中国铁建

# 中國鐵建高新裝備股份有限公司

# CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED

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

Stock Code: 1786


# 2019 Annual Report

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# FINANCIAL HIGHLIGHTS

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME HIGHLIGHTS

| | Year Ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 (Restated) | RMB'000 |
| Revenue | **2,109,179** | 2,410,714 | 1,818,308 | 3,676,460 | 3,973,132 |
| Gross profit | **581,464** | 575,368 | 489,451 | 1,003,545 | 953,525 |
| Profit before tax | **142,628** | 172,389 | 64,430 | 551,822 | 525,512 |
| Profit for the year | **122,163** | 156,360 | 55,087 | 465,178 | 455,174 |
| Profit attributable to: | | | | | |
| Owners of the parent | **122,163** | 156,360 | 55,087 | 465,178 | 456,235 |
| Non-controlling interests | **–** | – | – | – | -1,061 |
| Basic earnings per share (RMB/share) | **0.08** | 0.10 | 0.04 | 0.31 | 0.45 |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 (Restated) | RMB'000 |
| Total assets | **7,397,162** | 7,468,152 | 6,839,934 | 7,103,008 | 6,737,675 |
| Total liabilities | **1,928,618** | 1,972,713 | 1,461,619 | 1,567,740 | 1,595,570 |
| Net assets | **5,468,544** | 5,495,439 | 5,378,315 | 5,533,268 | 5,142,105 |
| Equity attributable to owners of the parent | **5,468,544** | 5,495,439 | 5,378,315 | 5,533,268 | 5,142,105 |

**Dear Shareholders:**

In 2019, the Company opened a new chapter for high-quality development, and created a new landscape for its reform, development and production operations under the unanimous efforts of the Board, the management team and all staff. We strived to secure steady progresses in our operation that were not nailed with ease.

In the past year, the number of new contracts in overseas markets hit another new high accounting for one-third of the total number of new contracts. The new breakthrough obtained by the Company in terms of operations in overseas markets marked the new profit centres for the development of the Company.

During the year, the number of new products and types of new products launched by the Company were the most in its history, and we successfully carried out the sample production of a total of seven new independently developed products. Significant results were achieved in scientific research and development with a promising future to expect.

Nevertheless, these results would not be obtained without the endeavours and supports offered by all Shareholders.

On behalf of the Board, I hereby would like to take this opportunity to express my sincere gratitude towards the care and support offered by all Shareholders, the general public, extensive customers and all employees for your care and support to our development!

Achievements were only made through persistence and results were only recorded from diligence. In the year 2020, which is the last year for the 13$^{th}$ Five Year Plan, we will continue to adhere to the needs of high quality standards in our development. With missions aiming to be the "world first class" and "leading in China", we will center around localization, common utilization, generalization, standardization and modularization, and work relentlessly to develop CRCCE into a world-leading overall solution provider for large and intelligent track maintenance equipment, with enterprise prosperity, employee happiness, social respect and high value creativity.

**Liu Feixiang**
*Chairman*

Kunming, Yunnan Province, the PRC
20 March 2020

# GENERAL MANAGER'S STATEMENT

**Dear Directors:**

I am pleased to present the annual report of the Company for the year ended 31 December 2019, and I would like to express my most sincere gratitude to all Directors for your continual care and support to the Company.

In 2019, the Company's major economic indicators relatively maintained stable with an annual operating revenue of RMB2,109 million and a profit of RMB122 million.

In the past year, we clung to our vision of being responsible to the society, the Shareholders and the employees. Under the correct leadership of the Board of Directors, we put efforts in stabilizing growth, facilitating reform and encouraging innovation, and made new progress in all our work. Based on the strategic layout, the Company adjusted its organizational structure on a timely basis, and strengthened the function of operational, research and development and service departments. It also improved and updated relevant systems and procedures of the Company. The Company achieved excellent results in technology research and development and successfully achieved a breakthrough in key technologies and core devices by developing coal absorbing machines, high-speed grinding machines and other series of world-leading products. Both number and variety of new products launched during the year hit record high. The Company made significant breakthrough in overseas markets and expanded to urban rail, local railways and other emerging markets, offering a full range of products such as metro milling rail, grinding, inspection, flaw detection, and welding rail. We also made sizable progress in engineering construction business. We further enhanced our production organization ability and quick response ability and strengthened the consolidation and management of supply chain, which continuously consolidated the foundation of production ability. Moreover, we continued our efforts in fulfilling environmental and social responsibility by creating 254 jobs in a year and actively participating in social caring activities including blood donation and donating supplies to schools in impoverished areas, with a view to fulfil social responsibility in a better way.

In 2020, despite the complicated changes in external environment faced by the Company, risks and opportunities co-exist. As expected by the Directors, the Company will deeply carry out the further improvement and innovation of the "ten major management systems" of the Company, with a focus on promoting the five reform areas of "localization, common utilization, generalization, standardization and modularization" of products. We will expand to overseas and emerging markets such as urban railway at full speed, endeavor to deepen reform and innovation, and improve our corporate management at all aspects, so as to achieve our goal of becoming a world-leading overall solution provider for large and intelligent track maintenance equipment with our determination and bravery.

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

**Tong Pujiang**
*General Manager*

Kunming, Yunnan Province, the PRC
20 March 2020

## REVENUE

| | 2019 (RMB million) | 2018 (RMB million) |
|---|---|---|
| Sales of machinery | **1,074.7** | 1,597.5 |
| Sales of parts and components | **245.5** | 208.5 |
| Overhaul services | **632.8** | 493.8 |
| Railway line maintenance services | **59.5** | 41.5 |
| Rail vehicles engineering and technical services | **96.7** | 69.4 |
| Total revenue | **2,109.2** | 2,410.7 |

The Group's revenue from core business decreased by RMB301.5 million or 12.51% from RMB2,410.7 million for the year ended 31 December 2018 to RMB2,109.2 million for the year ended 31 December 2019.

In 2019, the Group's revenue from sales of machinery decreased by RMB522.8 million or 32.73% as compared with the same period last year, and the main reason for such decrease was the effect of the large scale rail road maintenance machinery procurement demand of China State Railway Group Co., Ltd., which decreased the number of large-scale rail road maintenance machinery being sold; the revenue from sales of parts and components increased by RMB37 million or 17.75% as compared with the same period last year, and the main reason for such increase was the increase in market demand on spare parts of large railway track maintenance machines; the revenue from overhaul services recorded an increase in revenue of RMB139 million or 28.15% as compared with the same period last year, and the main reason for such increase was the increase of quantity of large railway track maintenance machines for engineering works and the machines delivered; the revenue from railway line maintenance services increased by RMB18 million or 43.37% as compared with the same period last year, and the main reason for such increase was the increase in quantity of engineering works of railway line maintenance services; The revenue from rail vehicles engineering and technical services increased by RMB27.3 million or 39.34%, and the increase was mainly due to the increase in needs for product design in the market during the year.

## COST OF SALES

The Group's cost of sales decreased by RMB307.6 million from RMB1,835.3 million for the year ended 31 December 2018 to RMB1,527.7 million for the year ended 31 December 2019. The decrease in cost of sales was mainly due to the fall in the revenue from core business.

## GROSS PROFIT

The Group's gross profit increased by RMB6.1 million from RMB575.4 million for the year ended 31 December 2018 to RMB581.5 million for the year ended 31 December 2019. The Group's gross profit margin increased from 23.87% for the year ended 31 December 2018 to 27.57% for the year ended 31 December 2019. The change in gross profit margin was mainly due to the results in the product mix changes.

## OTHER INCOME AND GAINS

The Group's other income and gains remained stable as RMB87.6 million for the year ended 31 December 2019 as compared to RMB87.6 million for the year ended 31 December 2018.

## NET IMPAIRMENT LOSSES

The Group's net impairment losses increased by RMB15.4 million from RMB28.9 million for the year ended 31 December 2018 to RMB44.3 million for the year ended 31 December 2019. The increase of impairment losses was mainly due to the increase in provision of credit loss for accounts receivable.

## SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses increased by RMB26.3 million from RMB52.9 million for the year ended 31 December 2018 to RMB79.2 million for the year ended 31 December 2019, primarily due to the comprehensive increase in selling expenses for the expansion of domestic and foreign markets.

