDANCE OF IMPORTANT MEETINGS

In 2018, the Supervisors attended two general meetings pursuant to regulations and attended seven Board meetings as non-voting delegates. Moreover, the chairperson of the Supervisory Committee also regularly attended the office meeting of the president as a non-voting attendee. By attending these important meetings as non-voting attendees, the Supervisors not only understood the operation and management of the Company, but also actively participated in the consideration and discussion of the resolutions and put forward their opinions and suggestions in a responsible manner, thus having effectively supervised the procedures for convening these meetings and topics of these meetings.

3. ROUTINE INSPECTION AND RESEARCH

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

4. INDEPENDENT OPINION AND SPECIAL EXPLANATION

(1) Having supervised the performance of duties of Directors and Senior Management of the Company and the legitimate operation of the Company, the Supervisory Committee was of the view that the Board of the Company was able to make decisions according to the law and in strict compliance with requirements such as the Company Law and the Articles of Association and the major business decision-making procedures of the Company were lawful and valid; that the Company disclosed significant information about the Company in a timely manner pursuant to the securities regulatory requirements such that the information was disclosed in a regulated manner and the securities trading system for the informed parties of insider information was conducted well; that the Directors and Senior Management of the Company were able to implement conscientiously and thoroughly relevant laws and regulations, the Articles of Association and the resolutions of the general meetings and the Board during the execution of the duties of the Company in a faithful, pioneering and aggressive manner; and that no Directors or Senior Management of the Company were found to have acts which violated laws, regulations or the Articles of Association or harmed the interests of the Company and the rights and interests of Shareholders during the execution of their duties.

(2) By communicating with the accounting firms in charge of the audit and review services for the Company, the Supervisory Committee examined the Company's financial statements, considered its periodic reports and the audit report of the accounting firms, regularly listened to the report of the internal audit department of the Company on the progress of internal audit work, and carried out effective supervision and inspection on the Company's financial management and operation by means of on-site inspection, research, etc. The Supervisory Committee was of the view that the Company had a sound financial system, regulated management practices and reasonable spending of fees during 2018. The Company's 2018 annual financial report was audited by Ernst & Young Hua Ming LLP and Baker Tilly (special general partnership) which issued a standard audit report with an unqualified opinion that the 2018 annual financial report prepared by the Company fairly reflected the Company's financial condition and operating results.

(3) The Supervisory Committee supervised the utilization of the proceeds by the Company. The Supervisory Committee was of the view that the Company was able to manage and utilize the proceeds in accordance with national laws and regulations as well as the commitments made by the Company in the Prospectus. The Supervisory Committee will continue to supervise and inspect the utilization of the proceeds.

(4) The Supervisory Committee supervised the related party (connected) transactions carried out by the Company. The Supervisory Committee was of the view that the Company's related party (connected) transactions were conducted in accordance with the Company Law, the Hong Kong Listing Rules as well as the Company's Articles of Association and Rules Governing Related Party (Connected) Transactions, and that the pricing of these related party (connected) transactions was fair, without violating the principles of openness, fairness and impartiality, and without identifying any acts which harmed the interests of the Company and its minority Shareholders.

(5) The Supervisory Committee made a special explanation of the Company's internal control. The Supervisory Committee was of the view that in 2018, the internal control system of the Company was improved continuously to cover each aspects of the operation, production and management of the Company, with operability and execution ability being further strengthened, and the overall level of internal control raised constantly so that the Company was able to give a reasonable assurance that the internal control objective would be achieved.

SIGNIFICANT EVENTS

CLOSURE OF REGISTER OF MEMBERS

Special Dividend

In order to ascertain the entitlements of the Shareholders to receive the proposed Special Dividend, the register of members of the Company will be closed from Friday, 19 April 2019 to Wednesday, 24 April 2019 (both days inclusive), during which period no transfer of Shares of the Company will be effected. To be eligible to receive the proposed Special Dividend, all transfer documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares no later than 4:30 p.m. on Thursday, 18 April 2019.

Details of the distribution of Special Dividend are set out in "Report of the Directors" on pages 25 to 48.

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

As of 31 December 2018, the Group was not involved in any events of major litigation, arbitration and generally questioned by the media. The Directors were also not aware of any pending or potential significant litigations or claims.

APPROPRIATION OF FUNDS AND SETTLEMENT PROGRESS DURING THE REPORTING PERIOD

During the reporting period, the Company was not involved with any events of appropriation of funds and settlement progress.

BANKRUPTCY AND RESTRUCTURING

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

TRANSACTIONS OF ASSETS AND MERGERS OF ENTERPRISES

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

EQUITY INCENTIVES OF THE COMPANY AND RELEVANT IMPACT

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

SIGNIFICANT CONTRACTS

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

EQUITY HELD IN OTHER LISTED COMPANIES

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

DEALINGS IN THE SHARES OF OTHER LISTED COMPANIES

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

EXPOSURE TO RISKS OF SUSPENSION AND TERMINATION OF LISTING

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

SIGNIFICANT SUBSEQUENT EVENTS

On 28 February 2019 and 25 March 2019, the Board resolved to approve, among other things, the proposed plan for A Share Offering and related matters. Such resolutions have been approved by Shareholders through special resolutions or ordinary resolutions (as the case may be) at the 2019 first extraordinary general meeting, 2019 first domestic Shareholders class meeting and 2019 first H Shareholders class meeting of the Company. Such resolutions are conditional upon and subject to the market conditions, as well as obtaining the necessary approval or decision from the relevant regulatory authorities. Further details of the proposed A Share Offering and related matters are set out in "Changes in Share Capital and Information of Shareholder" on pages 55 to 61, announcements of the Company dated 28 February 2019, 25 March 2019 and 15 April 2019, and the circular dated 26 March 2019 of the 2019 first extraordinary general meeting and 2019 first H Shareholders class meeting of the Company.

SIGNIFICANT EVENTS

To actively promote and ensure the A Share Offering and Listing, and safeguard the interests of the Company and all Shareholders as a whole, on 15 April 2019, the distribution of the Special Dividend on the remaining distributable profits (after deducting the actual dividends paid in 2018) for the year ended 31 December 2017 was considered and approved at the 2019 first extraordinary general meeting. The Special Dividend will be distributed to Shareholders whose names appear on the register of members of the Company on Wednesday, 24 April 2019 with a cash dividend of RMB0.20 per Share (tax inclusive). The Special Dividend to be distributed is denominated and announced in RMB, of which domestic Shareholders will be paid in RMB and H Shareholders will be paid in HK dollars. The exchange rate of HK dollars will be calculated in accordance with the average central parity rate (i.e., RMB0.85614 to HK$1.00) published by the People's Bank of China at the three working days prior to the date on which the dividend is declared (including the date on which the dividend is declared, i.e., from 11 April 2019 to 15 April 2019), and therefore the amount of dividend payable for each H Share would be HK$0.233606 (tax inclusive). For details, please refer to the announcement of the Company dated 15 April 2019. The Special Dividend is scheduled to be distributed on Friday, 10 May 2019.

The Board of Directors recommended that no final dividend would be distributed on the profits for the year ended 31 December 2018.

Details of the distribution of Special Dividend and final dividend are set out in "Report of the Directors" on pages 25 to 48.

Except as disclosed in this announcement, there were no other significant subsequent events from 1 January 2019 to the Latest Practicable Date.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

CHANGES IN SHARE CAPITAL

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

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

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

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

As at 31 December 2018, the Company's total share capital was RMB8,789,819,000, divided into 8,789,819,000 Shares with a nominal value of RMB1.00 each, of which, 6,821,018,000 Shares were Domestic Shares and 1,968,801,000 Shares were H Shares.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

PROPOSED A SHARE OFFERING AND LISTING

References are made to the announcements of the Company dated 28 February 2019, 25 March 2019 and 15 April 2019, and the circular dated 26 March 2019 of the 2019 first extraordinary general meeting and 2019 first H Shareholders class meeting of the Company, in relation to, among other things, the Company's proposed A Share Offering and Listing and related matters.

On 28 February 2019 and 25 March 2019, the Board resolved to approve, among other things, the proposed A Share Offering plan and other relevant resolutions. Such resolutions have been approved by Shareholders at the 2019 first extraordinary general meeting of the Company, the 2019 first domestic Shareholders class meeting of the Company, and 2019 first H Shareholders class meeting of the Company through special resolutions or ordinary resolutions (as the case may be). Such resolutions are conditional upon and subject to the market conditions, as well as obtaining the necessary approval or decision from the relevant regulatory authorities.

Due to the needs of the A Share Offering and Listing, according to the relevant laws and regulations including the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and relevant regulatory documents, as well as considering the actual conditions of the Company, the proposed plan for the A Share Offering and Listing is detailed as follows:

(1)	Type of Shares to be issued and par value	:	Renminbi ordinary shares (A Share), with a par value of RMB1.00 each
(2)	Number of A Shares to be issued	:	It is proposed that the size of the proposed A Share to be issued shall not exceed 2,197,454,750 Shares, representing no more than 20% of the total share capital of the Company upon the completion of the issuance. In the event of any exit right issues of the Company, including share dividend and share capital increase from capital reserves, before the A Share Offering, the number of A Shares under the A Share Offering will be adjusted accordingly. The ultimate number of the issuance will be negotiated by the Board as authorized by the general meeting with the sponsor institution(s) (lead underwriter(s)) in accordance with the actual conditions, and will be subject to the approval/decision on approval of registration by the CSRC and other regulatory authorities
(3)	Target subscribers	:	Inquiry targets who meet the relevant qualification requirements of the CSRC and other regulatory authorities, as well as natural persons, legal persons and other institutional investors who maintain A share account with the SSE (except persons prohibited by the PRC laws and regulations, rules and regulatory documents) If any of the aforesaid target subscribers of A Share Offering are connected persons of the Company (only refers to connected persons under the A Share Listing Rules), the Company will take all reasonable measures to ensure that the A Share subscribers meet the relevant requirements of the CSRC and other regulatory authorities

(4)	Method of issuance	:	The Company will adopt a combination of off-line placement and offering by way of on-line subscription, or such other methods of issuance as approved by the CSRC and the SSE
(5)	Method of pricing	:	By making preliminary inquiries to inquiry targets, the Company and the sponsor institution(s) of the Company/the lead underwriter(s) will determine the issue price through mutual negotiation based on the results of the preliminary inquiries, or by other methods as may be approved by the CSRC and the SSE when the time comes According to the requirements on state-owned assets supervision and administration, in principle, the issue price of A Share shall not be lower than the net asset per Share recently available to the Company on the date when determining the issue price. In addition, the issue price of A Share is subject to the relevant requirements of the Listing Rules
(6)	Use of proceeds	:	The Company intends to use the proceeds from the A Share Offering to invest in advanced and intelligent technology research and development and manufacturing base projects, information construction projects and to replenish working capital If the actual proceeds from the A Share Offering are not sufficient, the Company will solve the funding gap of the above projects through self-financing. If the actual proceeds from the A Share Offering exceed the total amount of the above investment projects, surplus funds will be utilized in the Company's main business after performing the necessary procedures in accordance with the relevant requirements The Company may support the implementation of the above projects with its own funds and/or bank loans according to the actual progress of the project prior to the receipt of the proceeds from the A Share Offering. The proceeds will be used to replace the self-raised funds that have been invested in advance after obtaining the proceeds from the A Share Offering
(7)	Distribution plan of accumulated profits before the issuance	:	Prior to completion of the A Share Offering and Listing, the Company will conduct profit distribution in accordance with resolution of relevant general meeting; after completion of the A Share Offering and Listing, the undistributed profit of the Company accumulated before the A Share Offering and Listing will be shared by the new and existing Shareholders according to their respective shareholding percentage after the A Share Offering and Listing
(8)	Place of listing of Shares	:	The Science and Technology Innovation Board of the SSE

(9)	Underwriting fees	:	The Company and the Shareholders who publicly offer secondary Shares (if any) shall bear the fees respectively, in particular, the underwriting fees for the primary Shares shall be borne by the Company; the underwriting fees for the secondary Shares of the Shareholders (if any) shall be borne by the Shareholders participating in the public offering in proportion to the number of their respective public offer Shares; the sponsor fees, audit fees, attorney fees, information disclosure fees, issuance handling charges and other fees shall be borne by the Company
(10)	Valid period of the resolutions	:	The relevant resolutions of the A Share Offering and Listing shall be valid for 12 months from the date of consideration and approval by the 2019 first extraordinary general meeting, 2019 first domestic Shareholders class meeting and 2019 first H Shareholders class meeting of the Company

For details of the proposed A Share Offering and related proposals, please refer to the announcements of the Company dated 28 February 2019 and 25 March 2019, and the circular dated 26 March 2019 of the 2019 first extraordinary general meeting and 2019 first H Shareholders class meeting of the Company.

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

As at 31 December 2018, none of the Directors, Supervisors or chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as is known to the Directors, the following persons (other than the Directors, the Supervisors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and which were entered in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of Shares in the relevant class of Shares of the Company (%)	Approximate percentage of Shares in the total issued Shares of the Company (%)
China Railway Signal and Communication (group) Corporation Limited	Domestic Shares	Beneficial owner	6,604,426,424 (Long position)	96.82%	75.14%
National Council for Social Security Fund of the PRC	H Shares	Beneficial owner	178,982,000 (Long position)	9.09%	2.04%
China Shipping (Group) Company[1]	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Shipping (Hong Kong) Holdings Co., Limited[1]	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
Shanghai Zhenhua Heavy Industries Co., Ltd.[2]	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

Name of Shareholder	Class of Shares	Capacity	Number of Shares held	Approximate percentage of Shares in the relevant class of Shares of the Company (%)	Approximate percentage of Shares in the total issued Shares of the Company (%)
Shanghai Zhenhua Port Machinery (Hong Kong) Company Limited[(2)]	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
China Railway Group Investment (Hong Kong) Limited[(3)]	H Shares	Beneficial owner	123,063,000 (Long position)	6.25%	1.40%
China Railway Engineering Corporation[(3)]	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Railway Group Limited[(3)]	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
China Railway International Group Co., Limited[(3)]	H Shares	Interests in a controlled corporation	123,063,000 (Long position)	6.25%	1.40%
Guangdong Finance Investment International Co., Ltd. [(4)]	H Shares	Beneficial owner	115,190,000 (Long position)	5.85%	1.31%
Guangdong Yuecai Investment Holdings Limited (廣東粵財投資控股有限公司)[(4)]	H Shares	Interests in a controlled corporation	115,190,000 (Long position)	5.85%	1.31%
BlackRock, Inc. [(5)]	H Shares	Interests in a controlled corporation	98,487,166 (Long position)	5.00%	1.12%

Notes:

As at 31 December 2018, the number of issued Shares of the Company was 8,789,819,000 Shares, of which 1,968,801,000 Shares were H Shares and 6,821,018,000 Shares were Domestic Shares.

1. China Shipping (Group) Company had interests in such Shares through China Shipping (Hong Kong) Holdings Co., Limited.

2. Shanghai Zhenhua Heavy Industries Co., Ltd. had interests in such Shares through Shanghai Zhenhua Port Machinery (Hong Kong) Company Limited.

3. China Railway Engineering Corporation had interests in such Shares through China Railway Group Limited, China Railway International Group Co., Limited and China Railway Group Investment (Hong Kong) Limited.

4. Guangdong Yuecai Investment Holdings Limited (廣東粵財投資控股有限公司) had interests in such Shares through Guangdong Finance Investment International Co., Ltd.

5. BlackRock, Inc. had interests in such Shares through the corporations it directly or indirectly held.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any persons (other than the Directors, the Supervisors or chief executives of the Company) who had interests and/or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and which were entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

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

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code. The Board is of the view that the Company had complied with all the code provisions as set out in the Corporate Governance Code for the year ended 31 December 2018.

SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS AND SUPERVISORS

The Company has formulated a code of conduct no less exacting than the code of conduct as provided in the Model Code as the code of conduct for all the Directors and Supervisors trading securities of the Company ("code of conduct"). The Company has made specific enquiries to all the Directors and Supervisors, and all the Directors and Supervisors have confirmed that they have complied with the standards as stipulated by the code of conduct for the year ended 31 December 2018.

BOARD

As at 31 December 2018, the third session of the Board of Directors of the Company consists of three executive Directors and four independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors
Mr. ZHOU Zhiliang *(Chairman)*
Mr. YIN Gang *(President)*
Mr. YANG Yongsheng *(deputy secretary of the Party Committee)*

Independent Non-executive Directors
Mr. WANG Jiajie
Mr. CHEN Jin'en
Mr. CHAN Ka Keung Peter
Mr. YAO Guiqing

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

Biographies of the Directors are set out in the section "Directors, Supervisors, Senior Management and Employees".

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

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

Independent Non-executive Directors

For the year ended 31 December 2018, the Board had complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

CHAIRMAN AND PRESIDENT

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

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

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

(1) to preside over general meetings and to convene and preside over Board meetings;

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

(3) to supervise and check on the work of Special Committee;

(4) to listen to the regular or non-regular work reports of the president and other Senior Management members of the Company and provide guidance on the execution of the resolutions of the Board;

(5) to exercise special rights over the Company's affairs that are in line with the requirements under the laws and the interests of the Company when the chairman of the Board is unable to convene a Board meeting in time in the event of force majeure, critical crisis or situations resulting in significant effect to the production and operation of the Company and report to the Board and general meeting afterwards;

(6) to nominate candidates for secretary to the Board of the Company;

(7) to sign the share certificates, corporate bonds and other securities certificates issued by the Company;

(8) to sign the significant documents of the Board and to represent the Company in signing with third parties important documents that are legally-binding;

(9) to organize the formulation of various rules and regulations for the operation of the Board and coordinate the Board's work;

(10) to review and approve the plan for using funds of the Board;

(11) to exercise the duties and powers as the legal representative;

(12) to exercise other duties and powers provided for in laws and regulations or the Articles of Association and those granted by the Board.

According to the requirement of the Articles of Association, the Company shall have one president, several vice presidents and one chief accountant; the president of the Company shall be accountable to the Board and exercise the following powers:

(1) to lead the Company's production, operation and management, to organize the implementation of the resolution of the Board and to report to the Board;

(2) to organize the implementation of the Company's annual plan and investment plan;

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

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

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

(6) to propose to the Board the appointment or dismissal of vice presidents and chief accountant of the Company;

(7) to appoint or dismiss other management members of the Company other than those required to be appointed or dismissed by the Board in accordance with relevant principles and procedures;

(8) to exercise other powers conferred by the Articles of Association or the Board.

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

TERM OF OFFICE FOR DIRECTORS

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

NOMINATION, APPOINTMENT AND REMOVAL OF DIRECTORS

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

DUTIES OF THE BOARD

The Board shall be accountable to the general meeting. According to the requirement of the Articles of Association, duties of the Board shall include the exercise of the following functions and powers:

(1) to convene general meetings and to report on its work to the general meeting;

(2) to implement the resolutions of the general meeting;

(3) to decide on the business plans and investment plans of the Company;

(4) to formulate the annual financial budgets and final accounts of the Company;

(5) to formulate the profit distribution plans and plans for making up losses of the Company;

(6) to formulate plans for the increase or reduction of the registered capital of the Company;

(7) to formulate plans for the issuance of corporate bonds, any class of Shares, warrants and other similar securities;

(8) to formulate plans for significant acquisition by the Company, repurchase of Shares of the Company or merger, division, reorganization or dissolution of the Company and changes in the corporate form of the Company;

(9) to decide on the provision by the Company of any external guarantee other than those to be approved by the general meeting as required by the Articles of Association;

(10) to decide on significant acquisition or disposal within one year by the Company of assets not more than 30% of the latest audited total assets of the Company;

(11) to decide on connected transactions other than those to be approved by the general meeting as required by laws and regulations and regulatory rules in the place where Shares of the Company are listed;

(12) to decide on significant investment projects of the Company with the single amount not more than 30% of the latest audited net assets of the Company;

(13) to decide on entrusted wealth management and asset mortgages or pledges with the accumulated amount not more than 30% of the latest audited net assets of the Company;

(14) to decide on extra costs and expenses with the single amount not more than 10% of the latest audited net assets of the Company;

(15) to decide on plans of external donation and sponsorship of the Company with the single amount not more than RMB5 million;

(16) to formulate amendments to the Articles of Association, the Rules of Procedure for the general meeting and the Rules of Procedure for the Board;

(17) to engage or dismiss the Company's president and secretary to the Board; to engage or dismiss vice presidents and the chief accountant of the Company, as proposed by the president, and decide on matters relating to their remuneration, rewards and punishments;

(18) to decide on the establishment of the Company's internal management organization;

(19) to decide on the establishment of each Special Committees under the Board and to consider and approve resolutions proposed by each Special Committee under the Board;

(20) to formulate the basic management systems of the Company;

(21) to formulate development strategies, long and medium term development plans and corporate culture development plans, and to monitor the implementation of such plans;

(22) to decide on the Company's risk management system, including risk evaluation, financial control, internal audit and legal risk control, and to monitor the implementation of such systems;

(23) to propose to the general meeting the appointment, removal or termination of reappointment of an accounting firm;

(24) to listen to the work reports of the Company's president and inspect the work of the president and other Senior Management members;

(25) to perform duties of corporate governance and to evaluate and improve the corporate governance of the Company regularly in accordance with the regulatory rules in the place where Shares of the Company are listed;

(26) to formulate share option incentive scheme;

(27) to manage the Company's information disclosure matters;

(28) other functions and powers provided in laws and regulations, regulatory rules in the Place where Shares of the Company are listed or specified in the Articles of Association or granted by the general meeting.

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

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

CORPORATE GOVERNANCE FUNCTION

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

(1) to formulate, review and make recommendations on the corporate governance policies and practices of the Company;

(2) to review and monitor the training and continuous professional development of Directors and Senior Management;

(3) to review and monitor the Company's policies and practices in compliance with laws and regulatory requirements;

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

(5) to review the Company's compliance with the Corporate Governance Code and disclosures made in the Corporate Governance Report of the annual report of the Company.

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

DIRECTORS' TRAINING

During the reporting period, the Board of Directors focused on the continuous professional development of Directors and actively encouraged and organized Directors to participate in the training. All members of the Board of Directors, namely Mr. ZHOU Zhiliang, Mr. YIN Gang, Mr. YANG Yongsheng, Mr. WANG Jiajie, Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing, to ensure that they made a contribution to the Board with comprehensive information and as requested, continued to learn all kinds of regulatory information and the latest regulatory requirements in their daily duties, including relevant laws and regulations and regulatory documents such as corporate governance and Listing Rules. They also read industry, professional books and publications, updated their knowledge and skills, and enhanced the ability to perform their duties. Each newly appointed Director (namely Mr. YANG Yongsheng, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing) receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Mr. ZHOU Zhiliang, the chairman of the Board, and Mr. WANG Jiajie, an independent non-executive Director, attended the Training on Practical Projects of Board Operations organized by the SASAC. Independent non-executive Directors, including Mr. WANG Jiajie, Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter, and Mr. YAO Guiqing, participated in numerous professional trainings organized by the Hong Kong Institute of Chartered Secretaries and other relevant domestic institutions.

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

BOARD MEETINGS

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

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

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

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

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

Directors' Attendance at Meetings

For the year ended 31 December 2018, the Board held a total of seven meetings and two general meetings were held. The Board has reviewed and approved such proposals as the results for the year ended 31 December 2017, interim results for the six months ended 30 June 2018 and distribution of profits, overall budget and material investments.