## ADMINISTRATIVE EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES

The Group's administrative expenses and research and development expenses increased by RMB11.1 million from RMB368.5 million for the year ended 31 December 2018 to RMB379.6 million for the year ended 31 December 2019, which was primarily attributable to the increase in research and development expenses. Research and development expenses in 2019 increased by RMB11.2 million as compared with 2018.

## IMPAIRMENT LOSS ON GOODWILL

During this year, impairment loss amounting to RMB15.7 million was recognized on the goodwill arising from the acquisitions of CE Cideon Engineering Verwaltungs GmbH, CE Cideon engineering GmbH & Co. KG and CE Cideon Engineering Schweiz AG in previous years. The carrying amount of the relevant goodwill amounted to RMB75.7 million as at 31 December 2019. The impairment loss has been charged to profit or loss.

## OTHER EXPENSES

The Group's other expenses decreased by RMB32.7 million from RMB40.3 million for the year ended 31 December 2018 to RMB7.6 million for the year ended 31 December 2019. The decrease in other expenses was primarily due to the decrease in costs of other businesses during the year.

## FINANCE COSTS

The Group's finance costs remained as nil for the year ended 31 December 2019 as compared with nil for the year ended 31 December 2018, being unchanged.

## PROFIT BEFORE TAX

The Group's profit before tax decreased by RMB29.8 million from RMB172.4 million for the year ended 31 December 2018 to RMB142.6 million for the year ended 31 December 2019. The decrease in profit before tax was mainly due to the decrease in operating revenue.

## INCOME TAX EXPENSE

The Group's income tax expense increased by RMB4.5 million from RMB16 million for the year ended 31 December 2018 to RMB20.5 million for the year ended 31 December 2019. The increase in income tax expense was mainly due to the loss for the previous year of the parent company in 2018, which reduced the annual income tax expense. The situation was eliminated in 2019 and taxes were normally paid, hence there was an increase in income tax expense.

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

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

Aotongda Company and Kunweitong Company are levied at the corporate income tax rate of 25%.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Profit attributable to owners of the parent decreased by RMB34.2 million from RMB156.4 million for the year ended 31 December 2018 to RMB122.2 million for the year ended 31 December 2019. The decrease in the net profit attributable to owners of the parent was mainly due to the decrease in operating revenue.

## PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit attributable to non-controlling interests was nil for the year ended 31 December 2019, which was unchanged as compared with the same period of last year.

## BASIC EARNINGS PER SHARE

Basic earnings per share decreased from RMB0.1 for the year ended 31 December 2018 to RMB0.08 for the year ended 31 December 2019, which was mainly due to the decrease in the Group's net profit.

## LIQUIDITY AND SOURCE OF CAPITAL

### Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. For the year ended 31 December 2019, the closing balance of the Group's cash and cash equivalents amounted to RMB1,832.8 million and the net increase in cash and cash equivalents was RMB43.6 million.

### Net cash inflow from operating activities

The Group's net cash inflow from operating activities decreased from RMB261.5 million for the year ended 31 December 2018 to RMB221.6 million for the year ended 31 December 2019, which was mainly due to the increase in cash paid for the purchase of goods and the provision of labour.

### Net cash outflow from investing activities

For the year ended 31 December 2019, the Group's net cash outflow from investing activities was RMB101.7 million. The cash outflow from investing activities was mainly due to the acquisition and construction of fixed assets.

### Net cash outflow from financing activities

For the year ended 31 December 2019, the Group's net cash outflow from financing activities was RMB76.5 million. The cash outflow item in financing activities was mainly the distribution of cash dividends in 2018.

### Liquidity

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

## COMMITMENTS

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

### Capital commitments:

| | **31 December 2019 (RMB million)** | 31 December 2018 (RMB million) |
|---|---|---|
| Contracted but not provided for: Property, plant and equipment | **47.8** | 44.1 |

## INDEBTEDNESS

The Group has no indebtedness as at 31 December 2019.

## PLEDGE

The Group has no pledge as at 31 December 2019.

## GEARING RATIO

The Group monitors capital management by using the gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank borrowings and other borrowings, trade and bills payables, financial liabilities included in other payables and accruals less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the parent. The Group's gearing ratio was -0.4% as at 31 December 2018 and -0.2% as at 31 December 2019.

## CONTINGENT LIABILITIES

The Group has no material contingent liability as of 31 December 2019.

## MARKET RISKS

The Group is subject to various market risks, including the risk of failure to deliver goods in a timely manner in accordance with the terms of the contract, foreign exchange risks, and inflation risks in the ordinary course of business.

## FOREIGN EXCHANGE RISKS

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

## POLICY RISKS

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

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. **Liu Feixiang (劉飛香)**, aged 56, graduated from the department of mechanics of Southwest Jiaotong University with a bachelor's degree of engineering in August 1983, majoring in engineering machinery. He is a professor level senior engineer who has 36 years of experience in research, development and manufacturing of high-end equipment in China. From August 1983 to February 1996, he worked as a trainee, assistant engineer and engineer of Zhuzhou Bridge Factory (株洲橋樑廠) under the Ministry of Railways. From February 1996 to May 1997, he served as deputy general manager of Zhuzhou Bridge Factory Nanjian Corporation* (株洲橋樑廠南箭總公司) and manager and engineer of Rail Welding Engineering Company* (軌道焊接工程公司) at the same time. From May 1997 to July 2000, he served as deputy factory manager, engineer and senior engineer of Zhuzhou Bridge Factory under the Ministry of Railways. From July 2000 to November 2001, he served as factory manager, deputy secretary of the Communist Party committee, senior engineer of Zhuzhou Bridge Factory of China Railway Construction Corporation Factory Bureau. From November 2001 to March 2003, he served as factory manager, deputy secretary of the Communist Party committee and senior engineer of Zhuzhou Bridge Factory of China Railway 11th Bureau Group Co., Ltd. From March 2003 to April 2005, he served as chairman, general manager, deputy secretary of the Communist Party committee, equity representative and senior engineer of China Railway Zhuzhou Bridge Company* (中鐵株洲橋樑公司) under China Railway 11th Bureau Group Co., Ltd. From April 2005 to May 2007, he served as deputy general manager and professor level senior engineer of China Railway 11th Bureau Group Co., Ltd. From May 2007 to July 2011, he was appointed as director, chairman, general manager, deputy secretary of the Communist Party committee and professor level senior engineer of China Railway Track System Group Co., Ltd. From July 2011 to January 2015, he served as chairman, general manager, deputy secretary of the Party committee and professor level senior engineer of CRCHI. Since February 2015, he served as chairman, secretary of the Party committee and professor level senior engineer of CRCHI. Since September 2017, he concurrently served as the chairman and an executive Director of the Company.

2. **Zhao Hui (趙暉)**, aged 47, graduated from the department of environmental engineering in Lanzhou Railway University with a bachelor's degree of engineering in July 1995, majoring in water supply and drainage engineering. He is a senior engineer who has 24 years of experience in research, development and manufacturing of high-end equipment in China. From July 1995 to November 2000, he worked in Zhuzhou Bridge Factory under the Ministry of Railways as a trainee, assistant engineer, and assistant member of league committee and league officer. From November 2000 to May 2002, he served as assistant engineer, engineer and salesman of sales office of Zhuzhou Bridge Factory of China Railway Construction Corporation Factory Bureau. From May 2002 to September 2005, he served as salesman of sales office, director of sales office, head of general marketing department (deputy level), deputy chief of marketing department, head of marketing department, and engineer of Zhuzhou Bridge Factory of China Railway 11th Bureau Group Co., Ltd. From September 2005 to June 2007, he served as assistant to general manager and deputy general manager and senior engineer of China Railway Zhuzhou Bridge Company under China Railway 11th Bureau Group Co., Ltd. From June 2007 to January 2008, he served as head of marketing department and senior engineer of China Railway Track System Group Co., Ltd. From January 2008 to July 2011, he served as assistant to general manager, head of marketing department and senior engineer of China Railway Track System Group Co., Ltd. From July 2011 to April 2013, he served as assistant to general manager of CRCHI, general manager and senior engineer of the turnout company. From April 2013 to January 2015, he served as director of marketing and senior engineer of CRCHI. From January 2015 to June 2017, he served as deputy general manager, member of the Communist Party committee and senior engineer of CRCHI. Since June 2017, he served as deputy secretary of the Communist Party committee, director, deputy general manager and senior engineer of CRCHI. From September 2017 to July 2019, he concurrently served as an executive Director and secretary of the Communist Party committee of the Company. Since August 2019, he concurrently served as a non-executive Director and secretary of the Communist Party committee of the Company.

3. **Tong Pujiang (童普江)**, aged 42, graduated from the Central Party School in June 2014 and obtained a master's degree in economic management. He is an engineer who has 21 years of experience in manufacturing and repair of railway track maintenance machinery. From August 2005 to February 2011, he worked in Kunming China Railway Large Maintenance Machinery Group Co., Ltd. as secretary, deputy director, director of the office and engineer. From February 2011 to January 2013, he served as assistant to general manager, head of human resource department and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2013 to January 2015, he served as assistant to general manager, factory manager of manufacturing general factory and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. He worked as deputy general manager of the Company from June 2015 to July 2017. Since July 2017, he has served as general manager of the Company and since September 2017, he has served as an executive Director of the Company.

4. **Chen Yongxiang (陳永祥)**, aged 53, obtained a master's degree in international economic and trade relations jointly set up by Nankai University and Flinders University, Australia in June 2013. He is an engineer who has 31 years of experience in manufacturing and repair of railway track maintenance machinery. From November 1998 to December 2004, he served as the deputy director and engineer at the production preparation workshop of Kunming Machinery Factory under the engineering headquarters of the Ministry of Railway. From December 2004 to May 2005, he worked as the manager and engineer at the metal materials processing company of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From May 2005 to January 2010, he worked as the manager and engineer at the machining company of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2010 to June 2015, he served as a vice general manager and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. Since June 2015, he has served as deputy general manager of the Company and since June 2017, he has served as an executive Director of the Company.

5. **Wu Zhixu (伍志旭)**, aged 50, was appointed as a non-executive Director in June 2015. Mr. Wu has 26 years of experience in legal service areas, such as reorganisation and listing of enterprise, standardised daily operation of company and foreign investment. From November 1992 to October 1993, he served as a lawyer in Yunnan Trade Law Firm. From October 1993 to December 1999, he served as a lawyer and partner in Yunnan Haihe Law Firm. From December 1999 to April 2014, he served as a chief lawyer of Yunnan Qianhe Law Firm. Since April 2014, he has served as the chief lawyer of Beijing Deheng (Kunming) Law Firm. From May 2008 to May 2011, he served as an independent director of Yunnan Xiyi Industrial Co., Ltd. (stock code: 002265). From February 2011 to February 2014, he served as an independent director of Yunnan Lincang Xinyuan Germanium Industrial Co., Ltd. (stock code: 002428). From June 2011 to June 2016, he has served as an independent director of Yunnan Tourism Corporation (stock code: 002059). He obtained a postgraduate diploma from Yunnan University in July 1997, majoring in economic law.

6. **Sun Linfu (孫林夫)**, aged 56, served as an independent non-executive Director since November 2015. Mr. Sun has nearly 27 years of experience in advanced manufacturing and railway maintenance machinery industry. From October 1992 to September 1999, he served as the executive deputy director of the Computer-aided Design (CAD) Engineering Center of Southwest Jiaotong University. From September 1999 to October 2014, he served as the director of the CAD Engineering Center of Southwest Jiaotong University. Since December 2006, he served as the dean of Sichuan Provincial Modern Service Technology Research Institute (formerly known as Sichuan Provincial Research Institute of Manufacturing Information). Mr. Sun has been appointed as a professor of Southwest Jiaotong University since June 1996. He was appointed as the doctoral supervisor by Southwest Jiaotong University in April 2000. He obtained a doctor's degree from Southwest Jiaotong University in June 1993, majoring in bridge and tunnel engineering.

7. **Yu Jiahe (于家和)**, aged 65, served as an independent non-executive Director since November 2015. Mr. Yu has 40 years of experience in design and selection of railway maintenance machinery. From June 1980 to October 1999, he successively served as intern, assistant engineer, engineer, station head and senior engineer in the Design Institute of Railway. From October 1999 to May 2014, he assisted the foundation department of the transport bureau of the former MOR. He obtained an academic certificate for university from Southwest Jiaotong University in February 1980, majoring in machinery manufacturing technique and equipment.

8. **Wong Hin Wing (黃顯榮)**, aged 57, appointed as an independent non-executive director in November 2015. He holds a Master's degree in Executive Business Administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants, the Hong Kong Institute of Directors and the Institute of Chartered Secretaries and Administrators. He is also a member of the American Institute of Certified Public Accountants and a chartered member of the Chartered Institute for Securities & Investment. He is an independent non-executive director of Dongjiang Environmental Company Limited (a public company with A shares listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange and H shares listed on the Stock Exchange), CRCC High-Tech Equipment Corporation Limited (a public company with H shares listed on the Stock Exchange), Inner Mongolia Yitai Coal Co., Ltd. (a public company with B shares listed on the Shanghai Stock Exchange and H shares listed on the Stock Exchange), Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (a public company with A shares listed on the Shanghai Stock Exchange and H shares listed on the Stock Exchange), Wine's Link International Holdings Limited (a public company with H shares listed on the Stock Exchange), and Jiangxi Bank Co., Ltd (a public company with H shares listed on the Stock Exchange). Mr. Wong was an independent non-executive director of China Agri-Products Exchange Limited (a public company listed on the Stock Exchange) from December 2016 to November 2018. He is a member of the Anhui Provincial Committee of the Chinese People's Political Consultative Conference, a panel member of the Securities and Futures Appeals Tribunal and the Public Interest Entities Auditors Review Tribunal, a member of the Nursing Council of Hong Kong and the Construction Industry Council as well as the Betting and Lotteries Commission. He is the Managing Director and has been a responsible officer of Silk Road International Capital Limited (formerly known as Legend Capital Partners, Inc.), a licensed corporation under the SFO since 1997. Prior to this, he had worked with an international audit firm for four years and then a listed company as Chief Financial Officer for seven years. He has 36 years of experience in accounting, finance, investment management and advisory.

9. **Sha Mingyuan (沙明元)**, aged 58, served as a non-executive Director of the Company since June 2018 and has nearly 40 years' experience in equipment and material management, engineering machinery manufacturing and engineering construction. He worked as an intern in the Repair Workshop of No. 19 Engineering Corporation of the Ministry of Railways from July 1983 to July 1984. He worked as an teaching assistant in the Department of Machinery of Shijiazhuang Railway Institute from July 1984 to December 1989. He worked as a lecturer in the Department of Machinery of Shijiazhuang Railway Institute from December 1989 to August 1997. He studied the bachelor program in the Department of Engineering Machinery of Railway Corps Engineering Institute from September 1979 to July 1983 and obtained the bachelor of engineering. He worked as an associate professor in the Department of Machinery of Shijiazhuang Railway Institute and the vice chief engineer of the Qinling Tunnel Engineering Headquarters of China Railway Construction Corporation from August 1997 to February 2000. He worked for the Equipment & Material Transportation Department (corresponding to the level of the associate professor) of China Railway Construction Corporation and assumed concurrently the Vice Commander and Equipment and Material Department Director of Danfeng Engineering Headquarters of China Railway Construction Corporation from February 2000 to July 2001. He worked as the Senior Engineer in the Equipment & Material Transportation Department of China Railway Construction Corporation from July 2001 to December 2002. He worked as the professor level senior engineer in the Equipment & Material Transportation Department of China Railway Construction Corporation from December 2002 to December 2005. He worked as the professor level senior engineer in the Engineering Management Department of China Railway Construction Corporation from December 2005 to April 2006. He worked as the chief mechanical engineer (corresponding to the level of the department principal) and senior engineer at the professor level in Nanjing Changjiang Tunnel Co., Ltd. from April 2006 to July 2008. He worked as the vice director (corresponding to the level of the department principal) and professor level senior engineer of the Engineering Management Department of CRCC and the chief mechanical engineer of Nanjing Changjiang Tunnel Co., Ltd. from July 2008 to November 2008. He worked as the vice director (corresponding to the level of the department principal) and professor level senior engineer of the Science & Technology Design Department of CRCC and the chief mechanical engineer of Nanjing Changjiang Tunnel Co., Ltd. from November 2008 to June 2009. From June 2009 to June 2019, he served as the chief mechanical engineer (corresponding to the level of the department principal) and professor level senior engineer of the Equipment and Material Department of CRCC. Since July 2019, he has served as the executive general manager and professor level senior engineer of the Operation Management Department of CRCC.