For the year ended 31 December 2018, the Directors' attendance records of the Board meetings and the general meetings are set out as follows:

Name of Director	Number of Board meetings attended/ Number of Board meetings held during their respective tenures	Number of the general meetings attended/Number of the general meetings held during their respective tenures
Mr. ZHOU Zhiliang	7/7	2/2
Mr. YIN Gang	6/7	2/2
Mr. YANG Yongsheng (appointed on 28 August 2018)	4/4	N/A*
Mr. WANG Jiajie	7/7	2/2
Mr. CHEN Jin'en	7/7	2/2
Mr. CHAN Ka Keung Peter (appointed on 28 August 2018)	4/4	N/A*
Mr. YAO Guiqing (appointed on 28 August 2018)	4/4	N/A*
Mr. SUN Patrick (resigned on 28 August 2018)	3/3	1/2
Mr. GAO Shutang (resigned on 28 August 2018)	3/3	0/2

* No general meeting of Shareholders was held during the term of office of the relevant Directors, so it was not applicable.

For the year ended 31 December 2018, the chairman of the Company also held one meeting with all the independent non-executive Directors.

Delegation by the Board

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

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

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

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

BOARD COMMITTEES

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

Nomination Committee

The Company has established the Nomination Committee with written terms of reference. The Nomination Committee of the Company currently consists of 3 Directors, namely Mr. ZHOU Zhiliang, an executive Director, and Mr. WANG Jiajie and Mr. YAO Guiqing, independent non-executive Directors. Mr. ZHOU Zhiliang, an executive Director, currently serves as the chairman of the Nomination Committee. Mr. CHEN Jin'en ceased to be chairman and member of the Nomination Committee from 28 August 2018 onward. The primary duties of the Nomination Committee include, but are not limited to, the following:

(1) reviewing the structure, number of members and composition of the Board, and advising on any changes made by the Board in response to the Company's strategies;

(2) studying and advising on the standards, procedures and methods for the election of Directors and Senior Management members;

(3) evaluating the eligibility of candidates for Directors and Senior Management members, reporting to the Board its opinions and advising on the relevant appointment to the Board;

(4) searching for qualified candidates for Directors and Senior Management members;

(5) reviewing the independence of the independent non-executive Directors;

(6) advising to the Board on the appointment or re-appointment of Directors and Senior Management members, as well as the succession plan for Directors and Senior Management members (especially chairman and president);

(7) reporting its decisions or opinions to the Board, unless otherwise restricted by laws or regulations;

(8) other duties authorized by the Board.

For the year ended 31 December 2018, the Nomination Committee held one meeting, with Directors' attendance records set out as follows:

Name of Director	Number of meetings attended/ Number of meetings held
Mr. ZHOU Zhiliang (took up the post of committee member on 28 August 2018)	0/0*
Mr. CHEN Jin'en (ceased to be committee member from 28 August 2018 onward)	1/1
Mr. WANG Jiajie	1/1
Mr. YAO Guiqing (took up the post of committee member on 28 August 2018)	0/0*

* The committee meeting was not held during the term of office of the relevant directors.

The Nomination Committee adopts the following procedures for selection and appointment of Directors and Senior Management members:

(1) actively studying the Company's demands for new Directors and Senior Management members and preparing written materials;

(2) searching for candidates for Directors and Senior Management members in the Company and its wholly-owned and holding (joint-stock) enterprises and the talent market;

(3) gathering information of preliminary candidates, including occupation, education, job title, detailed work experience and all part-time jobs, and preparing written materials;

(4) seeking the consent of the nominees for nomination;

(5) convening a meeting of the Nomination Committee to conduct a qualification check of the preliminary candidates based on the appointment criteria for Directors and Senior Management members;

(6) submitting to the Board its recommendations on the candidates for Directors and Senior Management members and relevant materials prior to the election of new Directors or the appointment of new Senior Management members;

(7) implementing other follow-up work in accordance with the decisions and feedback of the Board.

In reviewing the structure of the Board, the Nomination Committee considers Board members diversity from various aspects, including but not limited to cultural, educational background, professional experience, skills and knowledge. All appointments of Board members are based on meritocracy, and candidates are considered with due regard for the capacity, skill and experience required for the overall operation of the Board, so as to ensure the proper balance of the Board members.

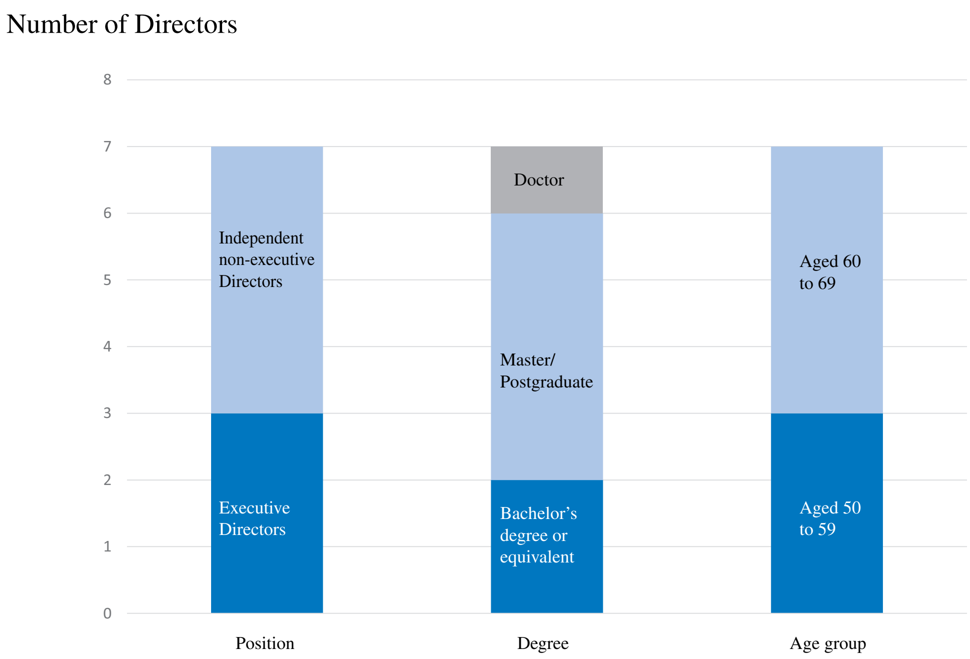
In nominating new Directors, the Nomination Committee has reviewed the career, academic qualifications, professional titles and experiences of Mr. YANG Yongsheng, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing, and considers that they meet the requirements for the qualifications and experience of directors under the Listing Rules, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing meet the independence requirements under the Listing Rules. Therefore, the Nomination Committee nominates the above three persons as Directors of the Company for the Board to recommend to Shareholders for election and appointment at the extraordinary general meeting.

Diversity Policy of Board Members

The Company understands and firmly believes that a diversified Board is an important factor for maintaining the Company's competitive edges and promoting sustainable development of the Company. In designing the Board's composition, the Company considers Board members diversity from various aspects, including but not limited to gender, age, cultural and educational background, race, professional experience, skills, knowledge and years of service. The Nomination Committee fully considers the benefits of Board members diversity when making recommendations or suggestions to the Board regarding appointment of new Directors of the Company.

Selection of candidates is based on a series of diversified categories, including but not limited to gender, age, cultural and educational background, race, professional experience, skills, knowledge and years of service. Meanwhile, the Company considers the above factors based on its own business modes and specific needs arising from time to time and makes final decisions according to the candidates' advantages and potential contributions to the Board.

The following chart shows the diversity position/overview of the Company's Board members on 31 December 2018:



The Nomination Committee, when considering the composition of the Board, through evaluating the capabilities and experiences of every Director and their suitability to the business of the Company, considers that the existing structure of the Board during the reporting period is reasonable, the Board members have balanced talents, experience and professional knowledge needed for the Company's business development, and the existing structure of the Board is in line with the Diversity Policy of Board Members that our Company have adopted.

Remuneration and Evaluation Committee

The Company has established the Remuneration and Evaluation Committee with written terms of reference. The Remuneration and Evaluation Committee of the Company consists of 3 independent non-executive Directors, including Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing. Mr. CHEN Jin'en currently serves as the chairman of the Remuneration and Evaluation Committee. Mr. SUN Patrick and Mr. GAO Shutang ceased to be members of the Remuneration and Evaluation Committee from 28 August 2018 onward. The primary duties of the Remuneration and Evaluation Committee include, but are not limited to, the following:

(1) advising the Board on the overall remuneration policy and framework for Directors and Senior Management members, and on the establishment of standardized and transparent remuneration policy formulation procedures;

(2) studying assessment criteria, performance evaluation procedures, remuneration and rewards and punishment policies for Directors and Senior Management members and submitting them to the Board for approval;

(3) reviewing the performance of duties by and conducting performance appraisal and evaluation over Directors and Senior Management members;

(4) reviewing and approving proposals on Senior Management's remuneration in accordance with the Company's guidelines and targets approved by the Board;

(5) formulating and advising the Board on the remuneration packages for Directors and Senior Management members;

(6) reviewing and approving the compensation for the loss or termination of the office or appointment of the executive Directors and Senior Management members;

(7) reviewing and approving the compensation arrangements with regard to the dismissal or removal of Directors due to their misconduct;

(8) ensuring any Director or their associates do not determine by themselves, or are not involved in determining, their remuneration;

(9) supervising the implementation of the Company's remuneration policies;

(10) studying and making suggestions on the Company's equity incentive proposal;

(11) reporting to the Board their decisions or recommendations, unless as restricted by laws or regulations;

(12) other duties authorized by the Board.

For the year ended 31 December 2018, the Remuneration and Evaluation Committee held one meeting, with Directors' attendance records set out as follows:

Name of Director	Number of meetings attended/ Number of meetings held
Mr. CHEN Jin'en	1/1
Mr. CHAN Ka Keung Peter (took up the post of committee member on 28 August 2018)	1/1
Mr. YAO Guiqing (took up the post of committee member on 28 August 2018)	1/1
Mr. SUN Patrick (ceased to be committee member from 28 August 2018 onward)	0/0*
Mr. GAO Shutang (ceased to be committee member from 28 August 2018 onward)	0/0*

* The committee meeting was not held during the term of office of the relevant directors.

For the year ended 31 December 2018, the Remuneration and Evaluation Committee has considered the report on the 2017 annual remuneration of the person in charge of CRSC.

Remuneration of Directors and Senior Management

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

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

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

Remuneration band	Number of individuals
RMB500,000 to RMB800,000	0
RMB800,000 to RMB1,000,000	3

Audit and Risk Management Committee

The Company has established the Audit and Risk Management Committee with written terms of reference. The Audit and Risk Management Committee of the Company currently consists of 3 independent non-executive Directors, including Mr. CHAN Ka Keung Peter, Mr. WANG Jiajie and Mr. CHEN Jin'en. Mr. CHAN Ka Keung Peter currently serves as the chairman of the Audit and Risk Management Committee. Mr. SUN Patrick and Mr. GAO Shutang ceased to be member of the Audit and Risk Management Committee from 28 August 2018 onward.

The primary duties of the Audit and Risk Management Committee include, but are not limited to, the following:

(1) advising the Board on the appointment, renewal or change, dismissal of external auditors, approving and reviewing audit fees and appointment terms of external auditors, handling any issues related to the resignation or dismissal of external auditors, taking appropriate measures to supervise the work of external auditors and reviewing the report of external auditors;

(2) reviewing and supervising the independence and objectivity of the external auditors and the effectiveness of the audit procedures, and discussing issues related to the nature, category and reporting responsibility of auditing with external auditors before the auditing work starts according to applicable standards;

(3) formulating and implementing policies of non-audit services provided by external auditors, reporting to the Board and advising the Board on the actions they deem necessary and matters to be improved;

(4) reviewing and supervising the completeness of the Company's financial statements, annual reports and accounts, interim reports and quarterly reports (if any), and reviewing the important opinions on the financial reporting recorded in the financial statements and financial reports;

(5) reviewing the Company's financial control, internal control and risk management system and monitoring the implementation of such system on an on-going basis, and ensuring that the effectiveness of the Group's risk management and internal control system is reviewed at least once a year;

(6) reviewing the compliance of the Company with the applicable Corporate Governance Code and the disclosure of corporate governance report as required by the regulatory rules in the place where the Shares are listed;

(7) discussing on the risk management and internal control system with the management of the Company to ensure the establishment of an effective internal control system by the management of the Company, supervising the effective implementation of the Company's internal control and self-assessment of internal control, and coordinating the Company's internal control audit and other related matters;

(8) ensuring coordination between the internal audit department of the Company and external auditors, ensuring that the internal audit department of the Company is adequately resourced and has appropriate standing, and reviewing and supervising the effectiveness of the internal audit Department of the Company;

(9) examining the Company's financial and accounting policies and practices;

(10) reviewing the Explanatory Letter of Review Matters issued by the external auditor to the Company's management, any material queries raised by the external auditor to the Company's management about accounting records, financial accounts or internal control system and the response of the Company's management;

(11) confirming the list of the Company's related/connected parties and reporting it to the Board and the Supervisory Committee; conducting a preliminary review of the related/connected transactions to be submitted to the Board for consideration; and reviewing the reasonableness and necessity of major related transactions;

(12) reporting to the Board annual report on the Company's overall risk management, and reviewing the risk management strategies and major risk management solutions of the Company;

(13) reviewing the internal control evaluation report submitted by the internal audit department;

(14) supervising and controlling the risks that the Company is affected by the overseas sanction laws to ensure timely, complete and accurate disclosure of information related to transactions subject to sanctions in accordance with such laws;

(15) other duties authorized by the Board.

For the year ended 31 December 2018, the Audit and Risk Management Committee held three meeting(s), with Directors' attendance records set out as follows:

Name of Director	**Number of meetings attended/ Number of meetings held**
Mr. CHAN Ka Keung Peter (took up the post of committee member on 28 August 2018)	2/2
Mr. WANG Jiajie	3/3
Mr. CHEN Jin'en (took up the post of committee member on 28 August 2018)	2/2
Mr. SUN Patrick (ceased to be committee member from 28 August 2018 onward)	1/1
Mr. GAO Shutang (ceased to be committee member from 28 August 2018 onward)	1/1

The Audit and Risk Management Committee has reviewed the annual results of the Group for the year ended 31 December 2017 and the unaudited interim results of the Group for the six months ended 30 June 2018. The Audit and Risk Management Committee has discussed the accounting policies and practices adopted by the Company, internal control and financial reporting matters with the Senior Management of the Company, and has reviewed the effectiveness of the accounting policies and practices adopted by the Group, financial control, the risk management and internal control system and the internal audit function of the Group, and considers that the Group's risk management and internal control system and the operation of the internal audit department remain effective. Meanwhile, the Audit and Risk Management Committee had 2 meetings with external auditors.

The Audit and Risk Management Committee has also reviewed the compliance of the Company with the Corporate Governance Code and the corporate governance report of the Company.

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

Strategy and Investment Committee

The Company has established the Strategy and Investment Committee with written terms of reference. The Strategy and Investment Committee of the Company currently consists of 5 Directors, including executive Directors Mr. ZHOU Zhiliang, Mr. YIN Gang and Mr. YANG Yongsheng, and independent non-executive Directors Mr. CHEN Jin'en and Mr. YAO Guiqing. Mr. ZHOU Zhiliang, an executive Director, currently serves as the chairman of the Strategy and Investment Committee. Mr. WANG Jiajie and Mr. GAO Shutang ceased to be members of the Strategy and Investment Committee from 28 August 2018 onward. The primary duties of the Strategy and Investment Committee include, but are not limited to, the following:

(1) establishing the basic framework for the Company's strategy-making procedures, and studying and advising on the Company's medium and long-term strategic development plan;

(2) studying and advising on major financing and investment plans which, according to the Articles of Association of the Company, should be approved by the Board or at a general meeting;

(3) auditing and advising on the Company's annual business plan;

(4) studying and advising on major capital operation and asset management projects which are required to be approved by the Board or at a general meeting according to the Articles of Association of the Company;

(5) studying and advising on the plans for corporate reorganization, mergers and acquisitions, equity transfer, restructuring, and organizational restructuring of the Company which should be approved by the Board or at a general meeting;

(6) studying and advising on other major events which may have influence on the Company's development;

(7) supervising and examining the implementation of the above matters;

(8) other duties authorized by the Board.

Quality and Safety Committee

The Company has established the Quality and Safety Committee with written terms of reference. The Quality and Safety Committee of the Company currently consists of 3 Directors, including executive Director Mr. YIN Gang and independent non-executive Directors Mr. WANG Jiajie and Mr. YAO Guiqing. Mr. YIN Gang, an executive Director, currently serves as the chairman of the Quality and Safety Committee. Mr. GAO Shutang ceased to be member of the Quality and Safety Committee from 28 August 2018 onward. The primary duties of the Quality and Safety Committee include, but are not limited to, the following:

(1) studying and advising the Board on the Company's quality and safety management plan;

(2) studying and advising the Board on the annual quality and safety guidelines and objectives;

(3) studying the targets and measures for the construction of long-term quality and safety mechanism;

(4) supervising the establishment, implementation and maintenance of the Company's integrated management system of quality, environment and occupational health and safety, and supervising and guiding the establishment and operation of the safety guarantee system;

(5) supervising and guiding the Company's control of major hazard sources, and organizing the formulation of emergency management plan for production safety;

(6) evaluating the severe quality and safety accidents, failures and quality issues, and providing guidance to handling the related issues;

(7) other duties authorized by the Board.

For the year ended 31 December 2018, the Quality and Safety Committee held one meeting, with Directors' attendance records set out as follows:

Name of Director	**Number of meetings attended/ Number of meetings held**
Mr. YIN Gang	1/1
Mr. WANG Jiajie (took up the post of committee member on 28 August 2018)	1/1
Mr. YAO Guiqing (took up the post of committee member on 28 August 2018)	1/1
Mr. GAO Shutang (ceased to be committee member from 28 August 2018 onward)	0/0*

* The committee meeting was not held during the term of office of the relevant directors.

For the year ended 31 December 2018, the Quality and Safety Committee had reviewed the report on the safety and quality works in 2018 and the key safety and quality works arrangement in 2019 of the Company.

SUPERVISORY COMMITTEE

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

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

On 28 August 2018, the Company convened the first extraordinary general meeting for 2018 and elected Ms. TIAN Liyan and Mr. WU Zuowei as non-employee representative Supervisors of the third session of the Supervisory Committee, who are members constituting the third session of the Supervisory Committee with Mr. CHEN Shikui, an employee representative Supervisor democratically elected by the staff on 28 August 2018.

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

(1) to review the Company's financial position;

(2) to supervise the Directors, president and other Senior Management in their performance of their duties of the Company and to propose the removal of Directors and Senior Management who have violated laws, regulations, the Articles of Association or resolutions of general meetings;

(3) when the acts of a Director, president or any other Senior Management are detrimental to the Company's interests, to require him/her to correct such acts;

(4) to propose the convening of extraordinary general meetings and to convene and preside over general meetings when the Board fails to perform the duty of convening and presiding over general meetings according to laws;

(5) to put forward proposals to general meetings;

(6) to review and issue written review comments on the periodic reports of the Company prepared by the Board;

(7) to initiate proceedings against Directors and the Senior Management in accordance with relevant laws;

(8) to initiate investigations into any irregularities identified in the operation of the Company and, where necessary, to engage professional institutions, such as an accounting firm and a law firm, to assist its work;

(9) other powers authorized by the Articles of Association or general meeting.

For the year ended 31 December 2018, the Supervisory Committee held three meeting(s), with Supervisors' attendance records set out as follows:

Name of Supervisor	Number of meetings attended/ Number of meetings held
Ms. TIAN Liyan	3/3
Mr. WU Zuowei (appointed as Supervisor on 25 May 2018)	2/3
Mr. CHEN Shikui (appointed as Supervisor on 28 August 2018)	1/3
Mr. GAO Fan (resigned as Supervisor on 25 May 2018)	1/3
Ms. ZHAO Xiumei (resigned as Supervisor on 28 August 2018)	2/3

During the reporting period, Supervisors had during the year monitored Directors and managers' performance of functions and lawful operation of the Company, reviewed periodical reports of the Company prepared by the Board, reviewed the financial statements of the Company and conducted daily supervision and paid close attention to possible risks that may occur during the Company's operation. Details are set out in the section headed "Report of Supervisory Committee" to this report.

ACCOUNTABILITY AND AUDIT

Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2018. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

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

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

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

1. Risk Management and Internal Control Management Responsibilities

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

2. Risk Management and Internal Control Management Systems and Procedures

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

3. Non-compliance Report Policy and Procedure

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

4. **Key Business Risks and Internal Control**

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

5. **Overall Situation of Risk Management and Internal Control for 2018**

In 2018, the legal compliance department and the audit department of the Company organized all functional departments and enterprises of all levels to conduct overall risk evaluations, internal control assessments, rationalize internal control system and procedure, and continue to improve the internal control system, conduct investigations on special risk, track the implementation of major risk control measures, and give risk warning at the beginning of the year in accordance with the regulations and the requirements of the Board of Directors and management of the Company and organized special risk evaluations on and took countermeasures against each major project in order to improve the Company's overall risk management and internal control management system and ensure that the Company's risks are controllable, the internal control system and procedure continue to be effective and internal control measures are effectively implemented. For the year ended 31 December 2018, the Board of Directors has reviewed the Company's risk management and internal control system through the legal compliance department and the audit department and considers that the system is still effective and sufficient.

Meanwhile, the Audit and Risk Management Committee has reviewed the effectiveness of the Group's risk management and internal control systems, covering annual material risks and response measures, financial monitoring, internal control and risk management system. The Audit and Risk Management Committee has also considered the adequacy of the Group's resources, employee qualifications and experience in respect of accounting and financial reporting functions, and has reported the relevant matters to the Board. No significant defect in internal control was identified in relevant review.

HANDLING AND RELEASING INSIDE INFORMATION

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

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the remuneration paid/payable to the Company's independent auditors, Ernst & Young and Ernst & Young Hua Ming LLP, is set out below:

	Amount (RMB in thousand)
Interim review	1,400
Annual audit	6,350
Non-audit services	–
Total fees	7,750

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

On 23 January 2018, the Board considered and approved, among other things, the proposal in relation to amendments to the "Articles of Association of China Railway Signal & Communication Corporation Limited", which is primarily for the amendments to the relevant articles of the Articles of Association concerning the address and the name of the promoter of the Company, the amendment to the relevant articles concerning the general requirements of Party building, and the addition of the relevant articles concerning the general counsel system. This proposal was considered and approved at the 2017 annual general meeting by way of a special resolution on 25 May 2018. The revised Articles of Association shall become effective as from 25 May 2018, and has been published on the websites of the Stock Exchange and the Company. For details, please refer to the Company's announcements dated 23 January 2018 and 25 May 2018 respectively, and its circular dated 25 April 2018 published on the website of the Stock Exchange.

On 25 March 2019, the Board of Directors considered and approved, among other things, the resolutions to amend the Articles of Association of the Company. To further improve and standardize the Articles of Association of the Company, and to comply with the relevant provisions of the Company Law of the PRC, the Guidelines for Articles of Listed Companies of the CSRC and the Listing Rules of Stocks on the Science and Technology Innovation Board of the Shanghai Stock Exchange (《上海證券交易所科創板股票上市規則》), and other relevant laws and regulations and normative documents. And in conjunction with the actual situation of the Company, the Board proposed to amend and improve certain articles of Articles of Association of the Company. Due to the addition and deletion of certain articles on the proposed amendments, the serial number of the Articles of Association of the former Company has been adjusted accordingly. The revised Articles of Association of the Company have been approved by Shareholders through special resolutions at the 2019 first extraordinary general meeting of the Company and will be implemented after the A Shares Offering and Listing. Prior to this, the Company applies prevailing valid Articles of Association of the Company. For details, please refer to the Company's announcement dated 25 March 2019 and 15 April 2019 published on the website of the Stock Exchange and the circular dated 26 March 2019.

Save as disclosed above, for the year ended 31 December 2018, the Company did not make any significant changes to its Articles of Association.