10. **Yu Qiuhua (余秋華)**, aged 56, is a senior economist with a bachelor's degree taught by correspondence. He served as an employee Supervisor of the Company since May 2018 and the chairman of the Supervisory Committee since June 2018. From September 1980 to July 1982, he graduated from Zhuzhou Railway Machinery School* (株洲鐵路機械學校) with a technical secondary school degree majoring in management of railway material; from August 1982 to August 1983, he worked as an intern of material division of Zhuzhou Bridge Factory* (株洲橋樑廠) under the Ministry of Railways; from August 1983 to September 1984, he was a technician of material division of Zhuzhou Bridge Factory under the Ministry of Railways (鐵道部株橋廠); from September 1984 to July 1987, he graduated from Tianjin Materials Management Cadre College of the Ministry of Railways* (鐵道部天津物資管理幹部學院) with a college degree majoring in engineering of material management; from July 1987 to June 1988, he was a technician of material division of Zhuzhou Bridge Factory under the Ministry of Railways (鐵道部株橋廠); from June 1988 to February 1991, he served as an economic clerk of material management division of Zhuzhou Bridge Factory under the Ministry of Railways; from February 1991 to April 1992, he served as an assistant economist of material management division of Zhuzhou Bridge Factory of China Railway Materials and Suppliers Corporation* (中國鐵路物資總公司) under the Ministry of Railways; from April 1992 to April 1995, he served as a director planner of material management office of Zhuzhou Bridge Factory of China Railway Materials and Suppliers Corporation under the Ministry of Railways; from April 1995 to August 2001, he served as deputy director and economist of material management office of Zhuzhou Bridge Factory of China Railway Materials and Suppliers Corporation under the Ministry of Railways; from August 1995 to December 1997, he graduated from Correspondence School of Party School of the Central Committee of CPC with a bachelor's degree majoring in economic management; from August 2001 to January 2002, he served as senior economist of Zhuzhou Bridge Factory of China Railway Construction Corporation Factory Bureau; from January 2002 to April 2002, he served as director and senior economist of material division of Zhuzhou Bridge Factory under China Railway 11th Bureau Group Co., Ltd.* (中鐵11局集團公司株洲橋梁廠); from April 2002 to February 2004, he served as office director and senior economist of Zhuzhou Bridge Factory under China Railway 11th Bureau Group Co., Ltd.; from February 2004 to December 2005, he served as general manager assistant, office director and senior economist of China Railway Zhuzhou Bridge Company under China Railway 11th Bureau Group Co., Ltd.* (中鐵11局集團公司中鐵株洲橋梁有限公司); from December 2005 to October 2006, he served as deputy general manager and senior economist of China Railway Zhuzhou Bridge Company under China Railway 11th Bureau Group Co., Ltd.; from October 2006 to June 2007, he served as deputy secretary of the Communist Party committee, secretary of committee for discipline inspection, chairman of union and senior economist of Track System Group of China Railway 11th Bureau* (中鐵11局軌道系統集團有限公司) (the predecessor of the turnout company); from June 2007 to December 2007, he served as deputy secretary of the Communist Party committee, secretary of committee for discipline inspection, chairman of union and senior economist of turnout company of Track System Group of China Railway* (中鐵軌道系統集團道岔公司); from December 2007 to March 2008, he served as the standing deputy general manager and senior economist of Zhuzhou China Railway Track System Material Co., Ltd. of China Railway Track Group Co., Ltd.* (中鐵軌道集團公司株洲中鐵軌道系統物資有限公司); from March 2008 to December 2008, he served as director, vice chairman, general manager, deputy secretary of the Communist Party committee, member of the Communist Party committee and senior economist of Zhuzhou China Railway Track System Material Co., Ltd. of China Railway Track Group Co., Ltd.; from December 2008 to August 2009, he served as director, vice chairman (corresponding to the level of standing deputy general manager), member of the Communist Party committee and senior economist of China Railway Zhuzhou Bridge Co., Ltd. Of China Railway Track Group Co., Ltd.* (中鐵軌道集團公司中鐵株洲橋樑有限公司); from August 2009 to March 2011, he served as the minister of comprehensive management department and senior economist of China Railway Track Group Co., Ltd.; from March 2011 to April 2013, he served as the office director,

senior economist of China Railway Track Group Co., Ltd.; from April 2013 to October 2013, he served as the office director, tendering center director and senior economist of CRCHI; from October 2013 to August 2014, he served as the office director and senior economist of CRCHI; from August 2014 to June 2015, he served as the vice chairman of union (senior level of middle management) and minister of union work department, member of the Communist Party committee and senior economist of CRCHI; from June 2015 to September 2015, he served as the deputy secretary of committee for discipline inspection, deputy chief economist, minister of audit and supervision department (senior level of middle management), member of the Communist Party committee and senior economist of CRCHI; from September 2015 to March 2016, he served as the nominee for deputy secretary of committee for discipline inspection, deputy chief economist, minister of audit and supervision department and the leader of the first group for discipline inspection of committee for discipline inspection and senior economist of CRCHI; from March 2016 to August 2016, he served as the nominee for deputy secretary of committee for discipline inspection (senior level of middle management), minister of supervision department and the leader of the first group for discipline inspection of committee for discipline inspection of group companies and senior economist of CRCHI; from August 2016 to September 2017, he served as the deputy secretary of committee for discipline inspection (senior level of middle management), minister of supervision department and the leader of the first group for discipline inspection of committee for discipline inspection of group companies and senior economist of CRCHI; from September 2017 to February 2018, he served as the deputy secretary of committee for discipline inspection (senior level of middle management), office director of committee for discipline inspection, director of supervision (inspection) room and senior economist of CRCHI; from February 2018 and up to now, he has served as the deputy secretary of committee for discipline inspection of CRCHI and secretary of committee for discipline inspection and chairman of Supervisory Committee.

11. **Wang Huaming (王華明)**, aged 50, served as the representative Supervisor of Shareholders since June 2015. Mr. Wang has 26 years of experience in corporate economic management. From June 2002 to July 2004, he was a member of the finance department and a deputy director of the investment audit department under Anhui Engineering Co., Ltd. of Shanghai Railway Construction Group. From August 2004 to December 2012, he served as the chief financial officer of Anhui Engineering Company of Shanghai Railway Construction Group (renamed as Anhui Engineering Co., Ltd. of China Railway 24th Bureau). From July 2011 to December 2012, he concurrently served as the general counsel of Anhui Engineering Co., Ltd. of China Railway 24th Bureau. From January 2013 to August 2014, he served as the financial director and general counsel of China Railway Zhanjiang Development Co., Ltd. From September 2014 to November 2018, he served as the general manager of the supervision and audit department of China Railway Construction Investment Group. In December 2018, he served as the general manager of the finance department of China Railway Construction Investment Group. He obtained a master's degree from the Party University under Anhui Provincial Communist Party Committee in July 2011, majoring in economic management.

12. **Wang Shuchuan (王淑川)**, aged 48, served as the representative Supervisor of Shareholders since June 2018. He is currently the general manager of China Railway Special Equipment Engineering Co., Ltd.* (中鐵建特種裝備工程有限公司), the deputy director of project reporting platform of CRCHI, and a senior economist. Mr. Wang has 25 years of experience in accounting and financial management. From July 1995 to August 2001, he worked as a trainee of cross-sleeper workshop and trainee of planning department of Zhuzhou Bridge Factory* (株洲橋樑工廠) under the Ministry of Railways and was an assistant economist of planning department. From August 2001 to March 2003, he was the economist of finance department of Zhuzhou Bridge Factory of China Railway Construction 11th Bureau Group. From March 2003 to July 2005, he served as the head of risk management department of Zhuzhou Jinqiao Small-to-medium Enterprise Guarantee Co., Ltd.* (株洲金橋中小企業擔保有限公司) and was an economist. From July 2005 to January 2006, he was the head of finance department of Zhuzhou Tianhua Real Estate Co., Ltd. (株洲天華房地產有限公司) and was an economist. From January 2006 to October 2006, he was the deputy head of finance department of China Railway Zhuzhou Bridge Co., Ltd.* (中鐵株洲橋樑有限公司) and was an economist. From October 2006 to December 2007, he worked in turnout construction team of China Railway Construction 11th Bureau Group and was an economist. From December 2007 to January 2013, he served as the deputy head of financial asset department of China Railway Track System Group Co., Ltd., the vice chief accountant and head of finance department of branch office of Express Turnout Company* (高速道岔分公司), the chief accountant of China Railway Zhuzhou Bridge Co., Ltd. and the chief accountant of turnout company and was an economist. From January 2013 to June 2015, he served as the head of finance department of CRCHI and was an economist and senior economist. From June 2015 to March 2016, he served as the chief financial officer of research, development and marketing service center and head of finance department of CRCHI and was a senior economist. From March 2016 to January 2017, he was the head of finance department and deputy director of project reporting platform of CRCHI and was a senior economist. From January 2017 to July 2017, he served as the general manager of China Railway Special Equipment Engineering Co., Ltd., the deputy director of project reporting platform of CRCHI and was a senior economist. Since April 2019, he served as the general manger of China Railway Special Equipment Engineering Co., Ltd., the executive vice head of finance department of CRCHI, and a senior economist. Mr. Wang graduated from Business and Administration Department of Hunan University of Finance and Economics majoring in enterprise management, and obtained a bachelor's degree in economics in July 1995.

13. **Huang Zhaoxiang (黃兆祥)**, aged 56, obtained a bachelor's degree in engineering from Southwest Jiaotong University in July 1986, majoring in mechanical engineering. Mr. Huang has 34 years of experience in manufacturing and repair of railway track maintenance machinery. From February 1995 to October 1998, he served successively as the deputy division manager, division manager, assistant engineer and engineer at the equipment division of Kunming Machinery Factory under the engineering headquarters of Ministry of Railway. From October 1998 to March 2003, he served as the deputy factory manager, engineer and senior engineer of Kunming Machinery Factory. From March 2003 to June 2015, he served as vice general manager and senior engineer at Kunming China Railway Large Maintenance Machinery Group Co., Ltd. Since June 2015, he has served as a deputy general manager of the Company.

14. **Mo Bin (莫斌)**, aged 50, graduated from Southwest Jiaotong University with a bachelor's degree majoring in welding technology and equipment and is a senior engineer. From July 1992 to August 1993, he was a trainee at Kunming Machinery Factory assembly workshop of CRCC; from August 1993 to August 2001, he served as assistant engineer and engineer at Kunming Machinery Factory assembly workshop of CRCC; from August 2001 to February 2003, he served as the secretary for Kunming Machinery Factory of CRCC, engineer and senior engineer; from February 2003 to December 2004, he served as the secretary of the board of directors and senior engineer of Kunming China Railway Group Co., Ltd.; from December 2004 to January 2009, he served as the office director and senior engineer of Kunming China Railway Group Co., Ltd.; from January 2009 to January 2010, he served as the office director and secretary of the board of directors and senior engineer of Kunming China Railway Group Co., Ltd.; from January 2010 to July 2011, he served as a member of the Communist Party committee and secretary of committee for discipline inspection and senior engineer of Kunming China Railway Group Co., Ltd.; from July 2011 to June 2015, he served as the chairman of supervisory committee, member of the Communist Party committee, secretary of committee for discipline inspection and senior engineer of Kunming China Railway Group Co., Ltd.; from June 2015 to July 2017, he served as the secretary of committee for discipline inspection and senior engineer of the Company. From April 2018 to December 2018, he served as the deputy inspector and minister of union work department of CRCHI. Since December 2018, he has served as a deputy general manager of the Company.

15. **E Baosheng (鄂寶生)**, aged 53, graduated from Shijiazhuang Railway Institute with a bachelor's degree in bridge engineering in June 1989 and is a professor level senior engineer. Mr. E started his career since June 1989 and served as intern, member and deputy director of the quality office, deputy director and assistant engineer of the technical division, deputy director of the second bridge workshop, deputy manager and engineer of the bridge plant of Fangshan Bridge Factory under the Control Department of the Ministry of Railway (鐵指房山橋樑廠); deputy chief engineer of the Fangshan Bridge Factory of CRCC (中鐵建房山橋樑廠) and manager of the bridge plant; assistant to manager, manager, the deputy secretary of the Communist Party committee and senior engineer of Fangshan Bridge Factory of CRCC (中鐵建房山橋樑廠); general manager of Beijing Fangqiao China Railway Co., Ltd. (北京房橋中鐵路公司); chairman, general manager and professor level senior engineer of Beijing Fangqiao China Railway Co., Ltd.; assistant to general manager of China Railway 14th Bureau Group Co., Ltd. (中鐵十四局集團公司); assistant to general manager of Kunming China Railway Group Co., Ltd. (昆明中鐵集團公司); the secretary of the Communist Party committee and executive director of Beijing Ruiweitong Company (北京瑞維通公司); chief economist of Kunming China Railway Group Co., Ltd.; executive director and the secretary of the Communist Party committee of Beijing Ruiweitong Company of the Company; chief economist and general manager of the general manufacturing factory at the Company. Since April 2018, he has served as a deputy general manager and the chief economist of the Company.

16. **Zhang Baoming (張寶明)**, aged 54, graduated from the Department of Electronic Engineering of Changsha Railway Institute with a bachelor's degree in automation in July 1987 and is a senior engineer. Mr. Zhang started his career since July 1987 and served as technician and assistant engineer of Kunming Machinery Factory under the Control Department of the Ministry of Railway (鐵指昆明機械廠); inspector, engineer, deputy director and senior engineer of the large road maintenance machinery inspection and acceptance office of Kunming Machinery Factory under the Ministry of Railways (鐵道部駐昆明機械廠大型養路機械驗收室); director (deputy department director level) of the large road maintenance machinery inspection and approval office of Kunming China Railway Group Co., Ltd. under the Ministry of Railways; director (department director level) of the public works machinery vehicle inspection and approval office in Kunming under the Ministry of Railways (鐵道部昆明工務機械車驗收室); director of the public works machinery vehicle inspection and acceptance office in Kunming under the Ministry of Railways; director of the supervision and construction department of public works machinery vehicle in Kunming under the Kunming Railway Bureau; deputy chief engineer and dean of the research institute of the Company; and dean of the research and design institute of the Company. Since April 2018, he has served as a deputy general manager and the chief engineer of the Company.

17. **Kang Yanjun (康彥君)**, aged 50, graduated from Nanchang Aviation and Industry Institute with a bachelor's degree in metal materials and heat treatment in July 1992 and is a senior engineer. Ms. Kang started her career since August 1992 and served as intern, alternate deputy director, deputy director and assistant engineer of the heat treatment workshop of Shaoguan Excavator Factory (韶關挖掘機製造廠); primary deputy director, office director, director of the quality assurance department, secretary of the board of directors, head of the oxygen station, deputy director of the technical quality department and engineer of Shaoguan Xinyu Construction Machinery Co., Ltd. (韶關新宇建設機械有限公司); deputy director of the technical department, deputy director of the quality control department of the heavy equipment branch company, director of the quality control department of the tunnel equipment branch company, and deputy general manager (deputy level) of the general equipment manufacturing factory of China Railway Track System Group (中鐵軌道系統集團); deputy general manager (deputy department director level), the deputy secretary of the Communist Party committee and general manager of the general manufacturing factory of CRCHI; general manager, the deputy secretary of the Communist Party committee and senior engineer of the production and supply centre of CRCHI; deputy general manager (B1 level) of the supply chain operation centre of CRCHI; member of the Communist Party committee and deputy executive director (level one of middle management) of the general boring machine manufacturing factory of CRCHI; and deputy executive director of the business tendering department, deputy executive director of the tendering and commerce department and director of the tendering and commerce department of CRCHI. Since April 2018, she has served as a deputy general manager of the Company.