SHAREHOLDERS' RIGHTS

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

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

Shareholders who intend to put forward their enquiries to the Board could send their enquiries to the Company's headquarters in the PRC (at 20/F, CRSC Building A, 1 Compound, Automobile Museum South Road, Fengtai District, Beijing, PRC) or by email to ir@crsc.cn, or by fax at +86-10-51846610. H Shareholders may contact Computershare Hong Kong Investor Services Limited, the H Share Registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

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

(1) Shareholders who individually or jointly hold more than 10% of the voting Shares at the proposed meeting may make a proposal to the Board on holding an extraordinary general meeting or class meeting by signing one or several written requests with same contents in the same format and define the meeting topic. The above Shareholders shall guarantee that the contents of the proposal shall be in compliance with the laws, regulations and the Articles of Association of the Company. The Board shall convene such meeting as soon as possible upon receipt of the aforesaid written request. The aforesaid number of Shares shall be calculated as of the close of the date on which such Shareholders request to convene the meeting in writing or, if it falls on a non-trading date, the prior trading date on which such Shareholders request to convene the meeting in writing;

(2) If the Board is unable to or fails to perform its duty of convening an extraordinary general meeting or class meeting, the Supervisory Committee shall convene and preside over such meeting in a timely manner; if the Supervisory Committee cannot convene and preside over such meeting, Shareholders who individually or jointly hold more than 10% of the Company's Shares for more than 90 consecutive days may independently convene and preside over such meeting.

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

For the year ended 31 December 2018, the Company held a total of two general meetings for the consideration and approval of, among others, report of the Board for 2017, report of the Supervisory Committee for 2017, final account report for 2017, the audit report for 2017, profits distribution plan for 2017, remuneration plan for independent non-executive Directors for 2018, appointment of external auditor for 2018, general authorizations for the issuance of debt financing instruments, general authorizations for the issuance of Shares, appointment of members of the third session of the Board and the third session of the Supervisory Committee, appointment of members of committees of the third session of the Board, etc.

To promote effective communication, the Company establishes its website and posts updates on the Company's business operations and developments, financial information, corporate governance practices and other information for public access.

DIVIDEND POLICY

The dividend policy of the Company has been defined in the Articles of Association of the Company. According to the Articles of Association, the Company shall withdraw 10% of profits as the statutory reserve fund of the Company when the Company distributes the annual profits after taxation. If the statutory reserve fund is insufficient to make up for the losses of the preceding year, the profits of the current year shall first be used to make up for the said losses before any statutory reserve fund is withdrawn as per above. After statutory reserve fund is withdrawn out of the profits after taxation, discretionary reserve fund may also be withdrawn out of the same as per a resolution made at a general meeting.

The Company may distribute dividends in the form of cash, Shares or other forms as permitted by laws and regulations and the regulatory rules in the place where the Shares are listed. Cash dividends and other monies paid by the Company to domestic Shareholders shall be paid in RMB. Cash dividends and other monies paid by the Company to holders of overseas-listed foreign Shares shall be stated and announced in RMB and paid in foreign currency. Foreign currency needed by the Company to pay cash dividends and other monies to holders of overseas-listed foreign Shares shall be obtained pursuant to relevant state regulations on foreign exchange. In distributing dividends to Shareholders, the Company shall deduct and pay taxes payable by the Shareholders for their dividend income pursuant to PRC tax laws.

After the profit distribution plan is adopted at the general meeting, the Board of the Company shall finish distributing dividends (or Shares) within 2 months after the convention of the general meeting.

JOINT COMPANY SECRETARIES

The Company engages Ms. NG Wing Shan, the assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, as one of the joint company secretaries of the Company. Her primary contact person of the Company is Mr. HU Shaofeng, being the other joint company secretary of the Company. Ms. NG and Mr. HU undertook no less than 15 hours of relevant professional training for the year ended 31 December 2018.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

Directors

Name	Present Title	Roles and Responsibilities	Date of appointment/ Term of appointment
ZHOU Zhiliang (周志亮)	Executive Director,Chairman	Overseeing the overall work of the Board, and formulating the Company's business strategies and nomination of Directors and Senior Management	31 January 2012 to the expiration of the term of the third session of the Board
YIN Gang (尹剛)	Executive Director, President	Assisting with the work of the chairman, overseeing the management of the Company's daily production and operations, supervising the implementation of the Board resolutions, and advising on the Company's business strategies and quality and safety management	21 May 2015 to the expiration of the term of the third session of the Board
YANG Yongsheng (楊永勝)	Executive Director, Deputy secretary of the Party Committee	Assisting with the work of the chairman, supervising the implementation of the Board resolutions, and advising on the Company's business strategies	28 August 2018 to the expiration of the term of the third session of the Board
WANG Jiajie (王嘉傑)	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, auditing and risk management, nomination of the Directors and Senior Management, and quality safety management	21 May 2015 to the expiration of the term of the third session of the Board

Name	Present Title	Roles and Responsibilities	Date of appointment/ Term of appointment
CHEN Jin'en (陳津恩)	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, the Company's business strategies, remuneration of Directors and Senior Management and auditing and risk management	21 May 2015 to the expiration of the term of the third session of the Board
CHAN Ka Keung Peter (陳嘉強)	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, remuneration of Directors and Senior Management and auditing and risk management	28 August 2018 to the expiration of the term of the third session of the Board
YAO Guiqing (姚桂清)	Independent Non-executive Director	Providing advices with regard to the corporate governance, connected transactions, the Company's business strategies, nomination and remuneration of Directors and Senior Management and quality safety management	28 August 2018 to the expiration of the term of the third session of the Board

Supervisors

Name	Present Title	Roles and Responsibilities	Date of appointment/ Term of appointment
TIAN Liyan (田麗豔)	Chairwoman of the Supervisory Committee	Overseeing the overall work of the Supervisory Committee, organizing the Supervisors to supervise the management and the Board of Directors, and making relevant suggestions	21 May 2015 to the expiration of the term of the third session of the Supervisory Committee
WU Zuowei (吳作威)	External Supervisor	Supervising operations and financial activities	25 May 2018 to the expiration of the term of the third session of the Supervisory Committee
CHEN Shikui (陳世奎)	Employee Representative Supervisor	Supervising operations and financial activities	28 August 2018 to the expiration of the term of the third session of the Supervisory Committee

Senior Management

Name	Present Title	Roles and Responsibilities	Date of appointment
YIN Gang (尹剛)	Executive Director, President	Assisting with the work of the chairman, overseeing the management of the Company's daily production and operations, supervising the implementation of the Board resolutions, and advising on the Company's business strategies and quality and safety management	22 May 2015
KONG Ning (孔寧)	Vice President	Assisting the president in management of daily production and operation	27 July 2016
HU Shaofeng (胡少峰)	Chief Accountant, Board Secretary	In charge of the Company's financial work, in charge of information disclosure, investor relationship coordination, and preparation of general meetings and Board meetings	27 July 2016
ZHAO Xiaodong (趙曉東)	Vice President	Assisting the president in management of daily production and operation	21 January 2019
HUANG Weizhong (黃衛中)	Vice President	Assisting the president in daily production and operation	18 April 2013
ZHANG Zhihui (張志輝)	Vice President, Chief Engineer	Assisting the president in management of daily production and operation, and technology R&D	21 January 2019

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. ZHOU Zhiliang, aged 54, has been the Company's executive Director and chairman since January 2012, and is mainly responsible for overseeing the overall work of the Board and formulating the Company's business strategies and nominating Directors and Senior Management. He has been the secretary of the Party Committee of the Company since June 2017. Mr. Zhou has been the chairman and secretary of the Party Committee of CRSC Corporation Group since May 2017, and was the general manager and deputy secretary of the Party Committee of CRSC Corporation Group from January 2012 to May 2017. Mr. Zhou was a vice president and a member of the Standing Committee of the Party Committee of China Railway Construction Corporation Ltd. (listed on the Stock Exchange, stock code: 1186; listed on the Shanghai Stock Exchange, stock code: 601186) from October 2007 to January 2012, during which Mr. Zhou served as the chairman of China Railway Construction Investment Co., Ltd. (中國鐵建投資有限公司) from March 2011 to January 2012. From December 2004 to October 2007, Mr. Zhou was a deputy general manager and a member of the Standing Committee of the Party Committee of China Railway Construction Corp. (中國鐵道建築總公司). From November 2001 to December 2004, Mr. Zhou was the director and deputy secretary of the Party Committee of MOR No.4 Survey & Design Group Co., Ltd. (鐵道部第四勘察設計院). From January 2000 to November 2001, Mr. Zhou served as the chairman of Labor Union of MOR No.4 Survey & Design Group Co., Ltd. From November 1996 to January 2000, Mr. Zhou served as the director at No.2 Railway Survey and Design Department (第二勘測設計處) of MOR No.4 Survey & Design Group Co., Ltd.

Mr. Zhou graduated from China University of Mining & Technology (中國礦業學院) in July 1985 with a bachelor's degree in engineering and majored in hydrogeology and engineering geology, and from Tsinghua University School of Economic and Management with an EMBA degree in January 2008. In December 2018, Mr. Zhou was conferred the title of senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of China Railway Signal and Communication (group) Corporation Limited. Mr. Zhou was elected as the deputy managing director of the China Railway Society (中國鐵道學會) in January 2017, as a representative of the 15th Beijing Municipal People's Congress in November 2017, and as a director of the Communication and Signal Branch of the China Railway Society (中國鐵道學會通信信號分會) in June 2018. He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. YIN Gang, aged 56, has been appointed as an executive Director and president of the Company since May 2015, and is mainly responsible for overseeing the management of the Company's daily production and operations. He has been the deputy secretary of the Party Committee of the Company since June 2017. From June 2018 to July 2018, he served as chairman of CRSC (Beijing) Rail Industry Group Co., Ltd. From December 2010 to May 2015, Mr. Yin was a vice president and a member of the Standing Committee of the Party Committee of the Company, during which Mr. Yin served as the chairman of Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd. from January 2012 to November 2012 and as the Board secretary of our Company from April 2011 to May 2013. Mr. Yin has been the general manager, director and deputy secretary of the Party Committee of CRSC Corporation Group since June 2017. From August 2001 to May 2015, Mr. Yin was the deputy general manager of CRSC Corporation Group. From December 1996 to August 2001, Mr. Yin successively served as deputy general manager and the general manager of Shenyang Railway Signal Factory (瀋陽鐵路信號工廠) (the predecessor of Shenyang Railway Communication Co., Ltd. (瀋陽鐵路信號有限責任公司)).

Mr. Yin graduated from Dalian Railway Institute (大連鐵道學院) in July 1983, with a bachelor's degree in engineering and majored in metal material and heat treatment. In January 2019, he was conferred the title of senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of China Railway Signal and Communication (group) Corporation Limited. Mr. Yin was elected as the deputy managing director of China Association of Railway Engineering Construction (中國鐵道工程建設協會) in December 2017 and as the vice president of China Chamber of International Commerce (中國國際商會) in February 2018. He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. YANG Yongsheng, aged 50, has served as an executive Director of the Company since August 2018 and deputy secretary of the Party Committee of the Company since August 2017. He has been the adjunct professor of China Business Executives Academy, Dalian since June 2018. He has been the extramural tutor of the Executive Education of School of Economics Peking University since November 2017. He has been the deputy secretary of the Party Committee of CRSC Corporation Group since July 2017. Mr. Yang was the provisional secretary of the Party Committee and the chairman of China Urban and Rural Construction Group Ltd. (中國城鄉建設集團有限公司) from April 2017 to July 2017. From February 2016 to April 2017, Mr. Yang was the secretary of the Party Committee and vice chairman of China Road & Bridge Corporation. From December 2010 to February 2016, Mr. Yang served in several positions in China Communications Construction Company Limited, including serving as the deputy director of the general office, the general manager of the human resources department, the head of the organizational department of the Party Committee, the executive vice president of the management college and the executive deputy principal of the party school. Mr. Yang has been the vice director of the general manager department of Sinohydro Group Ltd. from March 2010 to December 2010. From July 1988 to July 2006, Mr. Yang served in several positions in No.5 Bureau of Sinohydro, including serving as the principal of the staff children secondary school, the director of the education department, the director of the human resources department, the head of the organizational department of the Party Committee, the director of the system reform office, vice director and the chief economist.

Mr. Yang graduated from ISCTE Lisbon University Institute of Portugal in May 2012, with a doctor's degree in management. Mr. Yang is a professor level senior economist and a senior engineer. He has published "From Competitiveness to Core Competitiveness" (China Development Press) and he is an expert entitled to Government Special Allowance by the State Council. He is a Chinese national who has no right of abode abroad and overseas investment.

Independent Non-executive Directors

Mr. WANG Jiajie, aged 68, has been the Company's independent non-executive Director since May 2015. Mr. Wang is currently the arbitrator of China International Economic and Trade Arbitration Commission and the arbitrator of Beijing Arbitration Commission. Mr. Wang served in several positions in China General Technology (Group) Holding Co., Ltd. (中國通用技術(集團)控股有限責任公司), including serving as its general counsel from December 2004 to December 2010 and as the general manager of its legal department from July 1999 to December 2004. Mr. Wang also served in several positions in China National Technical Imp. & Exp. Corp. (中國技術進出口總公司), including serving as the general manager of its legal department from November 1998 to July 1999; and the vice general manager of its legal department from December 1991 to November 1998.

Mr. Wang graduated from the law school of Renmin University of China (中國人民大學) with a master's degree in laws in July 1987 and from the legal department of the second campus of Renmin University of China with a bachelor's degree in law in February 1983. He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. CHEN Jin'en, aged 64, has been the independent non-executive Director since May 2015. From March 2010 to August 2013, Mr. Chen was the secretary of the Party Committee and vice chairman of China Energy Conservation and Environmental Protection Group (中國節能環保集團公司). Mr. Chen served as an independent non-executive director of Billion Industrial Holdings Limited (listed on the Stock Exchange, stock code: 2299) from September 2012 to March 2013. Mr. Chen also served several positions in China Energy Conservation and Environmental Protection Investment Co., Ltd. (中國節能環保投資公司), including serving as its secretary of the Party Committee and deputy general manager from October 2004 to March 2010, its vice chairman from September 2001 to October 2004. From November 2000 to September 2001, Mr. Chen was the head of the working department of the supervisory committee of Central Work Committee for Enterprises (中央企業工委). From August 1998 to November 2000, Mr. Chen was the deputy director of General Administration Office of Special Inspector of Ministry of Personnel (人事部稽查特派員總署辦公室). From July 1988 to August 1998, Mr. Chen served as a deputy director, director and assistant supervisor of the Department of Title of Ministry of Personnel (人事部職稱司).

Mr. Chen graduated from City University of Macau with a master's degree in business administration in July 2000, and from Nanjing University of Aeronautics and Astronautics (南京航空航天大學), majoring in helicopter design in July 1978. He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. CHAN Ka Keung Peter, aged 68, has served as an independent non-executive Director of the Company since August 2018, and has been the independent non-executive director of Metallurgical Corporation of China Ltd. (listed on the Stock Exchange, stock code: 1618; listed on the Shanghai Stock Exchange, stock code: 601618) since November 2014. He was the independent non-executive director of CRRC Corporation Limited (listed on the Stock Exchange, stock code: 1766; listed on the Shanghai Stock Exchange, stock code: 601766) from May 2015 to May 2018. Mr. Chan served as a senior assistant of the Assurance Department, manager of the Tax Department and senior manager of China Service Department in Ernst & Young Hua Ming LLP and the chief financial officer of Dransfield Group. Mr. Chan served as a Beijing based partner, a Beijing-based managing partner of Tax and Investment Advisory Service Department and a Beijing-based managing partner of the NPA Transaction Advisory Service Department of Ernst & Young Hua Ming LLP from January 1994 to December 2008. He served as a member of the executive committee of Hong Kong Chamber of Commerce in China, and served as the chairman of Hong Kong Chamber of Commerce in China in 2000 and 2003.

Mr. Chan graduated from the Hong Kong Polytechnic University majoring in accounting. He is a member of Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants of UK, an associate member of the Institute of Chartered Secretaries and Administrators of UK and a member of CPA Australia. He is a Chinese national who has no right of abode abroad and overseas investment.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. YAO Guiqing, aged 64, has served as an independent non-executive Director of the Company since August 2018, and served in several positions in China Railway Engineering Corporation from February 1990 to March 2018, including serving as its deputy secretary of the Party Committee, chairman of the labour union, employee representative director, general manager and vice chairman. From September 2007 to March 2018, Mr. Yao served in several positions in China Railway Group Ltd. (listed on the Stock Exchange, stock code: 390; listed on the Shanghai Stock Exchange, stock code: 601390), including serving as its vice president, deputy secretary of the Party Committee, chairman of the labour union, chairman of the supervisory committee and vice chairman; and he served as its executive director from August 2010 to March 2018. Mr. Yao was the deputy secretary of the Party Committee of China Railway Construction Engineering Group* (中鐵建廠工程局) from February 2000 to February 2001. From December 1971 to February 1990, Mr. Yao served in several positions in Engineering No.3 Bureau of the Ministry of Railway* (中國鐵道部第三工程局), including serving as its head of the organizational department of the committee of the Communist Youth League of China and the secretary to the committee of the Communist Youth League of China.

Mr. Yao graduated from Party School of the Central Committee of the Communist Party of China as an on-the-job postgraduate in economic management. Mr. Yao is a senior economist. He is a Chinese national who has no right of abode abroad and overseas investment.

Supervisors

Ms. TIAN Liyan, aged 45, has been appointed as the chairwoman of the Supervisory Committee of the Company since May 2015, and is mainly responsible for overall work of the Supervisory Committee, organizing supervisors to supervise the management and the Board and making relevant suggestions. Meanwhile, she has also served as the head of the audit department of the Company. Ms. Tian has been the general counsel of the Company from September 2017 to December 2018. Ms. Tian has served several positions in Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd., including serving as its general counsel from August 2013 to July 2015, as its director from February 2012 to July 2015 and as its chief accountant from February 2007 to July 2015. Ms. Tian has also been a director of Thales Transport Automation Control Systems (Beijing) Co., Ltd. (北京泰雷茲交通自動化控制系統有限公司) from October 2013 to July 2015. From June 2012 to October 2013, Ms. Tian was a supervisor of Thales Transport Automation Control Systems (Beijing) Co., Ltd. From November 2005 to February 2007, Ms. Tian was a deputy chief accountant and head of the asset and finance department of Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd.; from October 2005 to November 2005, Ms. Tian was an accountant and deputy head of the asset and finance department of Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd.; from July 1999 to October 2005, Ms. Tian was also an audit manager of the audit department of Deloitte Touche Tohmatsu CPA Ltd. (Beijing Branch).

Ms. Tian graduated from Dongbei University of Finance & Economics (東北財經大學) with a master's degree in economics majoring in accounting in April 1997, and graduated from Shanxi Finance and Economics College (山西財經學院) with a bachelor's degree in economics majoring in accounting in July 1994. Ms. Tian obtained CPA certificate in January 2000 and was qualified as a senior accountant by the Senior Accountant Specialised Technique Qualification Evaluation Committee of Government Offices Administration of the State Council in May 2012. She is a Chinese national who has no right of abode abroad and overseas investment.

Mr. WU Zuowei, aged 41, has served as an external Supervisor of the Company since May 2018 and has been the head of the asset management division of the capital operation management department of China Reform Holdings Corporation Ltd. since February 2018. Mr. Wu served as a senior manager of the asset management department (subsequently renamed as the capital operation management department) of China Reform Holdings Corporation Ltd. from August 2012 to February 2018. He served as the deputy head of the strategic development department of Zhongbing Optoelectronics Technology Co., Ltd.* (中兵光電科技股份有限公司) (now known as North Navigation Control Technology Co.,Ltd. * (中國兵器北方導航控制技術股份有限公司) and listed on the Shanghai Stock Exchange, Stock Code: 600435) from March 2011 to August 2012. He served as the deputy head of the operation planning department of Zhongbing Optoelectronics Technology Co., Ltd.* from May 2009 to March 2011. He served as a technician of the technology institute, a staff of the technical reform office, a staff of the development planning department, the deputy head of the asset management department, the deputy head of the asset operation department and the deputy head of the operation planning department of Beijing Huabei Optical Instrument Co., Ltd.* (北京華北光學儀器有限公司) successively from July 2002 to May 2009.

Mr. Wu graduated from Beijing Institute of Technology in July 2002 with a bachelor's degree in engineering and majored in mechanical engineering and automation, and graduated from University of Science and Technology Beijing in June 2009 with a master's degree in engineering and majored in project management. Mr. Wu was accredited as a senior engineer in December 2011. He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. CHEN Shikui, aged 45, has served as an employee representative Supervisor of the Company since August 2018 and has been the head of the legal compliance department of the Company since July 2018. Mr. Chen has been a director of CRSC Construction Group Co., Ltd. (通號建設集團有限公司) since August 2016. He also served as the director of CRSC Communication & Information Group Company Ltd. (通號通信信息集團有限公司) since February 2016 and the supervisor of CRSC (Zhengzhou) Electrification Bureau Co., Ltd. (通號 (鄭州) 電氣化局有限公司) since May 2015. From November 2015 to July 2018, Mr. Chen worked as the deputy head of the legal affairs department of the Company, and from January 2010 to November 2015, Mr. Chen served in several positions in Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd., including deputy general counsel, head of legal archives of the enterprise development and legal affairs department and head of enterprise development and legal affairs department. In the meantime, from August 2013 to November 2015, he was an assistant in the legal affairs department of the Company. From July 2007 to January 2010, he served as the assistant economist and economist of the eastern China region operation & command department of China Railway 22nd Bureau Group Co., Ltd. From May 1997 to September 2004, Mr. Chen worked in the People's Court of Heze City, Shandong Province and the People's Court of Mudan District, Heze City, Shandong Province.

Mr. Chen graduated from Southwest University of Political Science & Law in July 2007 and obtained a master's degree in laws with major studies in criminal law. He graduated from Henan University in July 1996 with a bachelor's degree in laws. In September 1996, he obtained a lawyer qualification certificate. In January 2007, he obtained a corporate legal counsel qualification certificate. He is a Chinese national who has no right of abode abroad and overseas investment.

SENIOR MANAGEMENT

Mr. YIN Gang, is the executive Director and president of the Company. For biography of Mr. Yin, please see section "Directors" of this chapter.

Mr. KONG Ning, aged 54, has been the Company's vice president since July 2016 and a member of the Standing Committee of the Party Committee of the Company since December 2010. He served as the Company's chief accountant from December 2010 to July 2016, and is mainly in charge of the financial work. He has been a member of the Standing Committee of the Party Committee of CRSC Corporation Group since December 2010. Mr. Kong was the chief accountant of CRSC Corporation Group from November 2004 to May 2015, and served as the accountant in the finance department of China Huanqiu Contracting & Engineering Co. Ltd. (中國寰球工程公司) and the head of finance department and the chief accountant of the HQCEC (HB) (華北規劃設計院) from August 2001 to November 2004; as deputy chief of financial department of Anhui Medicament Joint Venture Company (安徽省醫藥聯合經營公司) (renamed as Anhui Hua Shi Medicament Co., Ltd. (安徽華氏醫藥有限公司)) from April 1996 to August 2001.