18. **Tang Xiang (唐翔)**, aged 43, graduated from professional class of Hunan Radio and Television University majoring in accounting computerization in July 1997, and then graduated from Hunan University in September 2004, and obtained a bachelor's degree in business administration. He is a senior accountant who has 22 years of experience in accounting and financial management. From December 1997 to February 2007, he served as cashier, bookkeeper and general accountant at treasury management department, assistant accountant, accountant of Xiangtan Electric Manufacturing Group Co., Ltd. From February 2007 to August 2010, he served as chief of finance section, accountant, senior accountant of Xiangtan Electric Transformer Company Ltd.* (湘潭電機特變電工有限公司) under Xiangtan Electric Manufacturing Group Co., Ltd. From August 2010 to April 2014, he served as chief financial officer and senior accountant of Xiangtan Electric New Energy Co., Ltd.* (湘電新能源有限公司) under Xiangtan Electric Manufacturing Group Co., Ltd. From April 2014 to December 2014, he served as a senior accountant in finance department of CRCHI. From December 2014 to July 2017, he served as deputy director of finance department, director of finance department and senior accountant of CRCHI. Since July 2017, he has served as the chief accountant of the Company.

19. **Ma Changhua (馬昌華)**, aged 46, obtained a master's degree in international economic and trade relations jointly set up by Nankai University and Flinders University, Australia in June 2014 and is an engineer who has 24 years of experience in manufacturing and repair of railway track maintenance machinery. From March 2005 to February 2011, he served as deputy head, head and engineer of information management department of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From February 2011 to July 2011, he served as office director and the head of information management department and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From July 2011 to August 2012, he served as office director and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From August 2012 to January 2014, he served as office director, assistant to the general manager and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From January 2014 to February 2015, he served as the assistant to general manager of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. and commander and engineer at construction instruction department of the northern base. From February 2015 to June 2015, he served as secretary of the board of directors and engineer of Kunming China Railway Large Maintenance Machinery Group Co., Ltd. From June 2015 to August 2017, he served as the secretary of the Board and engineer of the Company. From August 2017 to April 2018, he served as the secretary of the Board, office director of the Board and engineer of the Company. From April 2018 to October 2018, he served as the secretary of the Board and office director of the Board, the director of the strategic investment department and engineer of the Company. From October 2018 to July 2019, he served as the secretary of the Board, office director of the Board, director of the asset management department, director of the securities department and an engineer of the Company. Since July 2019, he has served as the secretary of the Board and minister of work department of the Board of the Company.

# CORPORATE GOVERNANCE REPORT

The Company has always been dedicated to maintaining compliant operation and continuously improving the standards of its corporate governance. Through continuous implementation of comprehensive risk management and internal control, the Company improves its management, accountability and transparency, thereby increasing the long-term value of Shareholders.

## I. OVERVIEW OF CORPORATE GOVERNANCE

The Company has adopted documents related to corporate governance and is of the view that the requirements of such documents comply with the code provisions set out in the CG Code of the Stock Exchange.

For the year ended 31 December 2019, the Company has fully complied with the code provisions of the CG Code except for the following matters;

(1) Mr. Liu Feixiang, chairman of the Board, failed to attend the 2018 annual general meeting of the Company due to work arrangement.

(2) During the reporting period, the Company had no matter that required consideration by the nomination committee under of Board, thus the nomination committee did not convene any meeting during the reporting period.

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

In accordance with the relevant laws and regulations such as the Company Law and the Securities Law of the PRC, the Company has set up a management structure with general meetings, the Board, specialized committees of the Board, the Supervisory Committee and the management to act as check and balance against one another. The division of responsibilities among the general meetings, the Board, specialized committees of the Board and the management is distinct, and each of them is assigned with clearly defined responsibilities, which established a mechanism of clear authorities and responsibilities, operation regulation, mutual balance and checks and balances for our authority body, decision-making body, supervisory body and management team. The Board has delegated the execution and daily operations of the Company's business to the management. However, clear directions are given to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Company. The Company will continue to improve its corporate governance mechanism, exercise discipline in the fulfilment of corporate duties, and strengthen information disclosure in practice.

## II. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

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

## III. BOARD OF DIRECTORS

### 1. Composition of the Board

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

As at the date of this report, the Board consisted of nine Directors, of which Mr. Liu Feixiang, Mr. Zhao Hui, Mr. Tong Pujiang and Mr. Chen Yongxiang were appointed as the executive Directors of the Company upon the nomination by the nomination committee, and the consideration and approval at the twenty-second meeting of the first session of the Board and the 2017 annual general meeting of the Company. Mr. Liu Feixiang was elected as the chairman of the second session of the Board, upon the nomination by the controlling Shareholder and the consideration and approval at the first meeting of the second session of the Board. Mr. Zhao Hui, an executive Director of the Company, was designated as a non-executive Director, upon the consideration and approval at the seventh meeting of the second session of the Board. The Company currently has three non-executive Directors, namely Mr. Zhao Hui, Mr. Sha Mingyuan and Mr. Wu Zhixu, and three independent non-executive Directors, namely Mr. Sun Linfu, Mr. Yu Jiahe and Mr. Wong Hin Wing.

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

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

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

### 2. Meetings of the Board and Directors' attendance record

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

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

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

*Note:* Mr. Liu Feixiang, chairman of the Board, failed to attend the 2018 annual general meeting of the Company due to work arrangement. Mr. Zhao Hui, an executive Director of the Company, was designated as a non-executive Director, upon the consideration and approval at the seventh meeting of the second session of the Board held on 30 July 2019.

### 3. Continuous training and development schemes for Directors

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

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

During the reporting period, the Company has provided the appropriate continuous training and professional development courses for the Directors and Supervisors, including engaging the Company's counsel to carry out the training about "interpretation of listing rules of the Sci-Tech innovation board and key points of auditing", "case study of H share companies listed on the Sci-Tech innovation board", etc. All Directors and Supervisors have attended the related training, and were made aware of and carefully read the relevant documents. Moreover, the Company have received the letters of confirmation for attending the continuous professional training from each Director.

## 4. Operation of the Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 5. Specialized committees of the Board

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

### *a. Strategy and investment committee*

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

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

In 2019, the strategy and investment committee held one meeting to mainly consider the following issues:

| Name of the strategy and investment committee's meeting | Date | Major matters considered |
|---|---|---|
| The first meeting of the strategy and investment committee of the second session of the Board in 2019 | 28 February 2019 | (I) To consider the Resolution on Production and Operating Plan of 2019 of the Company;<br>(II) To consider the Resolution on Annual Investment Plans of 2019 of the Company;<br>(III) To consider the Resolution on Rolling Plan for Three Years (2019-2021) of the Company;<br>(IV) To consider the Resolution on 2019 Bank Credit Facilities of the Company;<br>(V) To consider the Resolution on the Performance Report of the Strategy and Investment Committee of the Company of 2018. |

Attendances of each member at the meeting are as follows:

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

### *b. Audit and risk management committee*

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

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

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

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

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

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

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

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

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

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

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

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

During the reporting period, the audit and risk management committee reviewed 2018 annual results announcement and annual report, 2019 interim results announcement and interim report, auditing planning of external auditor, and the auditor's report and the interim review report prepared by Deloitte.

In 2019, the audit and risk management committee held four meetings, to mainly consider the following issues:

| Name of the audit and risk management committee's meetings | Date | Major matters considered |
|---|---|---|
| The first meeting of the audit and risk management committee of the second session of the Board in 2019 | 28 February 2019 | (I) To consider the Proposal of the 2018 Annual Report and Results Announcement;<br>(II) To consider the Proposal of the Company's Final Financial Report for 2018;<br>(III) To consider the Proposal of the Company's Annual Profit Distribution Plan for 2018;<br>(IV) To consider the Proposal of 2018 Auditing Fee Payment and Appointing Auditing Firm of the Company for 2019;<br>(V) To consider the Proposal of 2018 Report of Internal Risk Control;<br>(VI) To consider the Proposal of the Performance Report of Audit and Risk Management Committee of the Board for 2018;<br>(VII) To consider the Proposal of Summary for Work of 2018 Internal Audit, Risk Control and Planning of 2019 Internal Audit and Risk Control; |

| Name of the audit and risk management committee's meetings | Date | Major matters considered |
|---|---|---|
| | | (VIII) To consider the Proposal of 2019 Implementing Plan of Measures of Material and Key Risk Management and Control; |
| | | (IX) To consider the Proposal of Rectifying Plan after Identifying the 2018 Annual Internal Control Evaluation Defects. |
| The second meeting of the audit and risk management committee of the second session of the Board in 2019 | 26 April 2019 | (I) To consider the Proposal of Entering into Continuing Connected Transactions in relation to the Machinery Equipment and Accessories Sales Framework Agreement; |
| | | (II) To consider the Proposal of Entering into Continuing Connected Transactions in relation to the Financial Services Framework Agreement. |
| The third meeting of the audit and risk management committee of the second session of the Board in 2019 | 30 July 2019 | To consider the Proposal of 2019 Interim Results Announcement and Interim Report. |
| The fourth meeting of the audit and risk management committee of the second session of the Board in 2019 | 9 December 2019 | To consider the Proposal of Continuing Connected Transactions. |

Attendances of each member at the meetings are as follows:

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

### *c. Nomination committee*

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

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

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

In 2019, the nomination committee did not convene any meeting.

### d. *Remuneration and evaluation committee*

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

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

- to make recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management;

- to study the performance assessment management measures for the Company's Directors and senior management, to formulate assessment standards, and to determine the assessment objectives;

- to review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment, to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct;

- to develop formal, fair, reasonable and transparent remuneration system, to supervise the effective implementation of the Company's remuneration system, and to consider the Company's share incentive plan(s) and provide recommendations thereon.

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

In 2019, the remuneration and evaluation committee held one meeting to mainly consider the following issues:

| Name of the remuneration and evaluation committee's meeting | Date | Major matters considered |
|---|---|---|
| The first meeting of the remuneration and evaluation committee of the second session of the Board in 2019 | 28 February 2019 | (I) To consider the Proposal of the Remuneration for the Directors and Supervisors of the Company in 2018;<br>(II) To consider the Proposal of the Remuneration for the Senior Management of the Company in 2018;<br>(III) To consider the Proposal of the Performance Report of Remuneration And Evaluation Committee of the Board of Directors of the Company for 2018. |

Attendances of each member at the meeting are as follows:

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

### e. *Corporate governance functions*

The Board is responsible for the following corporate governance functions:

1. to formulate and review the Company's corporate governance policies and practices and make recommendations;

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

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

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

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

During the reporting period, the Board reviewed and supervised from time to time the implementation of a series of corporate governance documents; reviewed and actively organized training and continuing professional development for Directors and senior management; reviewed and monitored whether there was any violation of laws and regulatory requirements by the Company; approved the Corporate Governance Report of the Company for the year 2018, and approved the disclosure on the website of the Stock Exchange and the Company's website of the same; and formulated, reviewed and supervised Shareholder communications policy to ensure its effectiveness.

## IV. CHAIRMAN AND GENERAL MANAGER

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

According to the Articles, the chairman primarily exercises the following functions and powers:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(8) to propose the convening of interim meetings of the Board;

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

## V. INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

## VI. BOARD DIVERSITY POLICY

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

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

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

## VII. NOMINATION OF DIRECTORS

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

## VIII. REMUNERATION OF SENIOR MANAGEMENT

According to paragraph B.1.5 of the CG Code, the range of annual remuneration in 2019 of the members of the senior management whose particulars are contained in the section headed "Directors, Supervisors and Senior Management" in this report is set out below:

For the year ended 31 December 2019

| Remuneration band (RMB) | Number of individuals |
|---|---|
| RMB1.0 million or above | 3 |
| RMB0.6 million (including) to RMB1.0 million | 5 |
| Less than RMB0.6 million | 1 |
| Total | 9 |

## IX. REMUNERATION OF THE AUDITOR

Deloitte Touche Tohmatsu is the international auditor of the Company in 2019, and Deloitte Touche Tohmatsu Certified Public Accountants LLP is the PRC auditor of the Company in 2019. For the year ended 31 December 2019, the services provided and the remuneration received by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP are as follows:

| Services | Fee (RMB ten thousand) |
|---|---|
| 2019 financial statement audit | 120 |
| 2019 interim review | 26 |
| Total | 146 |

## X. DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors confirm that they are responsible for the preparation of financial statements for the financial year ended 31 December 2019, and to give a true and fair report of the Company's financial position and financial performance.

According to paragraph C.1.1 of the CG Code, the management provides such explanation and data to the Board to enable the Board to make informed assessment on the financial and other data to be approved by the Board. The Company also provide updates on the Company's results, financial positions and prospect to the members of the Board on monthly basis.

The Directors were not aware of any material uncertainty which may affect the Company's business or cast significant doubt on the Company's ability to continue as a going concern.

## XI. JOINT COMPANY SECRETARIES

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

Mr. Law Chun Biu, aged 46, serves as one of the joint company secretaries of the Company. He joined the Company and was appointed as a joint company secretary in November 2015. From March 2000 to December 2002, Mr. Law worked for Harbor Ring Management Limited as an assistant accounting manager. From March 2003 to October 2006, he was a senior accountant of Tonic Electronics Ltd. From October 2006 to April 2007, he was a finance manager of Fuji Kon Industrial Co. Ltd. Since December 2007, he has been a joint company secretary of CRCC. Mr. Law is a member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Law obtained a bachelor's degree from Hong Kong University of Science and Technology in 1997, majoring in business administration. He obtained a master's degree from Hong Kong Polytechnic University in 2006, majoring in information systems.

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

## XII. CONSTITUTIONAL DOCUMENTS

The Company's first extraordinary general meeting of 2015 was convened on 24 June 2015 to consider and approve the resolution on Adoption of the Articles after Issuance and Listing of H Shares of CRCC High-Tech Equipment Corporation Limited, and to approve the applicable Articles (Draft) after issuance and listing of H Shares. Those Articles came into force since the listing date of H Shares on the Main Board of the Stock Exchange. The Company was approved to make amendments to the Articles upon the consideration and approval at the 2017 annual general meeting on 29 June 2018 in accordance with relevant requirements and regulations of the State-owned Assets Supervision and Administration Commission of the State Council, China Securities Regulatory Commission and relevant national regulatory authorities. On 28 June 2019, with the approval from the Company's 2018 annual general meeting, the Company, as an enterprise controlled by the Central Government, made certain amendments to the Articles under relevant requirements and regulations. On 9 December 2019, according to the amendment of relevant laws and regulations and based on the Company's actual situation, the Company made certain amendments to the Articles upon the consideration and approval of the Board, which is subject to the consideration and approval by the general meeting.

## XIII. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

Through the audit and risk management committee and the audit and risk control department, The Board arranged an assessment to the risk management and internal control system of the Company and considered that the Company optimized the overall risk management system, improved the work mechanism and strengthened the supervision and early warning by continuously strengthening mechanism construction, conducting risk assessment, risk analysis and risk monitoring and control, improving material risk mitigation and special risk prevention, consolidating the results of risk management and continuously facilitating the organic integration of risk management and business management, which gradually enhanced its risk management ability, continuously improved the operational management of the Company, and ensured that the Company was able to resist changes in internal business and external environment in terms of finance, operation and risk management, to safeguard the safety of the asset of the Company and the interest of the Shareholders.

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

## XIV. SHAREHOLDERS' RIGHTS

### 1. Convening extraordinary general meetings

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

### 2. Putting enquiries to the Board

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

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

### 3. Putting proposals at general meetings

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

## XV. INVESTOR RELATIONSHIP

The Company is of the view than effective communication with Shareholders is critical for strengthening investor relation and attracting investors. In 2019, the Company upheld the principles of openness, fairness and impartiality and maintained timely and thorough communication with its investors.

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

The Company has set up an investor relation column on its website to timely provide the Company's annual reports, interim reports, announcements of material matters, stock information and corporate governance information, so as to satisfy the needs of investors as much as possible. The Company has established a securities department to handle the matters related to investor relation, designated special personnel to answer phone calls from investors, arranges site visits of investors and handles e-mails and fax from investors. It also convenes results announcement presentations and actively participates in various investor relation meetings, to ensure the rights to information of public Shareholders and strengthen investors' confidence in the Company.

The Company will continue to improve the investor relation management system and further enhance the quality of communication with its investors.