Mr. Kong graduated from Army Officer Academy of PLA (中國人民解放軍炮兵學院) in June 2006, with bachelor's degree in economics management; in June 2009, he graduated from Dongbei University of Finance and Economics (東北財經大學) with an EMBA degree. In November 2003, Mr. Kong was conferred the title of senior accountant by the Qualification Review Committee for Senior Accountant Professional Technology Positions of China Non-metal Mining Industry (Group) Corporation (中國非金屬礦工業(集團)總公司). He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. HU Shaofeng, aged 51, has been the chief accountant and a member of the Standing Committee of the Party Committee of the Company since July 2016. He has been the Company's Board Secretary since May 2013. He has been a member of the Standing Committee of the Party Committee of CRSC Corporation Group since June 2016. Mr. Hu has been the director of CRSC Innovation Investment Company Ltd from August 2012 to February 2016. He served as the Company's deputy chief accountant from July 2012 to July 2016. Mr. Hu served as deputy general manager, chief accountant and general counsel of China Railway Construction Heavy Industry Co., Ltd. (中國鐵建重工集團有限公司) from December 2011 to July 2012. Mr. Hu served as the chief accountant and a member of the Standing Committee of the Party Committee of China Railway Track Systems Group Co., Ltd. (中鐵軌道系統集團有限公司) from May 2007 to December 2011. Mr. Hu served as deputy chief accountant of the MOR No.4 Survey & Design Group Co., Ltd. (鐵道部第四勘察設計院) from February 2004 to October 2006, as the director of financial department of the China Railway No. 4 Survey & Design Group Co., Ltd. from February 2004 to April 2005, as the assistant to director and deputy director of financial department of the China Railway No. 4 Survey & Design Group Co., Ltd. from February 2002 to February 2004.

Mr. Hu graduated from Zhongnan University of Finance and Economics (中南財經大學) in July 1990, with a bachelor's degree in economics and majoring in industrial economics; in June 2007, Mr. Hu graduated from Wuhan University (武漢大學) with a Master's degree in software engineering (financial informatization major). In December 2005, Mr. Hu was conferred the title of senior accountant by Qualification Review Committee for Senior Accounting Professional Technical Positions of China Railway Construction Corporation. He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. ZHAO Xiaodong, aged 44, has served as the Company's vice president since January 2019. He has served as a member of the Standing Committee of the Party Committee of the Company and CRSC Corporation Group respectively since December 2018. Mr. Zhao has served as assistant to the president of the Company since October 2016. Since June 2018, he has served as a director of China Railway Signal & Communication International Co., Ltd, a wholly-owned subsidiary of the Company. From September 2015 to October 2016, he served as general manager , director and deputy secretary of the Party Committee of CRSCD, and served as deputy general manager (responsible for the comprehensive work of operation management) and the director of CRSCD from November 2014 to September 2015. He has served as the deputy general manager of CRSCD from July 2013 to November 2014, during which period, he served as the dean of the Ground Control Research and Design Institute and the general manager of the System Integration Center and secretary of Party General Branch. From March 2012 to July 2013, he served as the dean of the Ground Control Research and Design Institute of CRSCD. From January 2011 to March 2012, he served as director of Beijing National Railway Research & Design Institute of Signal & Communication Station, during which period, he served as manager of Beijing Guotie Xintong Technology Development Co., Ltd. (北京國鐵信通科技發展有限公司).

Mr. Zhao graduated from Lanzhou Railway College majoring in the telecommunications and automatic control in July 1998 with a bachelor's degree in engineering. He graduated from the department of computer science and technology of Tsinghua University in January 2009 with a master's degree in engineering. In December 2018, Mr. Zhao was awarded as a senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of China Railway Signal and Communication (group) Corporation Limited. He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. HUANG Weizhong, aged 53, has served as the vice president and a member of the Standing Committee of the Party Committee of the Company since April 2013. Mr. Huang served as the chairman of CRSCD from November 2012 to September 2014, during which he served as the secretary of the Party Committee of the company, as the director and general manager of the company from November 2010 to November 2012, as the vice president of Beijing National Railway Research & Design Institute of Signal & Communication (北京全路通信信號研究設計院) from January 2004 to November 2010, as the director of the institute from December 1996 to January 2004.

Mr. Huang graduated from Southwest Jiaotong University (西南交通大學) in July 1987, with a bachelor's degree in engineering and majoring in automatic control; and graduated from Fordham University in the United States in May 2003, with an MBA degree. In December 2018, Mr. Huang was conferred the title of senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of China Railway Signal and Communication (group) Corporation Limited. He is a Chinese national who has no right of abode abroad and overseas investment.

Mr. ZHANG Zhihui, aged 43, has served as the Company's vice president since January 2019. He has served as a member of the Standing Committee of the Party Committee of the Company since December 2018. Mr. Zhang has been the chief engineer of the Company since October 2016. From November 2015 to October 2016, he served as the deputy chief engineer of the Company and the chief engineer of CRSCD. From March 2012 to November 2015, he served as the chief engineer and director of CRSCD. From June 2015 to November 2015, he served as the dean of the CRSCD Electrification Design Institute. From January 2005 to March 2012, he served as the director of CRSCD Signal Station.

Mr. Zhang graduated from Northern Jiaotong University majoring in automatic control in July 1998 with a bachelor's degree in engineering. In December 2018, Mr. Zhang was awarded as a senior engineer by the Qualification Review Committee for Senior Engineering Technical Position of China Railway Signal and Communication (group) Corporation Limited. He is a Chinese national who has no right of abode abroad and overseas investment.

JOINT COMPANY SECRETARIES

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

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

EMPLOYEES

Staff Composition

As at 31 December 2018, the Group had a total of 19,215 full-time employees. The number of employees of the respective entities is set out as below:

Distribution	Number of Employees
The Company	140
Subsidiaries of the Company	19,075
Total	19,215

Staff Incentive

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

Staff Training

The Group places high importance on establishing a corporate culture and focuses on improving the overall employee quality by proactively implementing a comprehensive staff training initiative by levels and layers. During the reporting period, in accordance with the Company's strategy and key task arrangement for the year and supported by the training system infrastructure of the Company, the Group focused on coordinating and planning company level training programs, covering aspects including system, courses, teaching staff and management, vigorously developed the training for departments and subsidiaries. As at 31 December 2018, the Group provided training to 48,500 employees with a total of 28,600 learning hours, and the total training cost amounted to RMB32.12 million.

Employee Evaluation and Remuneration

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

Pension Scheme

In 2018, the Group had a total of 10,497 retired employees. Retired employees of the Company are entitled to the endowment insurance scheme approved by the Ministry of Labour and Social Security of the local government. The Company has established an enterprise annuity system which serves as a supplementary pension system providing a certain level of income security for retired employees who fulfil certain requirements and participate on a voluntary basis. The Company and participating employees make contributions according to certain ratios while the trustee commissions a third-party legal entity to act as account manager, custodian and investment manager to perform fund management and investment operation. According to the regulation of this pension system, the pension payment will be made when the employee retires.

Further details of the employees policies of the Company are set out in the "Environmental, Social and Governance Report" to be published within 3 months of the date of the 2018 annual report of the Company.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of China Railway Signal & Communication Corporation Limited
(A joint stock limited liability company established in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of China Railway Signal & Communication Corporation Limited (中国铁路通信信号股份有限公司, the "Company") and its subsidiaries (the "Group") set out on pages 105 to 248, 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on contracts for services and construction contracts	
The Group derives a significant portion of its revenues from contracts for services and construction contracts that are recognised over time using an imput method. The method involves the use of significant management judgement and estimates including estimates of the progress towards completion, the scope of deliveries and services required, total contract costs, remaining costs to completion, total contract revenues and contract risks. In addition, revenue, cost and gross profit realised on such contracts can vary (sometimes significantly) from the Company's original estimates because of changes in conditions. The deviation of the management judgement and estimates adopted during the course of revenue recognition on contracts for services and construction contracts has a significant effect on the financial statements of the Group. More details are given in note 2.4, note 3, note 5 and note 23 to the consolidated financial statements.	Our audit procedures included testing the effectiveness of the Group's internal controls over appropriate judgement and estimates adopted during the course of revenue recognition. We obtained all material contracts for services and construction contracts, reviewed the key contract terms and verified material contract revenues amounts to supporting documents. We have also checked the information adopted by management during the course of estimating the total budgeted costs for material service and construction contracts such as current offers from sub-contractors and suppliers and recent offers agreed with sub-contractors and suppliers. We have assessed the appropriateness of the estimation adopted by management in determining the budgeted total contract costs and checked the calculation of the percentage of completion of construction and service contracts on a test basis.
Impairment of trade receivables	
The Group categorised the trade receivables portfolio based on credit risk characteristics, and recognised impairment for credit losses on the basis of exposure at default and expected credit loss ("ECL") rates which include consideration of historical credit loss experience, current status and forward-looking information. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. We identified this as a key audit matter due to the materiality of the trade receivables balance and the assessment of the ECL involves significant accounting estimations and judgements. More details are given in note 22 to the consolidated financial statements.	We assessed the adequacy of the impairment allowance for trade receivables by understanding the judgements and consideration exercised by management during the assessment, and evaluating the reasonableness of the factors used in making forward-looking estimates, considered whether any circumstances have arisen that may have an impact on the collectability of any material receivables; challenging the judgement and estimates made by management in determining the impairment allowance. We evaluated the cash collection performance against historical trends; tested the accuracy of the ageing of the trade receivable balances, reviewed payment records of the aged debtors; obtained trade receivable confirmation on a test basis; and analysed the amounts written off as uncollectible.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants

Hong Kong
27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**39,844,006**	34,433,683
Cost of sales	7	**(30,931,850)**	(26,043,267)
Gross profit		**8,912,156**	8,390,416
Other income and gains	5	**469,421**	380,462
Selling and distribution expenses		**(701,572)**	(692,598)
Administrative expenses		**(3,831,461)**	(3,415,537)
Impairment losses on financial and contract assets, net	7	**(113,310)**	(175,080)
Other expenses		**(54,828)**	(183,782)
Finance costs	6	**(139,008)**	(51,823)
Share of profits of:			
Joint ventures		**19,423**	12,401
Associates		**37,784**	21,197
PROFIT BEFORE TAX	7	**4,598,605**	4,285,656
Income tax expense	9	**(802,874)**	(772,594)
PROFIT FOR THE YEAR		**3,795,731**	3,513,062
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**32**	16
Effective portion of changes in fair value of a hedging instrument arising during the year, net of tax		**(11,565)**	1,855
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**(11,533)**	1,871
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement losses on defined benefit plans, net of tax		**(9,391)**	(70,520)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(20,924)**	(68,649)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,774,807**	3,444,413
Profit attributable to:			
Owners of the parent		**3,501,246**	3,310,045
Non-controlling interests		**294,485**	203,017
		3,795,731	3,513,062

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Total comprehensive income attributable to:			
Owners of the parent		**3,480,322**	3,241,396
Non-controlling interests		**294,485**	203,017
		3,774,807	3,444,413
Earnings per share attributable to ordinary equity holders holders of the parent			
Basic and diluted (expressed in RMB per share)	11	**0.39**	0.38

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Investment properties	12	**230,408**	243,282
Property, plant and equipment	13	**4,615,907**	4,334,707
Prepaid land lease payments	14	**2,106,396**	2,137,494
Goodwill	15	**305,324**	267,894
Other intangible assets	16	**376,406**	366,949
Investments in joint ventures	17	**253,491**	361,038
Investments in associates	18	**752,430**	642,206
Available-for-sale investments	19	**—**	156,002
Equity investments designated at fair value through other comprehensive income	19	**653,814**	—
Deferred tax assets	20	**335,865**	278,028
Trade receivables	22	**1,371,676**	901,398
Contract assets	23	**2,968,228**	—
Financial receivables	24	**—**	2,131,712
Prepayments, other receivables and other assets	25	**334,242**	297,003
Total non-current assets		**14,304,187**	12,117,713
CURRENT ASSETS			
Prepaid land lease payments	14	**58,917**	58,055
Inventories	21	**4,086,552**	3,329,667
Trade and bills receivables	22	**15,546,634**	12,427,803
Contract assets	23	**30,941,475**	—
Prepayments, other receivables and other assets	25	**3,018,187**	2,551,986
Amounts due from contract customers	26	**—**	17,686,254
Tax recoverable		**10,101**	5,876
Pledged deposits	27	**160,510**	187,844
Cash and cash equivalents	27	**11,551,973**	12,879,446
Total current assets		**65,374,349**	49,126,931

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	28	**36,018,761**	24,232,650
Contract liabilities	31	**7,033,233**	—
Amounts due to contract customers	26	**—**	3,244,800
Other payables and accruals	29	**2,562,506**	5,199,419
Interest-bearing bank and other borrowings	30	**1,437,701**	1,328,803
Provisions for supplementary retirement benefits	34	**57,037**	62,779
Tax payable		**457,862**	333,236
Government grants	33	**31,712**	24,470
Provisions	32	**32,828**	47,489
Total current liabilities		**47,631,640**	34,473,646
NET CURRENT ASSETS		**17,742,709**	14,653,285
TOTAL ASSETS LESS CURRENT LIABILITIES		**32,046,896**	26,770,998
NON-CURRENT LIABILITIES			
Trade payables	28	**26,089**	20,839
Interest-bearing bank and other borrowings	30	**856,163**	546,979
Provisions for supplementary retirement benefits	34	**657,084**	672,940
Deferred tax liabilities	20	**48,599**	42,062
Government grants	33	**119,659**	156,671
Provisions	32	**67,220**	106,909
Total non-current liabilities		**1,774,814**	1,546,400
Net assets		**30,272,082**	25,224,598
EQUITY			
Equity attributable to owners of the parent			
Share capital	35	**8,789,819**	8,789,819
Reserves	36	**20,118,578**	15,229,232
		28,908,397	24,019,051
Non-controlling interests		**1,363,685**	1,205,547
Total equity		**30,272,082**	25,224,598

Zhou Zhiliang
Director

Yin Gang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2018

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2018

	Attributable to owners of the parent								
	Share capital RMB'000	Other equity instrument RMB'000	Capital reserve RMB'000	Special reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 31 December 2017	8,789,819	–	7,181,986	262,399	892,801	6,892,046	24,019,051	1,205,547	25,224,598
Effect of adoption of IFRS 9, net of tax	–	–	–	–	–	(370)	(370)	–	(370)
As at 1 January 2018 (Restated)	8,789,819	–	7,181,986	262,399	892,801	6,891,676	24,018,681	1,205,547	25,224,228
Profit for the year	–	–	–	–	–	3,501,246	3,501,246	294,485	3,795,731
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	–	–	32	–	–	–	32	–	32
Effective portion of changes in fair value of a hedging instrument arising during the year, net of tax	–	–	(11,565)	–	–	–	(11,565)	–	(11,565)
Re-measurement losses on defined benefit plans, net of tax	–	–	(9,391)	–	–	–	(9,391)	–	(9,391)
Total comprehensive income/(loss) for the year	–	–	(20,924)	–	–	3,501,246	3,480,322	294,485	3,774,807
Capital contribution from other equity instruments	–	2,800,000	–	–	–	–	2,800,000	–	2,800,000
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	51,930	51,930
Acquisition of a subsidiary	–	–	–	–	–	–	–	21	21
Disposal of an associate	–	–	(71)	–	–	–	(71)	–	(71)
Final 2017 dividend declared (note 10)	–	–	–	–	–	(1,318,473)	(1,318,473)	–	(1,318,473)
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	(188,298)	(188,298)
Distribution of other equity instrument	–	–	–	–	–	(72,062)	(72,062)	–	(72,062)
Appropriation to statutory surplus reserve (note (ii))	–	–	–	–	211,598	(211,598)	–	–	–
Transfer to special reserve (note (i))	–	–	–	483,494	–	(483,494)	–	–	–
Utilisation of special reserve (note (i))	–	–	–	(373,046)	–	373,046	–	–	–
As at 31 December 2018	8,789,819	2,800,000*	7,160,991*	372,847*	1,104,399*	8,680,341*	28,908,397	1,363,685	30,272,082

* As at 31 December 2018, these reserve accounts comprise the consolidated reserves of RMB20,118,578,000 (31 December 2017: RMB15,229,232,000) in the consolidated statement of financial position.

Notes:

(i) In preparation of the consolidated financial statements, the Company and its subsidiaries have appropriated certain amounts of retained profits to a special reserve fund for the years ended 31 December 2018 and 2017, for safety production expense purposes as required by the directives issued by the relevant PRC government authorities. The Group charged the safety production expenses to profit or loss when such expenses were incurred, and at the same time the corresponding amounts of special reserve fund were utilised and transferred back to retained profits.

(ii) In accordance with the PRC Company Law and the articles of association of the Company, the Company is required to appropriate 10% of its net profit after tax, as determined under the Ministry of Finance of the PRC ("PRC GAAP"), to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Company, the statutory surplus reserve may be used either to offset losses, or to be converted to increase share capital provided that the balance after such conversion is not less than 25% of the registered capital of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,598,605**	4,285,656
Adjustments for:			
Finance costs	6	**139,008**	51,823
Foreign exchange differences, net		**(38,114)**	69,615
Interest income	5	**(222,459)**	(151,122)
Share of profits of associates and joint ventures		**(57,207)**	(33,598)
Gain on disposal of a joint venture and an associate	5	**(21)**	(6,543)
Gain on disposal of an available-for-sale investment	5	**—**	(5,981)
Loss/(gain) on forward commodity purchase contracts	7	**2,060**	(688)
Depreciation of items of property, plant and equipment	7	**340,864**	312,014
Depreciation and amortisation of investment properties	7	**12,874**	8,736
Amortisation of other intangible assets	7	**127,341**	134,210
Amortisation of prepaid land lease payments	7	**50,711**	58,125
Impairment of trade receivables	7	**114,903**	117,719
(Reversal of impairment)/impairment of other receivables	7	**(43,050)**	57,361
Write-down/(reversal of write-down) of inventories to net realisable value	7	**110**	(904)
Impairment of contract assets	7	**41,457**	—
Reversal of provision for foreseeable losses on contracts	7	**—**	(13,387)
Loss/(gain) on disposal of items of property, plant and equipment	7	**4,137**	(975)
Government grants		**(24,470)**	(26,590)
		5,046,749	4,855,471
Increase in inventories		**(739,609)**	(85,802)
Changes in amounts with contract customers		**—**	(8,826,861)
Increase in contract assets		**(16,402,864)**	—
Increase in trade and bills receivables		**(1,593,263)**	(1,834,804)
Increase in financial receivables		**—**	(1,876,596)
Increase in prepayments, other receivables and other assets		**(446,413)**	(715,534)
Decrease/(increase) in pledged deposits		**27,335**	(16,234)
Increase in trade and bills payables		**11,788,994**	8,588,951
Increase in contract liabilities		**3,788,433**	—
Decrease in other payables and accruals		**(2,271,284)**	(279,745)
Decrease in provisions for supplementary retirement benefits		**(38,911)**	(61,991)
Decrease in provisions		**(62,194)**	(29,644)
(Decrease)/increase in government grants		**(5,300)**	73,649
Cash generated from operations		**(908,327)**	(209,140)

	Note	2018 RMB'000	2017 RMB'000
Interest received		**68,725**	58,461
Income tax paid		**(746,688)**	(735,342)
Net cash flows used in operating activities		**(1,586,290)**	(886,021)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of items of property, plant and equipment		**(984,573)**	(1,088,701)
Payments for acquisition of prepaid land lease payments		**—**	(133,865)
Payments for acquisition of other intangible assets		**(85,732)**	(29,879)
Acquisition of a subsidiary, net of cash acquired	38	**(92,447)**	—
Addition of available-for-sale investments		**—**	(2,400)
Addition of equity investments designated at fair value through other comprehensive income		**(497,812)**	—
Addition of investments in joint ventures and associates		**(104,041)**	(422,605)
Proceeds from disposal of items of property, plant and equipment		**15,167**	7,202
Disposals of shareholdings in associates and a joint venture		**106,971**	49,521
Proceeds from disposal of an available-for-sale investment		**—**	5,139
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		**1,081**	—
Dividends received from associates and joint ventures		**48,500**	42,300
Settlement of acquisition of a subsidiary in the prior year		**(1,045)**	—
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months		**770,695**	(183,959)
Interest received		**153,734**	92,661
Others		**27,160**	(64,615)
Net cash flows used in investing activities		**(642,342)**	(1,729,201)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		**4,377,335**	1,655,346
Repayment of bank loans and other borrowings		**(3,851,595)**	(834,081)
Interest paid		**(139,012)**	(51,827)
Proceeds from issuance of other equity instrument		**2,800,000**	—
Dividends paid to shareholders		**(1,330,660)**	(878,982)
Dividends paid to non-controlling shareholders		**(186,382)**	(165,725)
Distribution paid to other equity instrument holders		**(72,062)**	—
Deposit for issuance of other equity instrument		**(28,000)**	—
Capital contribution from non-controlling shareholders		**51,930**	135,056
Net cash flows generated from/(used in) financing activities		**1,621,554**	(140,213)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(607,078)**	(2,755,435)
Cash and cash equivalents at beginning of the year		**11,364,983**	14,190,033
Effect of exchange rate changes on cash and cash equivalents		**50,300**	(69,615)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27	**10,808,205**	11,364,983

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

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

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

Company name	Place of registration and business	Registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
CRSC Innovation Investment Co., Ltd. * (通號創新投資有限公司)	The PRC/ Mainland China	RMB5,000,000,000	100%	—	Project investment, project management and investment consulting
CRSC Material Group Company Limited * (通號物資集團有限公司)	The PRC/ Mainland China	RMB100,000,000	100%	—	Trading of equipment in communication, signal, electric power and automatic control, minerals, coal, coke, and other materials
CRSC Engineering Group Co., Ltd. * (通號工程局集團有限公司)	The PRC/ Mainland China	RMB1,000,000,000	100%	—	Construction and installation contracting
CRSC Inspection &Testing Co., Ltd.* (通號檢驗檢測有限公司)	The PRC/ Mainland China	RMB85,000,000	100%	—	Technical detection
CRSC (Changsha) Railway Traffic Control Technology Company Limited * ("CRSC Changsha Railway") (通號(長沙)軌道交通控制技術有限公司)	The PRC/ Mainland China	RMB1,153,750,000	100%	—	Manufacture, construction and installation of rail transportation control products and electric power engineering
CRSC Wanquan Signal Equipment Company Ltd. * ("CRSC Wanquan") (通號萬全信號設備有限公司)	The PRC/ Mainland China	RMB130,000,000	70%	—	Manufacture, installation, and construction of communication and signal automatic equipment and electronic and electrical equipment
CRSC Construction Group Co., Ltd * (通號建設集團有限公司)	The PRC/ Mainland China	RMB1,000,000,000	100%	—	Construction contracting and municipal engineering
Casco Signal Ltd.* ("CRSC CASCO") (卡斯柯信號有限公司)	The PRC/ Mainland China	RMB200,000,000	51%	—	Design, integration and contracting of communication signal works, manufacture and sale of communication signal equipment and related ancillary equipment
China Railway Signal & Communication International Co., Ltd (中國通號國際有限公司)	The PRC/ Hong Kong	RMB2,581,200	100%	—	Engineering contracting, technical exchanges and services and international trade
CRSC Jishou Huatai Pipeline Project Management Co., Ltd * (吉首通號華泰管廊項目管理有限責任公司)	The PRC/ Mainland China	RMB580,000,000	90%	—	Integrated corridor project management services and municipal engineering construction
CRSC Jishou Tengda Project Management Co., Ltd * (吉首通號騰達項目管理有限責任公司)	The PRC/ Mainland China	RMB450,000,000	90%	—	Municipal road project management services and municipal road construction

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

Company name	Place of registration and place of business	Registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
CRSC Institute of Smart City Research & Design * (通號智慧城市研究設計院有限公司)	The PRC/ Mainland China	RMB50,000,000	100%	—	Engineering survey and design, software development, technology development, technical consulting, technical services
CRSC (Beijing) Rail Industry Group Co., Ltd.*("CRSC Beijing Industry") (通號 (北京) 軌道工業集團有限公司)	The PRC/ Mainland China	RMB1,400,000,000	100%	—	Manufacture and sale of rail transportation control, information and electric power basic equipment and devices
CRSC (Xi'an) Rail Industry Group Co., Ltd.*("CRSC Xi'an Industry") (通號 (西安) 軌道交通工業集團有限公司)	The PRC/ Mainland China	RMB903,059,800	100%	—	Manufacture and sale of rail transportation control, information and electric power basic equipment and devices
Zhengzhou Zhongyuan Railway Engineering Co., Ltd.* ("Zhengzhou Zhongyuan") (鄭州中原鐵道工程有限責任公司)	The PRC/ Mainland China	RMB500,000,000	65%	—	Industrial and civil construction, contracting construction of rail transportation control projects and electrification projects
CRSC Railway Vehicles Co., Ltd.* ("CRSC Vehicle")(通號軌道車輛有限公司)	The PRC/ Mainland China	RMB342,000,000	66%	—	Design, manufacture, sale, service and training of tramcars, light rail vehicles and pipe fittings
CRSC (Zhengzhou) Electrification Bureau Co., Ltd.* ("CRSC Electrification") (通號(鄭州)電氣化局有限公司)	The PRC/ Mainland China	RMB500,000,000	65%	—	Industrial and civil construction contracting, construction of rail transportation control projects and electrification projects
CRSC (Jiangsu) Smart City Construction and Development Co., Ltd. * (通號 (江蘇) 智慧城市建設開發有限公司)	The PRC/ Mainland China	RMB400,000,000	99.5%	—	Smart City construction
CRSC Traffic Construction Co., Ltd.* (通號交通建設有限公司)	The PRC/ Mainland China	RMB200,000,000	90%	—	Rail transit engineering and other project construction

* The English names of the companies registered in the PRC represent the best efforts of the management of the Company in directly translating the Chinese names of the companies as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended 31 December 2018 or formed a substantial portion of the net assets of the Group as at 31 December 2018. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
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 IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and Annual Improvements to IFRSs 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

(a) Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 9 Financial Instruments (Continued)

(a) **Classification and measurement** (Continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Notes	IAS 39 measurement Category	IAS 39 measurement Amount RMB'000	Re-classifications RMB'000	ECL RMB'000	IFRS 9 measurement Amount RMB'000	IFRS 9 measurement Category
Financial assets							
Equity investments designated at fair value through other comprehensive income		N/A	—	156,002	—	156,002	FVOCI[1] (equity)
From: Available-for-sale investments	(i)		—	156,002	—	—	
Available-for-sale investments		AFS[2]	156,002	(156,002)	—	—	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)		—	(156,002)			
Trade receivables	(ii)	L&R[3]	11,695,131	—	152,429	11,847,560	AC[4]
Bills receivables		L&R	1,423,606	—	—	1,423,606	FVOCI[1] (debt)
Financial assets included in prepayments, other receivables and other assets		L&R	1,709,965	—	5,558	1,715,523	AC
Pledged deposits		L&R	187,844	—	—	187,844	AC
Cash and cash equivalents		L&R	12,879,446	—	—	12,879,446	AC
			28,051,994	—	157,987	28,209,981	
Other assets							
Contract assets	(ii)		20,036,274	—	(158,357)	19,877,917	
Total assets			48,088,268	—	(370)	48,087,898	
Financial liabilities							
Trade and bills payables		AC	24,253,489	—	—	24,253,489	AC
Financial liabilities included in other payables and accruals		AC	2,193,726	—	—	2,193,726	AC
Interest-bearing bank and and other borrowings		AC	1,875,782	—	—	1,875,782	AC
			28,322,997	—	—	28,322,997	
Other liabilities							
Contract liabilities	(ii)		5,388,048	—	—	5,388,048	
Total liabilities			33,711,045	—	—	33,711,045	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 9 Financial Instruments (Continued)

(a) Classification and measurement (Continued)

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The net carrying amounts of the trade receivables, the contract assets and the contract liabilities under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in IFRS 15 *Revenue from Contracts with Customers*.

(b) Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 22, 23 and 25 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under IFRS 9 at 1 January 2018**
	RMB'000	RMB'000	RMB'000
Trade receivables	624,742	(152,429)	472,313
Contract assets	—	158,357	158,357
Financial assets included in prepayments, other receivables and other assets	196,439	(5,558)	190,881
	821,181	370	821,551

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 9 Financial Instruments (Continued)

(c) **Hedge accounting**

The Group has applied hedge accounting under IFRS 9 prospectively. At the date of initial application of IFRS 9, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of IFRS 9, the Group designated the change in fair value of the entire foreign currency swap contracts in its cash flow hedge relationships. Upon adoption of IFRS 9, the Group continues to designate the entire foreign currency swap contracts in the cash flow hedge relationships. The adoption of the hedge accounting requirements of IFRS 9 has had no impact on the Group's financial statements.

(d) **Impact on reserves and retained profits**

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Retained profits	
Balance as at 31 December 2017 under IAS 39	6,892,046
Recognition of expected credit losses for trade receivables under IFRS 9	152,429
Recognition of expected credit losses for contract assets under IFRS 9	(158,357)
Recognition of expected credit losses for financial assets included in prepayments, other receivables and other assets under IFRS 9	5,558
Balance as at 1 January 2018 under IFRS 9	6,891,676

Transition to IFRS 9 has no impact on the reserves of the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	**Increase/ (decrease)** RMB'000
Non-current assets		
Financial receivables	(c)	(2,131,712)
Trade receivables	(e)	(210,464)
Contract assets	(c) (e)	2,342,176
Current assets		
Amounts due from contract customers	(d)	(17,686,254)
Contract assets	(d)	17,694,098
Current liabilities		
Other payables and accruals	(f)	(2,143,248)
Amounts due to contract customers	(d)	(3,244,800)
Contract liabilities	(f)	5,388,048
Provisions		7,844

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on the Group's profit and loss, other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

Consolidated statement of financial position as at 31 December 2018:

	Notes	Previous IFRS	Increase/ (decrease)	IFRS 15
		RMB'000	RMB'000	RMB'000
Non-current assets				
Financial receivables	(c)	2,946,840	(2,946,840)	—
Trade receivables	(e)	1,393,064	(21,388)	1,371,676
Contract assets	(c) (e)	—	2,968,228	2,968,228
Current assets				
Amounts due from contract customers	(d)	30,929,582	(30,929,582)	—
Contract assets	(d)	—	30,941,475	30,941,475
Current liabilities				
Other payables and accruals	(f)	5,784,400	(3,221,894)	2,562,506
Amounts due to contract customers	(d)	3,811,339	(3,811,339)	—
Contract liabilities	(f)	—	7,033,233	7,033,233
Provisions		20,935	11,893	32,828

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss and other comprehensive income for the year ended 31 December 2018 are described below:

(a) **Sale for goods**

The Group's contracts with customers for the sale of equipment generally include one performance obligation. The Group has concluded that revenue from sale of equipment should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. Therefore, the adoption of IFRS 15 did not have a material impact on the timing and amount of revenue recognition.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

(b) Contracts for services

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

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered. Upon the adoption of IFRS 15, the contract revenue will be recognised over the period that the services are provided.

For the year ended 31 December 2018, the Group has concluded that the adoption of IFRS 15 did not have any material impact on the Group's revenue recognition.

(c) Service concession arrangements

The Group has entered into a number of service concession arrangements with the Grantors. The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangements. Under the BOT arrangements, the Group carries out construction work of municipal infrastructure for the Grantors and receives in return the rights to operate the service project concerned for a specified period of time (the "operation period") in accordance with the pre-established conditions set by the Grantors, the service project should be transferred to the Grantors with nil consideration at the end of the operation period. In prior reporting periods, the Group allocated the consideration received from the Grantors into revenue from construction and operation and interest income, in accordance with IFRIC 12 *Service Concession Arrangements*. Upon the adoption of IFRS 15, the revenue allocated to the construction service will be recognised over the period that the construction services are provided; the operation revenue allocated to the operation service will be recognised over the period that the operation services are provided; and the financial revenue will be recognised by applying the effective interest method to the amortised cost of financial assets over the period of the service concession arrangements.

Before the adoption of IFRS 15, the Group provides construction or upgrade services, the consideration received or receivable by the Group shall be recognised at its fair value. The consideration may be rights to financial assets or intangible assets. Upon adoption of IFRS 15, both financial assets and intangible assets of consideration are classified as contract assets during the construction or upgrade period. Accordingly, the Group reclassified RMB2,131,712,000 from financial receivables to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in a decrease in financial receivables of RMB2,946,840,000 and an increase in contract assets of RMB2,946,840,000.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

(d) Construction contracts

Before the adoption of IFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as construction contracts in the statement of financial position before the construction services were billed to customers. Upon the adoption of IFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified RMB17,686,254,000 from amounts due from contract customers to contract assets as at 1 January 2018.

Before the adoption of IFRS 15, amounts due to the customers were recorded as construction liabilities in the statement of financial position before the construction contract costs were incurred. Upon the adoption of IFRS 15, a contract liability is recognised when the Group refers to the obligation to transfer goods or services to customers when they have received or have the receivable right from customers. Accordingly, the Group reclassified RMB3,244,800,000 from amounts due do contract customers to contract liabilities as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in a decrease in amounts due from contract customers and amounts due to contract customers of RMB30,941,475,000 and RMB3,811,339,000, respectively, and an increase in contract assets and contract liabilities of RMB30,941,475,000 and RMB3,811,339,000, respectively.

(e) Retention receivables

Before the adoption of IFRS 15, retention receivables were conditional on the satisfaction of the products quality by the customers over a certain period as stipulated in the contracts, were included in trade receivables. Upon adoption of IFRS 15, retention receivables are reclassified to contract assets. Accordingly, the Group reclassified RMB210,464,000 from trade receivables to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in a decrease in trade receivables of RMB21,388,000, and an increase in contract assets of RMB21,388,000.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

(f) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables. Under IFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB2,143,248,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB3,221,894,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of industrial products and the provision of construction and management services.

IFRIC 22 Foreign Currency Transactions and Advance Considerations

IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

Amendments to IAS 40 Transfers of Investment Property

Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
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*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments* [1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases - Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The standard is not expected to have any significant impact on the Group's consolidated financial statements.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 Uncertainty over Income Tax Treatments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF 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 acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction and service contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Intangible assets with finite lives are subsequently amortised over the useful economic life on the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The amortisation expenses on intangible assets with finite lives are recognised in profit or loss in the expense category consistent with the function of the intangible asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

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

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

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

Service concession arrangements

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

Consideration given by the Grantors

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Service concession arrangements (Continued)

Construction or upgrade services

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

Operating services

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

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statement of profit or loss and other comprehensive income. Dividends are recognised as other income in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement (Continued)

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

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in other comprehensive income in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 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.

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Financial assets carried at amortised cost (Continued)

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, interest-bearing bank and other borrowings and other payables.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the consolidated statement of profit or loss and other comprehensive income, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the consolidated statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

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

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by IFRS 9 and IAS 39 is recognised in profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss and other comprehensive income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Cash flow hedges (Continued)

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss and other comprehensive income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss and other comprehensive income.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Fair value hedges

The change in the fair value of a hedging instrument is recognised in profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss and other comprehensive income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss and other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Properties under development

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

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Trade and bills receivables and other receivables

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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

Trade and bills payables and other payables

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

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

Revenue from contracts with customers (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sale of goods based on standard solutions (supply-only projects) as well as spare parts sales, at the point in time when control of the promised assets has been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition(applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(c) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" below;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contracts for services (applicable before 1 January 2018)

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

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

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

Construction contracts (applicable before 1 January 2018)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by shareholders in a general meeting. Proposed final dividends are disclosed in the note 10 to the financial statements.

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

Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

Employee benefits

Retirement benefits

(a) Social pension plans

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

(b) Annuity plan

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Retirement benefits (Continued)

(c) Supplementary retirement benefits

The Group also provides the retirement pension subsidies, medical benefits and other supplementary benefits to employees who retired on or before 31 December 2013. These supplementary retirement benefits are considered to be defined benefit plans and are unfunded. The obligation recognised in the consolidated statement of financial position in respect of these defined benefit plans is the present value of the defined benefit obligations at the end of each reporting period. The defined benefit obligation is calculated by independent qualified actuaries using the projected unit credit method annually, or when any material changes in the plans and key assumptions will occur. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities of the currency and term consistent with the currency and term of the supplementary retirement benefit obligations. Re-measurements arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the comprehensive income by function:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Termination benefits and early retirement benefits

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

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

Housing fund and other social insurances

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Accounting for service concession arrangements

The Group engages in certain service concession arrangement in which the Group carries out construction work of the municipal corridor for the Grantor and receives in return a right to operate the municipal corridor concerned in accordance with the pre-established conditions set by the Grantor. During the construction period, the entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once the construction is complete, the amounts due from the grantor are accounted for in accordance with IFRS 9 *Financial Instruments* as receivables.

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

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

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

Revenue from Contract customers

Determining the method to estimate variable consideration and assessing the constraint for construction services

The Group seeks to collect claims from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract, which give rise to variable consideration. The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for claims in construction services, given there is a wide range of possible outcomes which are subject to negotiations with third parties.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, current negotiations with customers, profitability of the head contracts of the customers and the current economic conditions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

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

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

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

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

Variable considerations for claims to customers

The Group estimates variable considerations for claims to be included in the transaction price for the provision of construction services.

The Group developed a statistical model for estimating expected successful claims. The model used the historical claims data including the historical experiences with the same customer, profitability of the head contracts of the customers and economic conditions to estimate expected successful claims percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical successful claims pattern will impact the expected successful claims percentages estimated by the Group.

The Group updates its assessment of expected successful claims monthly. Estimates of expected successful claims are sensitive to changes in circumstances and the Group's past experience regarding negotiation of claims may not be representative of the actual outcome in the future.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Current income tax and deferred income tax

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

Deferred tax assets

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

Impairment of goodwill

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

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 22 and note 23 to the financial statements, respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets

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

Warranty provision

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

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 46 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2018 was RMB653,814,000. Further details are included in note 19 to the financial statements.

Supplementary employee retirement benefits

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

4. OPERATING SEGMENT INFORMATION

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

(a) the rail transportation control system segment engages in design and integration, equipment manufacturing and system implementation with a focus on product design and research and development and through its "three-in-one" business model (that combines design and integration, equipment manufacturing and system implementation) relating to the rail transportation control system industry;

(b) the construction contracting segment engages in the provision of services relating to municipal and other construction projects; and

(c) the "others" segment mainly engages in trading and etc.

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

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

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

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018

	Rail transportation control system RMB'000	Construction contracting RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue (note 5)					
Sales to external customers	28,267,248	11,516,886	59,872	—	39,844,006
Intersegment sales	57,586	118,171	171,047	(346,804)	—
Total revenue	28,324,834	11,635,057	230,919	(346,804)	39,844,006
Segment results	4,032,186	720,154	19,897	(2,546)	4,769,691
Interest income	303,624	35,384	312	(116,861)	222,459
Finance costs	(103,468)	(86,087)	(2,151)	52,698	(139,008)
Corporate and other unallocated expenses					(254,537)
Profit before tax					4,598,605
Segment assets	51,949,898	28,987,125	183,657	(1,442,144)	79,678,536
Total assets	51,949,898	28,987,125	183,657	(1,442,144)	79,678,536
Segment liabilities	28,218,712	22,513,750	77,337	(1,403,345)	49,406,454
Total liabilities	28,218,712	22,513,750	77,337	(1,403,345)	49,406,454
Other segment information:					
Share of profits and losses of:					
Joint ventures	24,420	(4,997)	—	—	19,423
Associates	35,483	2,301	—	—	37,784
Depreciation and amortisation	500,089	31,161	540	—	531,790
Impairment/(reversal of impairment) of trade receivables	92,176	23,006	(279)	—	114,903
Impairment/(reversal of impairment) of other receivables	(86,874)	43,824	—	—	(43,050)
Impairment of contract assets	19,316	22,141			41,457
Product warranty provision:					
Additional provision	53,294	—	—	—	53,294
Reversal of provision	(62,796)	—	—	—	(62,796)
Equity investments designated at fair value through other comprehensive income	653,814	—	—	—	653,814
Investments in joint ventures	218,154	35,337	—	—	253,491
Investments in associates	725,230	27,200	—	—	752,430
Capital expenditure*	666,140	79,584	755	—	746,479

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and other intangible assets.

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017

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

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and other intangible assets.

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Mainland China	**39,309,617**	33,650,578
Other countries/regions	**534,389**	783,105
	39,844,006	34,433,683

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

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	**8,697,956**	8,417,436

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

Information about major customers

No revenue from a single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contract customers		
Rail transportation control system		
– Design and integration	**8,502,949**	8,604,117
– Equipment manufacturing	**6,561,649**	5,792,247
– System implementation	**13,202,650**	10,200,721
Construction contracting	**11,516,886**	9,635,243
Others	**59,872**	201,355
	39,844,006	34,433,683

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Rail transportation control system RMB'000	Construction contracting RMB'000	Others RMB'000	Total RMB'000
Geographical markets				
Mainland China	27,732,859	11,516,886	59,872	39,309,617
Other countries/regions	534,389	—	—	534,389
Total revenue from contracts with customers	28,267,248	11,516,886	59,872	39,844,006
Timing of revenue recognition				
Goods and services transferred at a point in time	4,201,815	—	59,872	4,261,687
Services transferred over time	24,065,433	11,516,886	—	35,582,319
Total revenue from contracts with customers	28,267,248	11,516,886	59,872	39,844,006

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(i) **Disaggregated revenue information** (Continued)

For the year ended 31 December 2018

Segments	Rail transportation control system RMB'000	Construction contracting RMB'000	Others RMB'000	Total RMB'000
Revenue from contracts with customers				
External customers	**28,267,248**	**11,516,886**	**59,872**	**39,844,006**
Intersegment sales	**57,586**	**118,171**	**171,047**	**346,804**
	28,324,834	**11,635,057**	**230,919**	**40,190,810**
Intersegment adjustments and eliminations	**(57,586)**	**(118,171)**	**(171,047)**	**(346,804)**
Total revenue from contracts with customers	**28,267,248**	**11,516,886**	**59,872**	**39,844,006**

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period.

	2018 RMB'000
Balance of contract liabilities at the beginning of the reporting period:	
Rail transportation control system	
– Design and integration	2,695,248
– Equipment manufacturing	102,487
– System implementation	10,748
Construction contracting	887,718
	3,696,201

(ii) **Performance obligations**

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 180 days from delivery, except for new customers, where payment in advance is normally required.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 180 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The remaining performance obligations expected to be recognised in more than one year relate to construction services that are to be satisfied ranging from one to five years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

	Note	**2018** **RMB'000**	2017 RMB'000
Other income and gains			
Bank interest income	7	**222,459**	151,122
Government grants	7	**179,874**	181,355
Gain on disposal of a joint venture and an associate	7	**21**	6,543
Gain on disposal of an available-for-sale investment	7	**—**	5,981
Foreign exchange gains, net		**30,108**	—
Others		**36,959**	35,461
		469,421	380,462

6. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank loans and other borrowings wholly repayable	**135,696**	46,040
Interest on discounted bills receivable	**3,312**	5,783
	139,008	51,823

7. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of sales		**30,931,850**	26,043,267
Depreciation and amortisation of investment properties	12	**12,874**	8,736
Depreciation of items of property, plant and equipment	13, (a)	**340,864**	312,014
Amortisation of prepaid land lease payments	14	**50,711**	58,125
Amortisation of other intangible assets	16	**127,341**	134,210
Total depreciation and amortisation		**531,790**	513,085
Impairment losses on financial and contract assets, net			
Impairment of trade receivables, net	22	**114,903**	117,719
Impairment/(reversal of impairment) of other receivables, net	25	**(43,050)**	57,361
Impairment of contract assets, net	23	**41,457**	—
		113,310	175,080

7. PROFIT BEFORE TAX (Continued)

	Notes	2018 RMB'000	2017 RMB'000
Write-down/(reversal of write-down) of inventories to net realisable value		**110**	(904)
Reversal of provision for foreseeable losses on contracts		**—**	(13,387)
Lease expenses under operating leases of land and buildings	(b)	**182,535**	154,611
Auditors' remuneration		**9,750**	8,730
Employee benefit expenses (including directors' and supervisors' remuneration):	(c)		
Wages, salaries and allowances		**3,027,193**	2,646,605
Retirement benefit costs			
– Defined contribution retirement schemes		**535,275**	474,315
– Defined benefit retirement schemes and early retirement costs	34	**28,147**	7,381
Total retirement benefit costs		**563,422**	481,696
Welfare and other expenses		**947,243**	899,285
Research and development costs	(d)	**1,323,503**	1,180,165
Government grants	5, (e)	**(179,874)**	(181,355)
Product warranty provision:			
Additional provision	32	**53,294**	51,159
Reversal of provision	32	**(62,796)**	(5,793)
		(9,502)	45,366
Bank interest income	5	**(222,459)**	(151,122)
Loss/(gain) on disposal of items of property, plant and equipment		**4,137**	(975)
Gains on disposal of a joint venture and an associate	5	**(21)**	(6,543)
Gain on disposal of an available-for-sale investment	5	**—**	(5,981)
Loss/(gain) on forward commodity purchase contracts		**2,060**	(688)
Foreign exchange differences, net		**(30,108)**	70,016

7. PROFIT BEFORE TAX (Continued)

Notes:

(a) Depreciation of approximately RMB215,651,000 and RMB203,859,000 is included in cost of sales in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017, respectively.

(b) Lease expenses of approximately RMB98,464,000 and RMB77,320,000 are included in cost of sales in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017, respectively.

(c) Employee benefit expenses of approximately RMB2,075,562,000 and RMB1,778,525,000 are included in cost of sales in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017, respectively.

(d) Employee benefit expenses of approximately RMB813,372,000 and RMB677,101,000 are included in research and development costs for the years ended 31 December 2018 and 2017, respectively.

(e) Most of the government grants have been received for conducting research activities. The government grants are released when research and development costs are incurred to which they relate. Government grants received for which related expenditures have not yet been undertaken are included in government grants in the consolidated statement of financial position.

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

(a) Directors' and supervisors' remuneration

The aggregate amounts of remuneration of the directors and supervisors of the Company during the years ended 31 December 2018 and 2017, disclosed pursuant to the Hong Kong Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 **RMB'000**	2017 RMB'000
Fees	**378**	344
Other emoluments:		
– Salaries, allowances and benefits in kind	**2,231**	1,868
– Performance related bonuses	**959**	758
– Pension scheme contributions	**347**	314
	3,915	3,284

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

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

2018

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors						
Mr. Zhou Zhiliang (周志亮) (Chief executive)		—	557	368	85	1,010
Mr. Yin Gang (尹剛)		—	557	325	83	965
Mr. Yang Yongsheng (楊永勝)	(i)	—	221	24	32	277
		—	1,335	717	200	2,252
Independent non-executive directors						
Mr. Wang Jiajie (王嘉傑)		113	—	—	—	113
Mr. Sun Patrick (辛定華)	(ii)	83	—	—	—	83
Mr. Chen Jin'en (陳津恩)		60	—	—	—	60
Mr. Gao Shutang (高樹堂)	(ii)	40	—	—	—	40
Mr. Chen Jiaqiang (陳嘉強)	(iii)	57	—	—	—	57
Mr. Yao Guiqing (姚桂清)	(iii)	25	—	—	—	25
		378	—	—	—	378
Supervisors						
Ms. Tian Liyan (田麗豔)		—	521	176	79	776
Ms. Zhao Xiumei (趙秀梅)	(iv)	—	91	—	20	111
Mr. Chen Shikui (陳世奎)	(v)	—	284	66	48	398
Mr. Wu Zhuowei (吳作威)	(vi)	—	—	—	—	—
		—	896	242	147	1,285
		378	2,231	959	347	3,915

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

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

2017

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors						
Mr. Zhou Zhiliang (周志亮) (Chief executive)		—	486	215	85	786
Mr. Fu Jianguo (傅建國)	(vii)	—	188	89	30	307
Mr. Yin Gang (尹剛)		—	486	156	83	725
		—	1,160	460	198	1,818
Independent non-executive directors						
Mr. Wang Jiajie (王嘉傑)		103	—	—	—	103
Mr. Sun Patrick (辛定華)		121	—	—	—	121
Mr. Chen Jin'en (陳津恩)		60	—	—	—	60
Mr. Gao Shutang (高樹堂)		60	—	—	—	60
		344	—	—	—	344
Supervisors						
Ms. Tian Liyan (田麗豔)		—	455	182	75	712
Mr. Gao Fan (高帆)	(viii)	—	—	—	—	—
Ms. Zhao Xiumei (趙秀梅)		—	253	116	41	410
		—	708	298	116	1,122
		344	1,868	758	314	3,284

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

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

Notes:

(i) Mr. Yang Yongsheng was appointed as an executive director effective from 28 August 2018.

(ii) Mr. Sun Patrick and Mr. Gao Shutang resigned as independent non-executive directors from 28 August 2018.

(iii) Mr. Chen Jiaqiang and Mr. Yao Guiqing were appointed as independent non-executive directors from 28 August 2018.

(iv) Ms. Zhao Xiumei resigned as a supervisor effective from 28 August 2018.

(v) Mr. Chen Shikui was appointed as a supervisor effective from 28 August 2018.

(vi) Mr Wu Zuowei was appointed as a supervisor from 25 May 2018. He received no emoluments for the year ended 31 December 2018, because he did not receive any remuneration in the capacity as a supervisor.

(vii) Mr. Fu Jianguo was appointed as an executive director effective from 27 July 2016, and resigned as an executive director effective from 26 June 2017.

(viii) Mr. Gao Fan resigned as a supervisor effective from 25 May 2018.

An analysis of the headcounts of the five highest paid employees within the Group for the year ended 31 December 2018 is as follows:

	2018	2017
Non-director and non-supervisor employees	**5**	5

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

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and benefits in kind	**5,463**	5,187
Performance related bonuses	**5,997**	6,925
Pension scheme contributions	**251**	229
	11,711	12,341

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

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

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

	2018	2017
HK$2,000,001 to HK$3,000,000	**5**	4
HK$3,000,001 to HK$4,000,000	**—**	1
	5	5

During the years ended 31 December 2018 and 2017, no directors or supervisors, or none of the non-director and non-supervisor highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors and supervisors or any of the non-director and non-supervisor highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. INCOME TAX EXPENSE

Certain subsidiaries have been accredited as "high and new technology enterprises" and were entitled to a preferential income tax rate of 15% for the years ended 31 December 2018 and 2017 in accordance with the PRC Corporate Income Tax Law. Other entities within the Group in Mainland China have been subject to corporate income tax at the statutory rate of 25%.

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits in Hong Kong during the years ended 31 December 2018 and 2017.

	Note	**2018** **RMB'000**	2017 RMB'000
Current income tax - Mainland China			
Charge for the year		**857,750**	800,090
Underprovision for the prior years		**9,337**	52,873
Deferred income tax	20	**(64,213)**	(80,369)
Tax charge for the year		**802,874**	772,594

9. 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 is as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	**4,598,605**	4,285,656
Income tax charge at the statutory income tax rate of 25%	**1,149,651**	1,071,414
Effect of different income tax rates for some entities	**(338,494)**	(315,565)
Income not subject to tax	**(2,950)**	(21,641)
Expenses not deductible for tax purposes	**55,722**	43,583
Tax losses and deductible temporary differences not recognised	**35,815**	37,495
Utilisation of tax losses and deductible temporary differences not recognised in previous periods	**(7,900)**	(1,771)
Additional tax deduction for research and development costs	**(83,798)**	(73,146)
Tax effect of share of profits of joint ventures and associates	**(14,302)**	(8,399)
Adjustments in respect of current tax of previous periods	**9,337**	52,873
Effect of change in tax rate on the deferred income tax balance at the beginning of the period	**11**	(12,985)
Others	**(218)**	736
Tax charge for the period at the effective rate	**802,874**	772,594

The share of tax attributable to associates and joint ventures amounting to RMB7,161,000 (2017: RMB6,085,000) and RMB4,456,000 (2017: RMB3,697,000) respectively is included in "share of profits of joint ventures and associates" in the consolidated statement of profit or loss and other comprehensive income.

10. DIVIDENDS

	Notes	2018 RMB'000	2017 RMB'000
Declared:			
Final dividend declared to owners of the parent	(i)	**1,318,473**	878,982
Proposed:			
Final dividend – RMB0.15 per ordinary share	(i)	**—**	1,318,473
Special dividend – RMB0.20 per ordinary share	(ii)	**1,757,964**	—
		3,076,437	2,197,455

(i) On 29 March 2018, the board of directors of the Company proposed the payment of a final dividend of RMB0.15 per ordinary share in respect of the year ended 31 December 2017, based on the enlarged issued share capital of the Company of 8,789,819,000 shares. The proposed final dividend was approved on 25 May 2018 and settled on 25 July 2018.

(ii) On 25 March 2019, the board of directors of the Company proposed the payment of a special dividend of RMB0.20 per ordinary share, based on the enlarged issued share capital of the Company of 8,789,819,000 shares. The proposed special dividend is subject to the approval of the Company's shareholders at the 2019 first extraordinary general meeting.

(iii) Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementing rules, the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes the final dividend to non-resident enterprise holders of H Shares (including any H Shares registered in the name of HKSCC Nominees Limited).

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

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

For those financial instruments classified as equity, if the distributions are cumulative, the undeclared amounts of the cumulative distributions were deducted in arriving at earnings for the purposes of the basic earnings per share calculation. On the other hand, if the distributions are non-cumulative, only the amount of dividends declared in respect of the year should be deducted in arriving at the profit attributable to ordinary equity holders.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2018.

	2018 **RMB'000**	2017 RMB'000
Profit for the year attributable to owners of the parent	**3,501,246**	3,310,045
Less: distribution relating to the perpetual bonds (i)	**(72,062)**	—
Profit used to determine basic and diluted earnings per share	**3,429,184**	3,310,045
Weighted average number of ordinary shares in issue	**8,789,819**	8,789,819
Basic and diluted earnings per share (expressed in RMB per share)	**0.39**	0.38

(i) The perpetual bonds issued by the Company in August 2018 were classified as other equity instruments with deferrable cumulative interest distribution and payment. The interest from perpetual bonds which has been declared, during the period of 2018, was deducted from earnings when calculating earnings per share for the year ended 31 December 2018.

12. INVESTMENT PROPERTIES

	Notes	2018 RMB'000	2017 RMB'000
Carrying amount at beginning of the year		**352,777**	—
Transfer from property, plant and equipment	13	**—**	234,163
Transfer from prepaid land lease payments	14	**—**	118,614
		352,777	352,777
Depreciation at beginning of the year		**(109,495)**	—
Transfer from property, plant and equipment	13	**—**	(81,336)
Transfer from prepaid land lease payments	14	**—**	(19,423)
Depreciation and amortisation charge for the year	7	**(12,874)**	(8,736)
		(122,369)	(109,495)
Carrying amount at end of the year		**230,408**	243,282

The Group's investment properties mainly consist of two commercial properties in Mainland China. The Directors have determined that the investment properties consist of one class of asset, i.e., commercial, based on the nature, characteristics and risks of each property. The Group's investment properties were valued on 31 December 2018 based on valuations performed by Asia-Pacific Consulting and Appraisal Limited, independent professionally qualified valuers, at RMB351,320,000 (31 December 2017: RMB349,530,000). The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 42 to the financial statements.

12. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy

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

31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurement for:				
Commercial properties	**—**	**—**	**351,320,000**	**351,320,000**

31 December 2017

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

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

13. PROPERTY, PLANT AND EQUIPMENT

2018

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost:							
At 1 January 2018	3,357,279	694,395	421,942	927,672	992,525	57,653	6,451,466
Additions	5,313	144,570	30,447	165,725	216,536	48,157	610,748
Acquisition of a subsidiary	26,215	675	4,019	1,274	—	—	32,183
Transfers	547,769	21,576	—	1,990	(571,335)	—	—
Disposals	(2,549)	(20,665)	(21,248)	(46,782)	—	—	(91,244)
At 31 December 2018	3,934,027	840,551	435,160	1,049,879	637,726	105,810	7,003,153
Accumulated depreciation:							
At 1 January 2018	(695,344)	(534,886)	(252,652)	(588,115)	—	(45,730)	(2,116,727)
Depreciation charge for the year (note 7)	(91,655)	(70,746)	(57,334)	(102,797)	—	(18,332)	(340,864)
Acquisition of a subsidiary	(5,414)	(306)	(1,414)	(1,471)	—	—	(8,605)
Disposals	31	18,787	19,735	40,429	—	—	78,982
At 31 December 2018	(792,382)	(587,151)	(291,665)	(651,954)	—	(64,062)	(2,387,214)
Impairment:							
At 1 January 2018	—	(32)	—	—	—	—	(32)
At 31 December 2018	—	(32)	—	—	—	—	(32)
Net carrying amount:							
At 31 December 2018	3,141,645	253,368	143,495	397,925	637,726	41,748	4,615,907
At 1 January 2018	2,661,935	159,477	169,290	339,557	992,525	11,923	4,334,707

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

2017

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost:							
At 1 January 2017	2,733,671	651,290	382,004	760,780	1,132,751	40,368	5,700,864
Additions	22,439	40,673	68,345	143,674	759,263	17,285	1,051,679
Transfers to investment properties (note 12)	(234,163)	—	—	—	—	—	(234,163)
Transfers	835,332	24,997	101	38,149	(898,579)	—	—
Transfer to other intangible assets (note 16)	—	—	—	—	(910)	—	(910)
Disposals	—	(22,565)	(28,508)	(14,931)	—	—	(66,004)
At 31 December 2017	3,357,279	694,395	421,942	927,672	992,525	57,653	6,451,466
Accumulated depreciation:							
At 1 January 2017	(682,976)	(485,981)	(225,899)	(516,374)	—	(34,596)	(1,945,826)
Depreciation charge for the year (note 7)	(93,704)	(69,300)	(53,072)	(84,804)	—	(11,134)	(312,014)
Transfers to investment properties (note 12)	81,336	—	—	—	—	—	81,336
Disposals	—	20,395	26,319	13,063	—	—	59,777
At 31 December 2017	(695,344)	(534,886)	(252,652)	(588,115)	—	(45,730)	(2,116,727)
Impairment:							
At 1 January 2017	—	(32)	—	—	—	—	(32)
At 31 December 2017	—	(32)	—	—	—	—	(32)
Net carrying amount:							
At 31 December 2017	2,661,935	159,477	169,290	339,557	992,525	11,923	4,334,707
At 1 January 2017	2,050,695	165,277	156,105	244,406	1,132,751	5,772	3,755,006

As at the date of this report, the Group was in the process of applying for the title certificates of certain of its buildings with an aggregate net carrying amount of approximately RMB1,762,352,000 (2017: RMB1,013,905,000) as at 31 December 2018 and 2017. The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors of the Company are also of the opinion that the aforesaid matters will not have any significant impact on the Group's financial position as at 31 December 2018.

14. PREPAID LAND LEASE PAYMENTS

	Notes	2018 RMB'000	2017 RMB'000
Carrying amount at beginning of the year		**2,195,549**	2,352,865
Transfer to investment properties	12	**—**	(99,191)
Transfer to inventories		**(17,387)**	—
Acquisition of a subsidiary	38	**44,903**	—
Disposals		**(7,041)**	—
Amortisation charge for the year	7	**(50,711)**	(58,125)
Carrying amount at end of the year		**2,165,313**	2,195,549
Portion classified as current assets		**(58,917)**	(58,055)
Non-current portion		**2,106,396**	2,137,494

15. GOODWILL

	Note	2018 RMB'000	2017 RMB'000
Cost and carrying amount at beginning of the year		**267,894**	267,894
Acquisition of a subsidiary	38	**37,430**	—
Cost and carrying amount at end of the year		**305,324**	267,894

Impairment testing of goodwill:

The recoverable amount of CRSC CASCO has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.33% (2017:15.09%). The carrying amount of goodwill allocated to the design and integration cash-generating unit was RMB201,027,000 as at 31 December 2018(As at 31 December 2017: RMB201,027,000).

The recoverable amount of CRSC Wanquan has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rates applied to the cash flow projections is 15.33% (2017:15.09%). The carrying amount of goodwill allocated to the equipment manufacturing cash-generating unit was RMB4,535,000 as at 31 December 2018(As at 31 December 2017: RMB4,535,000).

15. GOODWILL (Continued)

Impairment testing of goodwill: (Continued)

The recoverable amount of Zhengzhou Zhongyuan and CRSC (Zhengzhou) Zhong'an Engineering Co., Ltd have been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11.80% (2017:11.59%). The carrying amount of goodwill allocated to the system implementation cash-generating unit was RMB58,530,000 as at 31 December 2018(As at 31 December 2017: RMB58,530,000).

The recoverable amount of CRSC Guizhou Construction Co., Ltd has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11.80% (2017:12.11%). The carrying amount of goodwill allocated to the construction contracting cash-generating unit was RMB3,802,000 as at 31 December 2018 (As at 31 December 2017: RMB3,802,000).

The recoverable amount of Changsha Construction Design Institute Co., Ltd has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11.80%. The carrying amount of goodwill allocated to the construction contracting cash-generating unit was RMB37,430,000 as at 31 December 2018.

Assumptions were used in the value in use calculation of such companies for 31 December 2018. The following describes each key assumption on which management has based its cash flow projection to undertake impairment testing of goodwill:

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

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

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

16. OTHER INTANGIBLE ASSETS

2018

	Patents, licences and technology know-how RMB'000	Office software RMB'000	Deferred development costs RMB'000	Backlog RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:						
At 1 January 2018	376,624	195,374	28,305	169,921	244,326	1,014,550
Additions	515	77,487	57,729	—	—	135,731
Acquisition of a subsidiary	—	1,778	—	—	—	1,778
Transfer	56,015	—	(56,015)	—	—	—
At 31 December 2018	433,154	274,639	30,019	169,921	244,326	1,152,059
Accumulated amortisation:						
At 1 January 2018	(244,928)	(151,190)	—	(169,921)	(81,562)	(647,601)
Amortisation for the year (note 7)	(27,826)	(72,261)	—	—	(27,254)	(127,341)
Acquisition of a subsidiary	—	(711)	—	—	—	(711)
At 31 December 2018	(272,754)	(224,162)	—	(169,921)	(108,816)	(775,653)
Net carrying amount:						
At 31 December 2018	160,400	50,477	30,019	—	135,510	376,406
At 1 January 2018	131,696	44,184	28,305	—	162,764	366,949

16. OTHER INTANGIBLE ASSETS (Continued)

2017

	Patents, licences and technology know-how RMB'000	Office software RMB'000	Deferred development costs RMB'000	Backlog RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:						
At 1 January 2017	376,351	179,092	14,103	169,921	244,326	983,793
Additions	273	15,404	14,202	—	—	29,879
Transfer from property, plant and equipment (note 13)	—	910	—	—	—	910
Disposals	—	(32)	—	—	—	(32)
At 31 December 2017	376,624	195,374	28,305	169,921	244,326	1,014,550
Accumulated amortisation:						
At 1 January 2017	(214,466)	(131,521)	—	(113,128)	(54,308)	(513,423)
Amortisation for the year (note 7)	(30,462)	(19,701)	—	(56,793)	(27,254)	(134,210)
Disposals	—	32	—	—	—	32
At 31 December 2017	(244,928)	(151,190)	—	(169,921)	(81,562)	(647,601)
Net carrying amount:						
At 31 December 2017	131,696	44,184	28,305	—	162,764	366,949
At 1 January 2017	161,885	47,571	14,103	56,793	190,018	470,370

17. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	**253,491**	361,038

The Group's balances with joint ventures are disclosed in notes 22, 25, 28 and 29 to the financial statements.

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

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of the Group's investments in the joint ventures	**253,491**	361,038

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' results:		
Profit for the year	**19,423**	12,401
Other comprehensive income	**—**	—
Total comprehensive income	**19,423**	12,401

The joint ventures had no contingent liabilities or capital commitments as at 31 December 2018 and 2017.

18. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**752,430**	642,206

The Group's balances with associates are disclosed in notes 22, 23, 25, 28, 29 and 31 to the financial statements.

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

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of the Group's investments in the associates	**752,430**	642,206

	2018 RMB'000	2017 RMB'000
Share of the associates' results:		
Profit for the year	**37,784**	21,197
Other comprehensive income	**—**	—
Total comprehensive income	**37,784**	21,197

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Lunan High Speed Railway Co., Ltd. (魯南高速鐵路有限公司)	**274,267**	—
Beijing Yawan High Speed Railway Co., Ltd. (北京雅萬高速鐵路有限公司)	**269,267**	—
Hunan Maglev Group Co., Ltd. (湖南磁浮集團股份有限公司)	**100,000**	—
China Railway International (U.S.A) Co., Ltd. (中國鐵路國際(美國)有限公司)	**5,739**	—
Dujiangyan Railway Traffic Co., Ltd. (都江堰軌道交通有限責任公司)	**2,400**	—
Beijing Rail Transit Operation Control System National Engineering Research Center Co., Ltd. (北京軌道交通運行控制系統國家工程研究中心有限公司)	**2,141**	—
	653,814	—
Available-for-sale investments		
Unlisted equity investments	**—**	156,002

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

20. DEFERRED TAX ASSETS/LIABILITIES (Continued)

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

	Notes	2018 RMB'000	2017 RMB'000
Deferred tax assets:			
At beginning of the year		**278,028**	215,002
Deferred tax credited to profit or loss during the year	9	**56,127**	63,026
Acquisition of a subsidiary	38	**1,710**	—
At end of the year		**335,865**	278,028

	Notes	2018 RMB'000	2017 RMB'000
Deferred tax liabilities:			
At beginning of the year		**42,062**	59,405
Deferred tax credited to profit or loss during the year	9	**(8,086)**	(17,343)
Acquisition of a subsidiary	38	**14,623**	—
At end of the year		**48,599**	42,062

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

	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
Provisions for impairment of receivables	**189,258**	149,133
Unrealised gains arising from intra-group transactions	**96,567**	65,926
Product warranty provisions	**13,814**	26,724
Government grants received not yet recognised as income	**22,275**	21,297
Accrued but not paid salaries, wages and benefits	**8,148**	7,104
Loss on disposal of other intangible assets	**—**	2,894
Others	**5,803**	4,950
	335,865	278,028

20. DEFERRED TAX ASSETS/LIABILITIES

	2018 RMB'000	2017 RMB'000
Deferred tax liabilities:		
Excess of fair values of identifiable assets and liabilities over carrying values arising from acquisition of subsidiaries	**48,599**	42,062

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

	2018 RMB'000	2017 RMB'000
Tax losses	**440,633**	352,524
Deductible temporary differences	**27,958**	4,406
	468,591	356,930

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

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Components and raw materials	**680,531**	541,952
Work in progress	**358,067**	327,225
Finished goods	**787,108**	896,287
Low value consumables	**18,890**	9,344
Properties under development	**2,241,956**	1,554,859
	4,086,552	3,329,667

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

	Note	2018 RMB'000	2017 RMB'000
Trade receivables		**15,667,038**	12,530,337
Bills receivable		**1,845,117**	1,423,606
Provision for impairment		**(593,845)**	(624,742)
		16,918,310	13,329,201
Portion classified as non-current assets	(i)	**(1,371,676)**	(901,398)
Current portion		**15,546,634**	12,427,803

Note:

(i) The non-current portion of trade receivables mainly represents other long term receivables from certain construction projects.

22. TRADE AND BILLS RECEIVABLES (Continued)

Certain bills receivable with a carrying amount of RMB7,730,000 at 31 December 2018 (31 December 2017: RMB23,731,000) were pledged for issuance of certain bills payable. Certain bills receivable with a carrying amount of RMB99,556,000 at 31 December 2018 (31 December 2017: RMB107,657,000) were pledged for interest-bearing bank loans (note 30).

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

	2017 RMB'000
Amounts of retentions in trade receivables	868,566

An ageing analysis of the Group's trade and bills receivables, based on the invoice date and net of loss allowance, as at 31 December 2018 and 2017 is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**13,323,502**	10,312,849
1 to 2 years	**2,024,353**	2,277,010
2 to 3 years	**1,137,544**	484,614
Over 3 years	**432,911**	254,728
	16,918,310	13,329,201

The movements in the loss allowance for impairment of trade receivables are as follows:

	Note	**2018 RMB'000**	2017 RMB'000
At beginning of the year		**624,742**	507,064
Effect of adoption of IFRS 9		**(152,429)**	—
At beginning of the year (restated)		**472,313**	507,064
Impairment losses, net	7	**114,903**	117,719
Acquisition of a subsidiary		**6,725**	—
Amounts written off as uncollectible		**(96)**	(41)
At end of the year		**593,845**	624,742

22. TRADE AND BILLS RECEIVABLES (Continued)

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing of the balances for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Individually impaired	7.71%	871,196	67,160
Collectively impaired			
Within 1 year	0.50%	11,538,924	57,694
1 to 2 years	5.00%	1,886,520	94,326
2 to 3 years	10.00%	702,394	70,239
Over 3 years	45.57%	668,004	304,425
	3.56%	14,795,842	526,685
Total	3.79%	15,667,038	593,845

22. TRADE AND BILLS RECEIVABLES (Continued)

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017, was a provision for individually impaired trade receivables of RMB49,047,000 with an aggregate carrying amount before provision of RMB176,258,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in default in principal payments or were in financial difficulties and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 was as follows:

	2017 RMB'000
Neither past due nor impaired	1,215,716
Past due but not impaired:	
Less than 6 months past due	55,652
Over 6 months past due	57,530
	1,328,898

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

22. TRADE AND BILLS RECEIVABLES (Continued)

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

	2018 RMB'000	2017 RMB'000
CRSC Corporation Group	80,380	84,460
Associates of a fellow subsidiary	—	29
A fellow subsidiary	41	251
A joint venture	—	174
Associates	75,146	60,924
A non-controlling shareholder and its affiliates	—	13,930
Total	155,567	159,768

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

23. CONTRACT ASSETS

	Note	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets arising from:				
Construction services	(i)	31,150,175	17,896,718	—
Service concession arrangement		2,959,342	2,131,712	—
		34,109,517	20,028,430	—
Impairment		(199,814)	(158,357)	—
		33,909,703	19,870,073	—
Portion classified as non-current assets		(2,968,228)	(2,340,845)	—
Current portion		30,941,475	17,529,228	—

(i) Contract assets are initially recognised for revenue earned from contract with customers for the construction services and services concession arrangement. Upon acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the ongoing provision of contract services at the end of the year.

23. CONTRACT ASSETS (Continued)

During the year ended 31 December 2018, RMB199,814,000 was recognised as an allowance for expected credit losses on contract assets.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within one year	30,941,475
More than one year	2,968,228
Total contract assets	33,909,703

The movements in the loss allowance for impairment of contract assets are as follows:

	Note	2018 RMB'000
At beginning of the year		—
Effect of adoption of IFRS 9		158,357
At beginning of the year (restated)		158,357
Impairment losses, net	7	41,457
Amounts written off as uncollectible		—
At end of the year		199,814

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on the Group's historical credit loss experience of trade receivables. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

As at 31 December 2018

Expected credit loss rate	0.59%
	RMB'000
Gross carrying amount	34,109,517
Expected credit losses	199,814

23. CONTRACT ASSETS (Continued)

The amounts due from associates included in contract assets are as follows:

	As at 31 December 2018 RMB'000
Associates	**543,139**

As at 31 December 2018, the Group's contract assets, amounting to RMB1,103,115,000 (31 December 2017: RMB321,752,000), were pledged to secure certain of the Group's bank loans (note 30).

24. FINANCIAL RECEIVABLES

	2017 RMB'000
Receivables for service concession arrangements	2,131,712

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

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

As at 31 December 2017, the Group's financial receivables with a carrying amount of RMB321,752,000 were pledged to secure certain bank loans granted to the Group (note 30).

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2018 RMB'000	2017 RMB'000
Deposits and other receivables		**1,783,747**	1,969,209
Prepayments to suppliers		**907,020**	627,707
Deductible input VAT		**737,258**	425,708
Dividend receivables		**3,100**	1,060
Other prepayments		**69,250**	21,744
		3,500,375	3,045,428
Impairment allowance		**(147,946)**	(196,439)
		3,352,429	2,848,989
Portion classified as non-current assets	(i)	**(334,242)**	(297,003)
Current portion		**3,018,187**	2,551,986

Note:

(i) The non-current portion of prepayments, other receivables and other assets includes performance guarantee deposits held by customers and prepayments for property, plant and equipment at 31 December 2018.

The movements in the loss allowance for impairment are as follows:

	Note	2018 RMB'000	2017 RMB'000
At beginning of the year		**196,439**	139,078
Effect of adoption of IFRS 9		**(5,558)**	—
At beginning of the year (restated)		**190,881**	139,078
Impairment/(reversal of impairment), net	7	**(43,050)**	57,361
Acquisition of a subsidiary		**115**	—
At end of the year		**147,946**	196,439

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the expected credit losses are estimated by applying a loss rate approach. The loss rates are based on ageing of the balances for grouping of various segments with similar loss patterns (i.e., historical loss record and the nature of receivables). The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above the provision for impairment of other receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017, was a provision for individually impaired other receivables of RMB56,612,000 with an aggregate carrying amount before a provision of RMB57,241,000.

The ageing analysis of the deposits and other receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 was as follows:

	2017 RMB'000
Neither past due nor impaired	515,855
Past due but not impaired:	
Less than 6 months past due	121,021
Over 6 months past due	313,423
	950,299

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

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

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

	2018 RMB'000	2017 RMB'000
CRSC Corporation Group	**20,035**	11,420
A non-controlling shareholder's affiliate	**11,616**	12,475
Fellow subsidiaries	**2,389**	2,794
Associates	**436**	5,721
An associate of a fellow subsidiary	**—**	684
Joint ventures	**—**	692
Total	**34,476**	33,786

The above balances are unsecured, interest-free and repayable on demand.

26. AMOUNTS DUE FROM/(TO) CONTRACT CUSTOMERS

	2017 RMB'000
Amount due from contract customers	17,686,254
Amount due to contract customers	(3,244,800)
	14,441,454

	2017 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	127,191,838
Less: Progress billings received and receivable	(112,750,384)
	14,441,454

The amount due from contract customers of an associate is as follows:

	2017 RMB'000
An associate	369,725

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**6,707,678**	8,187,046
Time deposits	**5,004,805**	4,880,244
	11,712,483	13,067,290
Less: Pledged bank balances for performance guarantees and for issuance of letters of credits	**(160,510)**	(187,844)
Cash and cash equivalents in the consolidated statement of financial position	**11,551,973**	12,879,446
Less: Non-pledged time deposits with original maturity of more than three months when acquired	**(743,768)**	(1,514,463)
Cash and cash equivalents in the consolidated statement of cash flows	**10,808,205**	11,364,983
Cash and bank balances and time deposits denominated in:		
– RMB	**10,450,638**	12,005,724
– Other currencies	**1,261,845**	1,061,566
	11,712,483	13,067,290

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

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

28. TRADE AND BILLS PAYABLES

	Note	2018 RMB'000	2017 RMB'000
Trade payables		**35,195,582**	23,496,672
Bills payable		**849,268**	756,817
		36,044,850	24,253,489
Portion classified as non-current liabilities	(i)	**(26,089)**	(20,839)
Current portion		**36,018,761**	24,232,650

Note:

(i) The non-current portion of trade and bills payables mainly represents the amount of retentions from suppliers of the Group at 31 December 2018 and 2017.

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

	2018 RMB'000	2017 RMB'000
Within 1 year	**29,999,918**	19,970,821
1 to 2 years	**4,009,057**	2,636,502
2 to 3 years	**1,127,094**	939,601
Over 3 years	**908,781**	706,565
	36,044,850	24,253,489

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

28. TRADE AND BILLS PAYABLES (Continued)

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

	2018	2017
	RMB'000	RMB'000
Fellow subsidiaries	**147,001**	161,606
Associates of a fellow subsidiary	**44,502**	42,383
A non-controlling shareholder and its affiliates	**177,296**	123,722
An associate	**31,010**	23,474
An associate of CRSC Corporation Group	**51**	1,173
A joint venture	**—**	32
	399,860	352,390

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

29. OTHER PAYABLES AND ACCRUALS

	2018	2017
	RMB'000	RMB'000
Advances from customers	**—**	2,143,248
Accrued salaries, wages and benefits	**456,333**	366,765
Other taxes payable	**806,481**	495,680
Dividends payable	**19,800**	17,884
Payables for acquisition of items of property, plant and equipment	**350,150**	650,997
Interest payable	**8**	12
Other payables	**929,734**	1,524,833
	2,562,506	5,199,419

29. OTHER PAYABLES AND ACCRUALS (Continued)

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

	2018 RMB'000	2017 RMB'000
CRSC Corporation Group	**74,536**	54,825
A non-controlling shareholder's affiliate	**390**	4,574
Associates	**—**	5,696
Fellow subsidiaries	**4,652**	4,373
An associate of a fellow subsidiary	**17**	—
A joint venture	**—**	4,716
	79,595	74,184

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

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2018			2017		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current:							
Bank loans – secured	(i)	3.71-7.70	2019	99,556	5.23	2018	107,657
Bank loans – unsecured		4.35-5.93	2019	1,318,000	2.65-5.93	2018	1,221,000
Other loans – unsecured		3.30-3.92	2019	20,145	3.30	2018	146
				1,437,701			1,328,803
Non-current:							
Bank loans – secured	(ii)	4.90-5.00	2033-2038	625,017	4.35-4.90	2019-2033	226,689
Bank loans – unsecured		5.39	2028	231,000	4.99	2019	300,000
Other loans – unsecured		3.30	2020	146	3.30	2019-2020	20,290
				856,163			546,979
Total				2,293,864			1,875,782
Interest-bearing bank and other borrowings denominated in:							
– RMB				2,293,864			1,875,782

Note:

(i) Certain bills receivable with a carrying amount of RMB99,556,000 at 31 December 2018 (31 December 2017: RMB107,657,000) were pledged for interest-bearing bank loans (note 22).

(ii) Certain bank loans amounting to RMB625,017,000 at 31 December 2018 (31 December 2017: 226,689,000) were secured by the pledge of the contract assets amounting to RMB1,103,115,000 (31 December 2017: RMB321,752,000) (notes 23 and 24).

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

The maturity profile of the interest-bearing bank and other borrowings as at 31 December 2018 and 2017 is as follows:

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**1,417,556**	1,328,658
In the second year	**—**	417,000
Beyond five years	**856,017**	109,688
	2,273,573	1,855,346
Other borrowings repayable:		
Within one year	**20,145**	146
In the second to fifth years	**146**	20,290
	20,291	20,436
	2,293,864	1,875,782

31. CONTRACT LIABILITIES

	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000
Short-term advances received from customers	**3,221,894**	2,143,248
Amounts due to contract customers under construction services	**3,811,339**	3,244,800
Total contract liabilities	**7,033,233**	5,388,048

The amounts due to an associate included in contract liabilities is as follows:

	As at 31 December 2018 RMB'000
An associate	**1,929**

32. PROVISIONS

The Group provides one-year or two-year warranties to its customers on certain of its industrial products and warranties ranging from one to five years to its customers for construction services for general repairs of defects occurring during the warranty period. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

	Note	2018 RMB'000	2017 RMB'000
At beginning of the year		**154,398**	184,042
Effect of adoption of IFRS 15		**7,844**	—
At beginning of the year (restated)		**162,242**	184,042
Additional provision	7	**53,294**	51,159
Reversal of provision	7	**(62,796)**	(5,793)
Amounts utilised during the year		**(52,692)**	(75,010)
At end of the year		**100,048**	154,398
Portion classified as current liabilities		**(32,828)**	(47,489)
Non-current portion		**67,220**	106,909

33. GOVERNMENT GRANTS

The movements of government grants during the reporting period are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of the year	**181,141**	134,082
Additions	**42,756**	122,665
Recognised as income during the year	**(72,526)**	(75,606)
At end of the year	**151,371**	181,141
Portion classified as current liabilities	**(31,712)**	(24,470)
Non-current portion	**119,659**	156,671

Government grants are received by the Group as financial subsidies mainly for the research and development projects and relocation compensation of the Group. Government grants are recognised as income over the periods necessary to match the grant on a systematic basis to the costs and expenses that they are intended to compensate or over the weighted average of the expected useful life or the construction period of the relevant property, plant and equipment.

34. PROVISIONS FOR SUPPLEMENTARY RETIREMENT BENEFITS

The Group provides supplementary retirement benefits, including the retirement pension subsidies, medical benefits and other supplementary benefits to employees who retired on or before 31 December 2013. The Group also implements an early retirement plan for certain employees in addition to the benefits under the government-sponsored retirement plans and supplementary pension subsidies described above.

The Group's obligations in respect of the above supplementary retirement benefits at 31 December 2018 and 2017 were computed by an independent qualified actuarial firm, Towers Watson Consulting Company Limited ("韜睿惠悦諮詢公司") using the projected unit credit actuarial valuation method.

The components of net benefit expenses recognised in profit or loss and the amounts recognised in the statement of financial position are summarised below:

(a) The provisions for supplementary retirement and early retirement benefits recognised in the consolidated statement of financial position are shown as follows:

	2018 RMB'000	2017 RMB'000
At end of the year	**714,121**	735,719
Portion classified as current liabilities	**(57,037)**	(62,779)
Non-current portion	**657,084**	672,940

34. PROVISIONS FOR SUPPLEMENTARY RETIREMENT BENEFITS (Continued)

(b) The movements of the provisions for supplementary retirement and early retirement benefits are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of the year	**735,719**	727,190
Interest costs on benefit obligations	**28,029**	23,236
Past service costs	**(113)**	(12,452)
Actuarial (gain)/loss recognised during the year	**231**	(3,403)
Benefits paid during the year	**(59,136)**	(69,372)
Re-measurement losses recognised in other comprehensive income	**9,391**	70,520
At end of the year	**714,121**	735,719

The details of re-measurement losses recognised in other comprehensive income of the Group during the years ended 31 December 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Actuarial changes arising from changes in financial assumptions	**37,744**	(65,978)
Actuarial loss due to demographic assumption changes	**—**	108,263
Liability experience adjustments	**(28,353)**	28,235
Re-measurement losses recognised in other comprehensive income	**9,391**	70,520

(c) The net expenses recognised in profit or loss in respect of the provisions for supplementary retirement and early retirement benefits of the Group during the years ended 31 December 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Interest costs on benefit obligations	**28,029**	23,236
Past service costs	**(113)**	(12,452)
Actuarial (gain)/loss recognised during the year	**231**	(3,403)
Net benefit expenses recognised in administrative expenses	**28,147**	7,381

34. PROVISIONS FOR SUPPLEMENTARY RETIREMENT BENEFITS (Continued)

(d) The principal actuarial assumptions used in valuing the provisions for supplementary retirement benefits as at 31 December 2018 and 2017 are as follows:

	2018	2017
Discount rates	3.50%	4.00%

Mortality rate	Average life expectancy of residents in Mainland China	
Average annual benefit increase:		
– Average medical expense increase rate	8.00%	8.00%
– Lump sum death benefits increase rate	3.00%	3.00%
– Supplementary pension benefits increase rate	3.00%	3.00%
– Cost of living adjustment for internal retirement	4.50%	4.50%

The average duration of the provisions for supplementary retirement benefits as at 31 December 2018 and 2017 is as follows:

	2018 Years	2017 Years
Average life expectancy	18	19

(e) The quantitative sensitivity analysis of the provisions for supplementary retirement benefits as at 31 December 2018 and 2017 is as follows:

	Increase in rate %	Increase/ (decrease) in provisions for supplementary retirement benefits RMB'000	Decrease in rate %	Increase/ (decrease) in provisions for supplementary retirement benefits RMB'000
As at 31 December 2017				
Discount rate	0.25	(19,667)	(0.25)	20,038
Future medical expense	1.00	37,646	(1.00)	(31,007)
As at 31 December 2018				
Discount rate	0.25	(19,554)	(0.25)	20,545
Future medical expense	1.00	36,593	(1.00)	(30,255)

The sensitivity analysis above has been determined based on a method that extrapolated the impact on the provisions for supplementary retirement benefits as a result of reasonable changes in key assumptions occurring as at 31 December 2018 and 2017.

35. SHARE CAPITAL

	2018	2017
	RMB'000	RMB'000
Issued and fully paid:		
8,789,819,000 (2017: 8,789,819,000) ordinary shares	**8,789,819**	8,789,819

The movements in share capital are as follows:

	2018		2017	
	Number of shares ‘000	**Nominal value RMB'000**	Number of shares ‘000	Nominal value RMB'000
At the end of the year	**8,789,819**	**8,789,819**	8,789,819	8,789,819

36. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2018 and 2017 are presented in the consolidated statement of changes in equity.

37. OTHER EQUITY INSTRUMENT

In August 2018, the Company issued the perpetual bonds in an aggregate amount of RMB2.8 billion at the initial distribution rate of 6.7%.

Pursuant to the terms of the perpetual bonds, the Company has no contractual obligation to repay their principal or to pay any coupon distribution. The perpetual bonds are classified as equity and subsequent distribution declared will be treated as distribution to equity owners.

38. BUSINESS COMBINATIONS

A subsidiary of the Company, CRSC Construction Group Co., Ltd., acquired a 99.97% equity interest in Changsha Construction Design Institute Co., Ltd. (“Changsha Design”) for the purpose of expanding business, at a cash consideration of RMB108 million in July 2018. Upon the completion of the acquisition, the Group accounted for Changsha Design as a subsidiary.

The Group has elected to measure the non-controlling interests in the above company at the respective non-controlling interests' proportionate share of those identifiable net assets.

38. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of Changsha Design acquired as at the respective dates of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment, net	13	23,578
Prepaid land lease payments	14	44,903
Other intangible assets	16	1,067
Deferred tax assets	20	1,710
Trade receivables		12,814
Prepayments, other receivables and other assets		3,205
Cash and cash equivalents		15,525
Trade and bills payables		(2,367)
Other payable and accruals		(14,447)
Deferred tax liabilities	20	(14,623)
Tax payable		(802)
Total identifiable net assets at fair value		70,563
Non-controlling interests		(21)
Goodwill on acquisition	15	37,430
Total consideration		107,972

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	2018 RMB'000
Cash consideration	**(107,972)**
Cash and cash equivalents acquired	**15,525**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(92,447)**

Since the acquisition, Changsha Design contributed RMB26,241,000 to the Group's revenue and RMB3,160,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB39,888,344,000 and RMB3,795,975,000, respectively.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

As at 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables with the amount of approximately RMB391,911,000 (2017: RMB279,605,000). As at 31 December 2018, certain bills receivable with the amount of approximately RMB107,657,000 (2017: RMB97,188,000) were settled, which were discounted in 2017.

(b) Changes in liabilities arising from financing activities

	Interest payable RMB'000	Bank loans and other borrowings RMB'000	Dividends payable RMB'000
At 1 January 2017	16	1,151,705	17,249
Final dividend declared to shareholders	—	—	1,045,342
Accrued interest expense	51,823	—	—
Changes from financing cash flows	(51,827)	821,265	(1,044,707)
Changes from non-cash transaction	—	(97,188)	—
At 31 December 2017	12	1,875,782	17,884
At 1 January 2018	**12**	**1,875,782**	**17,884**
Final dividend declared to shareholders	**—**	**—**	**1,506,771**
Distribution of other equity instrument	**—**	**—**	**72,062**
Accrued interest expense	**139,008**	**—**	**—**
Changes from financing cash flows	**(139,012)**	**525,740**	**(1,576,917)**
Changes from non-cash transaction	**—**	**(107,658)**	**—**
At 31 December 2018	**8**	**2,293,864**	**19,800**

40. PLEDGE OF ASSETS

Details of the Group's assets pledged for certain bills payable, interest-bearing bank and other borrowings are disclosed in notes 22, 23, 24, 27 and 30.

41. PARTY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
CRSC CASCO	49.0%	49.0%

	2018 RMB'000	2017 RMB'000
Profit for the year allocated to non-controlling interests	246,857	169,244
Dividends paid to non-controlling interests	(170,502)	(143,020)
Accumulated balances of non-controlling interests at the reporting date	654,429	594,570

The following table illustrates the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company elimination:

CRSC CASCO	2018 RMB'000	2017 RMB'000
Current assets	4,089,441	3,258,652
Non-current assets	553,105	557,024
Current liabilities	3,274,209	2,562,043
Non-current liabilities	32,768	40,225
Revenue	3,454,560	2,950,974
Total expenses	2,950,771	2,605,579
Profit for the year	503,789	345,395
Total comprehensive income for the year	503,789	345,395
Net cash flows from operating activities	593,898	471,008
Net cash flows used in investing activities	(77,621)	(148,821)
Net cash flows used in financing activities	(347,963)	(291,878)
Net increase in cash and cash equivalents	168,321	30,306

42. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 12 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to nine years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2018 **RMB'000**	2017 RMB'000
Within one year	**30,477**	22,581
In the second to fifth years, inclusive	**79,952**	161,912
After five years	**64,493**	—
	174,922	184,493

During the year ended 31 December 2018, no contingent rental receivable was derecognised.

As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from three to five years.

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

	2018 **RMB'000**	2017 RMB'000
Within one year	**71,859**	44,180
In the second to fifth years, inclusive	**82,197**	90,520
After five years	**—**	20,688
	154,056	155,388

43. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**100,035**	187,955
Capital contributions to a joint venture and associates	**460,713**	549,232
	560,748	737,187

44. 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 products:		
An associate	**140,151**	53,736
Associates of fellow subsidiaries	**13,559**	21,411
Fellow subsidiaries	**3,012**	2,399
Joint ventures	**1,301**	258
CRSC Corporation Group	**2,304**	12,173
	160,327	89,977
Purchases of products:		
Fellow subsidiaries	**80,614**	85,051
A non-controlling shareholder's affiliates	**96,641**	54,319
Associates	**45,430**	51,959
Associates of a fellow subsidiary	**33,220**	35,226
An associate of CRSC Corporation Group	**—**	732
A joint venture	**460**	559
	256,365	227,846
Use of U888 Technology:		
A non-controlling shareholder and its affiliates	**190,714**	192,629

44. RELATED PARTY TRANSACTIONS (Continued)

(a) The Group had the following material transactions with related parties during the years ended 31 December 2018 and 2017: (Continued)

	2018 RMB'000	2017 RMB'000
Services provided to:		
Associates	7,391	457,536
CRSC Corporation Group	252	—
A non-controlling shareholder's affiliates	—	62,902
	7,643	520,438
Services provided by:		
Fellow subsidiaries	2,954	531
An associate of a fellow subsidiary	—	514
An associate	—	156
	2,954	1,201
Rental income received or receivable from:		
Fellow subsidiaries	598	—
A joint venture	—	1,232
Associates of a fellow subsidiary	—	660
An associate	2,586	758
	3,184	2,650
Rental expenses paid or payable to:		
Fellow subsidiaries	330	781

Other transactions and outstanding balances with CRSC Corporation Group

During 2018, the Group obtained entrusted loans of RMB3,500,000,000 (2017: RMB1,000,000,000) from CRSC Corporation Group, the transaction also constitute a connected transaction as defined in Chapter 14A of the Listing Rule. As at 31 December 2018, the Group had entrusted loans of RMB1,000,000,000 (31 December 2017: RMB1,000,000,000) due to CRSC Corporation Group included in "Interest-bearing bank and other borrowings". The Group obtained those loans from CRSC Corporation Group via banks. The balances are unsecured, with an annual interest rate of 4.35% (31 December 2017: 4.35%).

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

The Group is indirectly controlled by the PRC government and operates in an economic environment predominated by entities directly or indirectly owned or controlled by the government through its agencies, affiliates or other organisations (collectively "State-owned Enterprises" ("SOEs")). During the years ended 31 December 2018 and 2017, the Group entered into extensive transactions with other SOEs, such as bank deposits, bank borrowings, the rendering and receiving of design and integration, equipment manufacturing and system implementation services, and purchases and sales of inventories and machinery. In the opinion of the directors of the Company, the transactions with SOEs were activities conducted in the ordinary course of business, and the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for rendering services and such pricing policies do not depend on whether or not the customers are SOEs.

44. RELATED PARTY TRANSACTIONS (Continued)

(a) The Group had the following material transactions with related parties during the years ended 31 December 2018 and 2017: (Continued)

In the opinion of the directors of the Company, the following related party transactions shall also constitute continuing connected transactions under Chapter 14A of the Listing Rules:

	2018 RMB'000	2017 RMB'000
Sales of products:		
Fellow subsidiaries	3,012	2,399
CRSC Corporation Group	2,304	12,173
	5,316	14,572
Purchases of products:		
Fellow subsidiaries	80,614	85,051
A non-controlling shareholder's affiliates	96,641	54,319
An associate of CRSC Corporation Group	—	732
	177,255	140,102
Use of U888 Technology:		
A non-controlling shareholder's affiliates	190,714	192,629
Services provided to:		
CRSC Corporation Group	252	—
A non-controlling shareholder's affiliates	—	62,902
	252	62,902
Services provided by:		
Fellow subsidiaries	2,954	531
Rental expenses paid or payable to:		
Fellow subsidiaries	330	781
Rental income received or receivable by:		
Fellow subsidiaries	598	—

(b) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in notes 22, 23, 25, 28, 29 and 31 to the financial statements.

44. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**6,162**	5,513
Pension scheme contributions	**632**	634
	6,794	6,147

(d) Commitments with related parties

As at the end of the reporting period, the Group entered into several sale and purchase agreements with related parties. The material commitments and backlogs are as follows:

	2018 RMB'000	2017 RMB'000
Sales of products:		
An associate	**13,687**	22,627
Associates of a fellow subsidiary	**4,065**	—
A non-controlling shareholder's affiliates	**23,755**	—
	41,507	22,627
Purchases of products:		
An associate	**10,810**	6,584
Associates of a fellow subsidiary	**662**	3,780
Fellow subsidiaries	**3,285**	10,634
A non-controlling shareholder's affiliates	**71,086**	141,192
	85,843	162,190
Services provided to:		
Associates	**654,099**	447,683

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2018 and 2017 are as follows:

2018

Financial assets

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	653,814	—	653,814
Trade and bills receivables	1,845,117	15,073,193	16,918,310
Financial assets included in contract assets	—	2,968,228	2,968,228
Financial assets included in prepayments, other receivables and other assets	—	1,638,901	1,638,901
Pledged deposits	—	160,510	160,510
Cash and cash equivalents	—	11,551,973	11,551,973
	2,498,931	31,392,805	33,891,736

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	2,293,864
Trade and bills payables	36,044,850
Financial liabilities included in other payables and accruals	1,299,692
	39,638,406

45. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	156,002	156,002
Trade and bills receivables	13,329,201	—	13,329,201
Financial receivables	2,131,712	—	2,131,712
Financial assets included in prepayments, other receivables and other assets	1,709,965	—	1,709,965
Pledged deposits	187,844	—	187,844
Cash and cash equivalents	12,879,446	—	12,879,446
	30,238,168	156,002	30,394,170

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	1,875,782
Trade and bills payables	24,253,489
Financial liabilities included in other payables and accruals	2,193,726
	28,322,997

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amount		Fair value	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**653,814**	—	**653,814**	—
Available-for-sale investments	**—**	156,002	**—**	156,002
Trade receivables, non-current portion	**1,371,676**	901,398	**1,370,706**	885,621
Financial receivables	**—**	2,131,712	**—**	2,187,946
Financial assets included in contract assets	**2,968,228**	—	**3,064,037**	—
Financial assets included in prepayments, other receivables and other assets, non-current portion	**298,037**	233,138	**330,462**	296,388
	5,291,755	3,422,250	**5,419,019**	3,525,957
Financial liabilities				
Interest-bearing bank and other borrowings	**2,293,864**	1,875,782	**2,301,606**	1,867,928
Trade payables, non-current portion	**26,089**	20,839	**25,489**	20,090
	2,319,953	1,896,621	**2,327,095**	1,888,018

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, the current portion of trade and bills receivables, the current portion of trade and bills payables, the current portion of financial assets included in prepayments, other receivables and other assets and the current portion of financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the chief accountant is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with senior management twice a year for annual and interim financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of trade receivables, the non-current portion of financial assets included in prepayments, other receivables and other assets, the non-current portion of trade payables, and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risks for trade and bills payables, and interest-bearing bank and other borrowings as at 31 December 2018 and 2017 were assessed to be insignificant.

The fair value of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy:

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Bills receivables	**1,845,117**	**—**	**—**	**1,845,117**
Equity instruments designated at fair value through other comprehensive income	**—**	**—**	**653,814**	**653,814**
	1,845,117	**—**	**653,814**	**2,498,931**

2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale financial investments	—	—	156,002	156,002

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy: (continued)

Assets for which fair values are disclosed:

2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade receivables, non-current portion	—	1,370,706	—	1,370,706
Financial assets included in contract assets	—	3,064,037	—	3,064,037
Financial assets included in prepayments, other receivables and other assets, non-current portion	—	330,462	—	330,462
	—	4,765,205	—	4,765,205

2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade receivables, non-current portion	—	885,621	—	885,621
Financial receivables	—	2,187,946	—	2,187,946
Financial assets included in prepayments, other receivables and other assets, non-current portion	—	296,388	—	296,388
	—	3,369,955	—	3,369,955

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy: (continued)

Liabilities for which fair values are disclosed:

2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Trade payables, non-current portion	**—**	**25,489**	**—**	**25,489**
Interest-bearing bank and other borrowings	**—**	**2,301,606**	**—**	**2,301,606**
	—	**2,327,095**	**—**	**2,327,095**

2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade payables, non-current portion	—	20,090	—	20,090
Interest-bearing bank and other borrowings	—	1,867,928	—	1,867,928
	—	1,888,018	—	1,888,018

47. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are derecognised in their entirety

As at 31 December 2018, the Group endorsed the "Derecognised Bills" to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB391,911,000 (2017: RMB279,605,000). The Derecognised Bills had a maturity of one to twelve months at 31 December 2018 and 2017. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors of the Company, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2018 and 2017, the Group has not recognised any gains or losses on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the periods or cumulatively. The endorsement of the bills has been made evenly throughout the years ended 31 December 2018 and 2017.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial receivables, interest-bearing bank and other borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. With its borrowings issued at fixed and floating interest rates, the Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. Meanwhile, as to cash at banks, the Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash at banks with floating interest rates.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. The Group's interest-bearing bank and other borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

As at 31 December 2018 and 2017, floating interest rate borrowings accounted for about 54% and 29% of the Group's borrowings, and fixed interest rate borrowings accounted for about 46% and 71% of the Group's borrowings. Management would adjust the proportion of floating rate borrowings based on changes in the market interest rates to reduce the significant impact of the interest rate risk.

If there would be a general increase/decrease in the market interest rates by one percentage point of floating interest rate borrowings, with all other variables held constant, the Group's consolidated after-tax profit would have decreased/increased by approximately RMB4,784,000 and RMB4,086,000 for the years ended 31 December 2018 and 2017, respectively, and there would have been no impact on other components of the consolidated equity, except for retained profits, of the Group.

If there would be a general increase/decrease in the market interest rates by 0.1 percentage point of floating interest rate cash at banks, with all other variables held constant, the Group's consolidated after-tax profit would have decreased/increased by approximately RMB5,564,000 and RMB6,602,000 for the years ended 31 December 2018 and 2017, respectively, and there would have been no impact on other components of the consolidated equity, except for retained profits, of the Group.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's business transacted in RMB, RMB is defined as the Group's functional currency. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

As a result of its significant business operations in Mainland China, the Group's revenue and expenses are mainly denominated in RMB and over 95% of the financial assets and liabilities are denominated in RMB. The effect of the fluctuations in the exchange rates of RMB against foreign currencies on the Group's results of operations is therefore minimal and the Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regard.

Details of the Group's cash and cash equivalents and pledged deposits at the end of the reporting period are disclosed in note 27 to the financial statements.

The following table indicates the appropriate change in the Group's profit after tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure as at the end of the reporting period. The sensitivity analysis is on bank deposits in United States dollars and Hong Kong dollars.

Effects on profit after tax

	Increase/ (decrease) in foreign exchange rate	Increase/(decrease)in profit after tax	
		2018 **RMB'000**	2017 RMB'000
If RMB weakens against the United States dollar	5%	**10,172**	4,561
If RMB strengthens against the United States dollar	(5%)	**(10,172)**	(4,561)
If RMB weakens against the Hong Kong dollar	5%	**39,953**	37,641
If RMB strengthens against the Hong Kong dollar	(5%)	**(39,953)**	(37,641)

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

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are net carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Contract assets*	—	—	—	33,909,703	33,909,703
Trade and bills receivables*	—	—	—	16,918,310	16,918,310
Financial assets included in prepayments, other receivables and other assets					
– Normal**	1,280,877	358,024	—	—	1,638,901
Pledged deposits					
– Not yet past due	160,510	—	—	—	160,510
Cash and cash equivalents					
– Not yet past due	11,551,973	—	—	—	11,551,973
	12,993,360	358,024	—	50,828,013	64,179,397

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 22 and 23 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

As at 31 December 2018, the financial assets classified to stage 3 for Lifetime ECLs are other receivables with a gross carrying amount of approximately RMB51,439,000. As they are fully impaired, the net carrying amount is nill.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from associates and joint ventures, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables and prepayments, other receivables and other assets are disclosed in note 22 and 25 to the financial statements.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2018				
Interest-bearing bank and other borrowings	**1,518,723**	**168,724**	**1,275,123**	**2,962,570**
Trade and bills payables	**36,018,761**	**26,089**	**—**	**36,044,850**
Financial liabilities included in other payables and accruals	**1,299,692**	**—**	**—**	**1,299,692**
Total	**38,837,176**	**194,813**	**1,275,123**	**40,307,112**
2017				
Interest-bearing bank and other borrowings	1,379,275	373,527	326,247	2,079,049
Trade and bills payables	24,232,650	20,839	—	24,253,489
Financial liabilities included in other payables and accruals	2,193,726	—	—	2,193,726
Total	27,805,651	394,366	326,247	28,526,264

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Capital management

The Group's primary objective for managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, by pricing services and products commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders. No change was made in the objectives, policies or processes for managing capital during the years ended 31 December 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 interest-bearing bank and other borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent and non-controlling interests stated in the consolidated statement of financial position.

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its businesses. The gearing ratios as at the end of the reporting periods are as follows:

	2018 **RMB'000**	2017 RMB'000
Interest-bearing bank and other borrowings	**2,293,864**	1,875,782
Trade and bills payables	**36,044,850**	24,253,489
Financial liabilities included in other payables and accruals	**1,299,692**	2,193,726
Cash and cash equivalents	**(11,551,973)**	(12,879,446)
Pledged deposits	**(160,510)**	(187,844)
Net debt	**27,925,923**	15,255,707
Total equity	**30,272,082**	25,224,598
Capital and net debt	**58,198,005**	40,480,305
Gearing ratio	**48%**	38%

49. EVENTS AFTER THE REPORTING PERIOD

On 25 March 2019, the board of directors proposed the special dividend of RMB0.20 per share, amounting to RMB1,757,964,000. The proposed special dividend is subject to the approval of the Company's shareholders at the 2019 first extraordinary general meeting.

50. 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:

	2018 **RMB'000**	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**652,264**	661,994
Prepaid land lease payments	**898,221**	928,974
Investment properties	**1,188,017**	1,207,971
Other intangible assets	**38,257**	33,262
Investments in subsidiaries	**14,090,650**	13,297,987
Investments in joint ventures	**54,617**	158,634
Investments in associates	**613,764**	522,438
Available-for-sale investments	**—**	2,141
Equity instruments designated at fair value through other comprehensive income	**376,408**	—
Deferred tax assets	**15,898**	35,093
Trade receivables	**243,140**	291,426
Total non-current assets	**18,171,236**	17,139,920
CURRENT ASSETS		
Prepaid land lease payments	**24,680**	24,680
Inventories	**—**	89
Trade receivables	**2,510,198**	1,887,565
Prepayments, other receivables and other assets	**8,941,116**	6,421,875
Amounts due from contract customers	**—**	2,980,298
Contract assets	**2,939,976**	—
Pledged deposits	**1,801**	1,786
Cash and cash equivalents	**7,865,918**	9,220,611
Total current assets	**22,283,689**	20,536,904

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2018 RMB'000	2017 RMB'000
CURRENT LIABILITIES		
Trade payables	**5,745,792**	6,106,561
Contract liabilities	**1,088,476**	—
Amounts due to contract customers	**—**	483,186
Other payables, advances from customers and accruals	**10,176,265**	10,910,754
Interest-bearing bank and other borrowings	**1,000,000**	1,000,000
Provisions for supplementary retirement benefits	**7,013**	7,268
Tax payable	**61,025**	49,589
Government grants	**772**	772
Total current liabilities	**18,079,343**	18,558,130
NET CURRENT ASSETS	**4,204,346**	1,978,774
TOTAL ASSETS LESS CURRENT LIABILITIES	**22,375,582**	19,118,694
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**—**	200,000
Provisions for supplementary retirement benefits	**81,338**	83,587
Government grants	**32,152**	32,528
Provisions	**719**	58,911
Total non-current liabilities	**114,209**	375,026
Net assets	**22,261,373**	18,743,668
EQUITY		
Share capital	**8,789,819**	8,789,819
Reserves (note)	**13,471,554**	9,953,849
Total equity	**22,261,373**	18,743,668

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2017	7,752,130	707,325	27,575	486,838	8,973,868
Profit for the year	—	—	—	1,858,309	1,858,309
Other comprehensive income:					
Re-measurement income on defined benefit plans, net of tax	654	—	—	—	654
Total comprehensive income for the year	654	—	—	1,858,309	1,858,963
Appropriation to statutory surplus reserve	—	185,476	—	(185,476)	—
Final 2016 dividend declared	—	—	—	(878,982)	(878,982)
Transfer to special reserve	—	—	6,523	(6,523)	—
Utilisation of special reserve	—	—	(659)	659	—
As at 31 December 2017	7,752,784	892,801	33,439	1,274,825	9,953,849
Effect of adoption of IFRS 9, net of tax	—	—	—	3,372	3,372
As at 1 January 2018 (Restated)	7,752,784	892,801	33,439	1,278,197	9,957,221
Profit for the year	**—**	**—**	**—**	**2,106,465**	**2,106,465**
Other comprehensive income:					
Re-measurement income on defined benefit plans, net of tax	**(1,597)**	**—**	**—**	**—**	**(1,597)**
Total comprehensive income for the year	**(1,597)**	**—**	**—**	**2,106,465**	**2,104,868**
Capital contribution from other equity instrument	**2,800,000**	**—**	**—**	**—**	**2,800,000**
Appropriation to statutory surplus reserve	**—**	**211,598**	**—**	**(211,598)**	**—**
Final 2017 dividend declared	**—**	**—**	**—**	**(1,318,473)**	**(1,318,473)**
Distribution of other equity instrument	**—**	**—**	**—**	**(72,062)**	**(72,062)**
Transfer to special reserve	**—**	**—**	**9,798**	**(9,798)**	**—**
Utilisation of special reserve	**—**	**—**	**(2,652)**	**2,652**	**—**
As at 31 December 2018	**10,551,187**	**1,104,399**	**40,585**	**1,775,383**	**13,471,554**

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 27 March 2019.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**39,844,006**	34,433,683	29,402,146	23,951,553	17,328,643
Cost of sales	**(30,931,850)**	(26,043,267)	(21,973,755)	(17,936,850)	(13,134,039)
Gross profit	**8,912,156**	8,390,416	7,428,391	6,014,703	4,194,604
Other income and gains	**469,421**	380,462	411,068	706,792	756,924
Selling and distribution expense	**(701,572)**	(692,598)	(684,272)	(646,558)	(458,625)
Administrative expenses	**(3,831,461)**	(3,415,537)	(3,177,721)	(2,826,582)	(2,158,320)
Impairment losses on financial and contract assets, net	**(113,310)**	(175,080)	—	—	—
Other expenses	**(54,828)**	(183,782)	(167,780)	(117,616)	(29,466)
Finance costs	**(139,008)**	(51,823)	(30,032)	(51,758)	(14,736)
Share of profits and losses of:					
Joint ventures	**19,423**	12,401	10,423	35,037	143,207
Associates	**37,784**	21,197	26,054	30,144	39,327
PROFIT BEFORE TAX	**4,598,605**	4,285,656	3,816,131	3,144,162	2,472,915
Income tax expense	**(802,874)**	(772,594)	(624,642)	(520,684)	(433,000)
PROFIT FOR THE YEAR	**3,795,731**	3,513,062	3,191,489	2,623,478	2,039,915
Profit attributable to:					
Owners of the parent	**3,501,246**	3,310,045	3,049,341	2,496,403	2,033,469
Non-controlling interests	**294,485**	203,017	142,148	127,075	6,446
	3,795,731	3,513,062	3,191,489	2,623,478	2,039,915

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**79,678,536**	61,244,644	50,295,007	41,992,159	28,576,548
TOTAL LIABILITIES	**(49,406,454)**	(36,020,046)	(27,604,536)	(22,256,977)	(16,101,249)
TOTAL NON-CONTROLLING INTERESTS	**(1,363,685)**	(1,205,547)	(1,033,834)	(891,893)	(811,574)
	28,908,397	24,019,051	21,656,637	18,843,289	11,663,725

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

In this report, unless the context otherwise requires, the following terms shall have the following meaning:

"A share(s)"	the ordinary shares to be subscribed for in RMB which are proposed to be issued by the Company in accordance with the A Share Offering, which will be listed on the Science and Technology Innovation Board of the SSE and traded in RMB
"A Share Offering" or "A Share Offering and Listing"	the Company's proposed initial public offering of no more than 2,197,454,750 A Shares, which will be listed on the Science and Technology Innovation Board of the SSE
"Articles of Association"	Articles of Association of the Company (as amended from time to time)
"ALSTOM Holdings"	Alstom Holdings (阿爾斯通控股有限公司), a limited liability company established in France on 14 June 1989, a holding company of ALSTOM IC and a connected person of the Company
"ALSTOM IC"	Alstom Investment Company Limited (阿爾斯通投資(上海)有限公司), a limited liability company established in the PRC on 21 January 2015, holds 49% of the equity interests in CRSC CASCO, and is a connected person of the Company
"ALSTOM"	ALSTOM Holdings and/or its subsidiaries
"associate(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Audit and Risk Management Committee"	Audit and Risk Management Committee of the Board
"Board" or "Board of Directors"	the board of Directors of the Company
"CASBE"	China Accounting Standards for Business Enterprises promulgated by the MOF
"China" or the "PRC"	the People's Republic of China excluding, for the purposes of this report, not including Hong Kong, Macau and Taiwan
"CICC Jiacheng"	CICC Jiacheng Investment Management Co., Ltd. (中金佳成投資管理有限公司), a limited liability company established in the PRC on 26 October 2007, and wholly owned by the China International Capital Corporation Limited (中國國際金融有限公司), one of the Shareholders and promoters of the Company
"Company Law"	the Company Law of the PRC (中華人民共和國公司法), as promulgated after being amended by the Standing Committee of the 12th National People's Congress of the PRC on 28 December 2013 and effective on 1 March 2014 (as amended, supplemented or otherwise modified from time to time)
"Company" or "our Company"	China Railway Signal & Communication Corporation Limited* (中國鐵路通信信號股份有限公司), a joint stock limited liability company established in the PRC on 29 December 2010

"connected person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"connected transaction(s)"	has the meaning as defined in the Hong Kong Listing Rules, unless the context otherwise requires
"Controlling Shareholders"	as defined under the Hong Kong Listing Rules, and as of the Latest Practicable Date, refers to the controlling Shareholder of the Company, being CRSC Corporation Group
"Corporate Governance Code"	the Corporate Governance Code set out in Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Hong Kong Listing Rules
"CRCC"	China Railway Construction Corporation Ltd. (中國鐵建股份有限公司), a joint stock limited liability company established in the PRC on 5 November 2007
"CREC"	China Railway Group Ltd. (中國中鐵股份有限公司), a joint stock limited liability company established in the PRC on 12 September 2007
"CRHC"	China Reform Holdings Corporation Ltd. (中國國新控股有限責任公司), a wholly state-owned enterprise with limited liability established in the PRC on 1 December 2010, one of the Shareholders and promoters of the Company
"CRSC CASCO"	Casco Signal Ltd. (卡斯柯信號有限公司), a limited liability company established in the PRC on 5 March 1986 and a direct non-wholly owned subsidiary of the Company. It is owned as to 51% by the Company and as to 49% by ALSTOM IC respectively
"CRSC" or "Group" or "we"	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
"CRSC Corporation Group"	China Railway Signal and Communication (group) Corporation Limited (中國鐵路通信信號集團有限公司) (formerly known as "China Railway Signal & Communication Corporation (中國鐵路通信信號集團公司)", a wholly state-owned enterprise approved to be established by MOR on 8 May 1981 and registered in the PRC on 7 January 1984, the sole Controlling Shareholder and one of the promoters of the Company
"CRSC Group"	CRSC Corporation Group and its subsidiaries (other than the Group)
"CRSC Innovation Investment"	CRSC Innovation Investment Company Ltd. (通號創新投資有限公司), a limited liability company established in the PRC on 21 September 2012 and a direct wholly-owned subsidiary of the Company

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

"CRSCD"	Beijing National Railway Research & Design Institute of Signal & Communication Co., Ltd. (北京全路通信信號研究設計院有限公司) (formerly known as Beijing National Railway Research & Design Institute (北京全路通信信號研究設計院)), a limited liability company established in the PRC on 18 November 1994 and a direct wholly-owned subsidiary of the Company
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	a director of the Company
"Domestic Share(s)"	ordinary shares of the Company, with a nominal value of RMB1.00, which are subscribed for or credited as fully paid in Renminbi
"EIT"	enterprise income tax of the PRC
"Ernst & Young"	Ernst & Young/Ernst & Young Hua Ming LLP
"general meeting"	general meeting of the Company
"H Share(s)"	ordinary shares of the Company, being overseas listed foreign shares with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"HK$" or "HK dollar(s)" or "Hong Kong dollar(s)	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRS"	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
"Independent Third Parties"	a person who, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of the Company within the meaning of the Listing Rules
"Latest Practicable Date"	16 April 2019, being the latest practicable date for the purposes of ascertaining certain information contained in this annual report
"Listing"	the listing of H Shares on the Main Board of the Hong Kong Stock Exchange

"Listing Date"	7 August 2015, the date on which the Company's overseas listed foreign shares (H Shares) were listed on the Main Board of the Stock Exchange
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Main Board"	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel to the GEM
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOR"	the former Ministry of Railway of the PRC (中華人民共和國鐵道部)
"Nomination Committee"	Nomination Committee of the Board
"NSSF"	National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"Prospectus"	the prospectus of the Company dated 28 July 2015
"Quality and Safety Committee"	Quality and Safety Committee of the Board
"R&D"	research and development
"Remuneration and Evaluation Committee"	Remuneration and Evaluation Committee of the Board
"reporting period" or "2018" or "the year"	the year beginning from 1 January 2018 and ended on 31 December 2018
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of the PRC
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"Senior Management"	the senior management of the Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"SSE"	the Shanghai Stock Exchange

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

"Share(s)"	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each
"Shareholder(s)"	holders of the Shares of the Company
"SINOMACH"	China National Machinery Industry Corporation (中國機械工業集團有限公司), a wholly state-owned enterprise with limited liability incorporated in the PRC on 21 May 1988, one of the Shareholders and promoters of the Company
"Special Committee(s)"	collectively, Strategic and Investment Committee, Remuneration and Evaluation Committee, Audit and Risk Management Committee, Nomination Committee and Quality and Safety Committee
"State Administration of Taxation"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"State Council"	State Council of the PRC (中華人民共和國國務院)
"state"	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
"Strategic and Investment Committee"	Strategic and Investment Committee of the Board
"subsidiary(ies)"	has the meaning as defined under the Hong Kong Listing Rules, unless the context otherwise requires
"substantial shareholder(s)"	has the meaning as defined under the Hong Kong Listing Rules, unless the context otherwise requires
"Supervisors"	the supervisors of the Company
"Supervisory Committee"	the supervisory committee of the Company
"United States"	the United States of America
"US dollars"	United States dollars, the lawful currency of the United States
"%"	per cent

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this report in connection with the Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"balise"	an intermittent device used for ground-to-vehicle information transmission, including passive balise and active balise, whose main function is to provide the on-board train operation control equipment with reliable fixed and changeable data from the ground
"CBTC"	the wireless communication based train control system, a wireless communication system for urban transit that enables bidirectional communication between vehicle and ground to control the operation of trains
"communication system"	a system using information transmission and exchange technology for rail transportation
"high-speed railway"	passenger dedicated railway with an operating speed of 200km/h or higher
"intercity railway"	rapid, convenient and high-density passenger dedicated railway with a designed speed of 200km/h and lower, which is dedicated to serving cities or among cities
"modern tram"	the light-axle transportation system running on the rail and powered by electricity
"normal-speed railway"	railway with an operating speed lower than 160km/h
"PPP"	public-private partnership, a partner relationship based on a framework agreement and formed between the government and private organizations for co-construction of infrastructure projects or providing certain public goods and services
"rail transportation control system"	a system that monitors, controls and adjusts the operation status of trains, such as speed and braking mode, based on the objective conditions and actual situations of trains, which includes rail transportation communication system and rail transportation signal system
"rail transportation"	includes railway, urban transit and modern tram
"railway"	the generic term for national railway and intercity railway. National railway includes normal-speed railway and high-speed railway

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

"signal system"	a system using manual, automatic and remote control technology to ensure train safety and enhance the traffic capacity among areas and stations
"Smart City(ies)"	an advanced form of informationized city, in which the information technology of new generation is fully applied to each industry and every aspect of municipal life, that deeply integrates the informatization, industrialization and urbanization of the city
"track circuit"	a track circuit using steel rail of certain section of railways as conductor, which is used to automatically and continuously detect whether the track is occupied
"train control center"	a system that controls track circuit encoding and active balise information and grants movement authority to trains, based on information such as the location of each train within its monitoring scope, interlocking route, temporary speed limits
"train control system"	a system that monitors, controls and adjusts operation status of trains, such as speed and braking mode, based on the objective conditions and actual situation
"urban transit"	the electricity-powered public transportation operating on rails, which has high carrying capacity, including metro and light rail

中国通号

*China Railway Signal & Communication Corporation Limited**

中國鐵路通信信號股份有限公司