## XVI. DIVIDEND POLICY

The Company's profit available for distribution in cash is expected to be approximately 20% to 40% of the distributable profit of the year (the lower amount determined under the generally accepted accounting principles of China and the amount determined under IFRS). The amount of dividend declared and paid by the Company shall depend on the following factors:

(1) general business conditions;

(2) results of operations, financial results/conditions;

(3) working capital;

(4) capital requirements and future prospects;

(5) cash flows; and

(6) any other factors which the Board deems relevant.

Our historical dividends may not be indicative of future dividend payments. The declaration and payment of dividends may also be subject to legal restrictions or financing arrangements that we may enter into in the future.

The net profits attributable to the shareholders of the parent company are as stated in the audited consolidated financial statements of the Company for 2019 under IFRS.

# DIRECTORS' REPORT

The Board hereby presents to the Shareholders the Directors' Report and the audited consolidated financial statements of the Group prepared in accordance with the IFRSs for the year ended 31 December 2019.

## MAIN BUSINESS

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

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

## MAJOR RISKS AND UNCERTAINTIES

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

The Company's business operation and financial position may be affected by the following major risks:

### Regulatory risks

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

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

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

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

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

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

In the year of 2019, the Company also paid close attention to the legislative developments of the industry while operating in compliance with the regulatory requirements under the abovementioned laws, regulations and departmental rules.

### Policy risks

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

### Market risks

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

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

(2) The largest supplier of the Company is Zhuzhou Times Electronics Technology Co., Ltd., the purchase from whom is attributable to approximately 12.06% of the Company's total purchase for this year, and the purchase attributable to our five largest suppliers amounted to approximately 31.83% of our total purchase for this year. Significant changes in the relationship between the Company and its major suppliers may have a material adverse impact on the business of the Company.

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

### Operating risks

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

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

## ENVIRONMENTAL POLICY

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

## BUSINESS MODEL AND DIRECTION OF STRATEGY

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

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

## RESULTS AND DIVIDENDS

For results of the Group for the year ended 31 December 2019 prepared in accordance with the IFRSs, please refer to the audited consolidated financial statement of this report. The annual results for the year ended 31 December 2019 of the Company have been reviewed by the audit and risk management committee of the Company.

As at 31 December 2019, the Group's retained profits (before distribution of the final dividend) amounted to RMB536 million in total, and the Board proposed the distribution of dividend of RMB0.04 per share for the year in cash, amounting to RMB61 million in total. The distribution of the proposed dividends is subject to the Shareholders' approval at the 2019 annual general meeting to be held in 2020. After being considered and approved, the final dividend for the year ended 31 December 2019 is expected to be paid on or around 21 August 2020. Further details in relation to the closure of register of member for H Shares will be announced by the Company after the arrangement of such general meeting.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 15 to the financial statements.

## SHORT-TERM BORROWINGS

The Group had no short-term borrowings as at 31 December 2019.

## LONG-TERM BORROWINGS

The Group had no long-term borrowings as at 31 December 2019.

## SHARE CAPITAL

As of 31 December 2019, the share capital of the Company was 1,519,884,000 shares, of which 531,900,000 shares were H Shares.

## USE OF PROCEEDS OF THE COMPANY

After deducting the underwriting commissions and expenses in connection with the global offering, the net proceeds of the global offering were approximately RMB2.27 billion. According to the Proposal to Change the Usage of Part of the Proceeds, which was considered and approved at the 13th meeting of the first session of the Board and the 8th meeting of the second session of the Board, the Company planned to apply the net proceeds from the global offering for the following purposes:

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

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

- general domestic and overseas mergers and acquisitions: approximately 5.29% of the net proceeds from the global offering would be used for general domestic and overseas acquisitions related to the large railway track maintenance machinery industry, and will enable us to strengthen and complement our core value chain;

- working capital: no more than approximately 44.49% of the net proceeds from the global offering would be used to supplement working capital.

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

The following table sets forth the actual use of proceeds of the Company as at 31 December 2019:

| **Planned use** | **Budgeted usage amount** (RMB billion) | **Actual usage amount** (RMB billion) |
|---|---|---|
| Construction of our "International Technology Cooperation Center" Project | 0.91 | 0.73 |
| Development of regional business network platform | 0.23 | 0.04 |
| General domestic and overseas mergers and acquisitions | 0.12 | 0.12 |
| Working capital | 1.01 | 0.68 |
| Total | 2.27 | 1.57 |

As at 31 December 2019, the balance of the proceeds from H Shares issuance of the Company was approximately RMB700 million (including interest income). The Company will use the balance of the proceeds at the appropriate time according to future development plans and actual needs.

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

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

## PRE-EMPTIVE RIGHTS

According to the relevant laws of the PRC, the Shareholders did not subscribe pre-emptive rights for shares on a pro rata basis.

## RETAINED PROFITS

As at 31 December 2019, the Group's retained profits calculated in accordance with relevant regulations amounted to approximately RMB536 million, of which RMB61 million had been proposed to be paid as final dividend for the year.

## MAJOR CUSTOMERS AND SUPPLIERS

Our major customers include China State Railway Group Co., Ltd. and its affiliated enterprises, local railway operators and railway construction companies. During the year, the revenue from the sales of goods and provision of services in aggregate attributable to China State Railway Group Co., Ltd. and its affiliated enterprises was approximately 50.68% of the Group's total operating revenue while the revenue from the sales of goods and provision of services in aggregate attributable to our five largest customers was approximately 60.99% of the Group's total revenue. The five largest customers of our Group were independent third parties.

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

The largest supplier of the Company is Zhuzhou Times Electronics Technology Co., Ltd., the purchase from whom is attributable to approximately 12.06% of the Company's total purchase, and the purchase attributable to our five largest suppliers amounted to approximately 31.83% of our cost for the year. Significant changes in the relationship between the Company and our major suppliers may have a material adverse impact on our business.

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

# DIRECTORS' REPORT

## DIRECTORS AND SUPERVISORS OF THE COMPANY

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

### Executive Directors

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

### Non-executive Directors

| | | |
|---|---|---|
| Zhao Hui | – | *Secretary of the Communist Party committee* (Re-elected as an executive Director of the second session of the Board on 29 June 2018, re-designated as a non-executive Director of the Company after consideration and approval at the 7th meeting of the second session of the Board on 30 July 2019) |
| Sha Mingyuan | – | (Elected as a non-executive Director of the second session of the Board on 29 June 2018) |
| Wu Zhixu | – | (Re-elected as a non-executive Director of the second session of the Board on 29 June 2018) |

### Independent non-executive Directors

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

### Supervisors

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

## COMPOSITION OF THE SUPERVISORY COMMITTEE

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

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

## BIOGRAPHIES OF DIRECTORS AND SUPERVISORS

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

## POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

## SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

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

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

## REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Directors and Supervisors of the Company for the year ended 31 December 2019 are set out in Note 10 to the consolidated financial statements.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN IMPORTANT TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the year and as at 31 December 2019, none of the Directors nor Supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries was a party.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and as at 31 December 2019, none of the Directors, directly or indirectly, had an interest in any business which competes or may compete with the business of the Company and/or its subsidiaries.

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

During the year and as at 31 December 2019, none of the Directors, Supervisors and the general manager or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or any interests or short positions required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or any personal, family, corporate or other interests or short positions required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## PERMITTED INDEMNITY PROVISIONS

During the reporting period and as at 31 December 2019, the Company has purchased liabilities insurance for the Directors, which provides appropriate insurance for the Directors.

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

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

## EMPLOYEES AND REMUNERATION POLICY

The Company's remuneration policy for its employees takes into account the individuals' post value, work performance and competence. The Company places great emphasis on the provision of on-the-job-training and development of its employees. Each staff member is required to participate in training organised by the Company and its department prior to the commencement of his or her employment. The Company formulates training plans according to its staff position and career development needs and releases its annual training plan at the beginning of year pursuant to which all departments need to organise staff training. The management and other employees are required to undertake training for enhancing work ability as specified by the Company. The Company has established channels for career development of employees. Employees have opportunities of promotion and development according to the orders of different positions within the Company. As at 31 December 2019, the Company had 2,019 full-time employees, and the total amount of remuneration (including salaries and allowances) for employees in 2019 was approximately RMB465 million.

## MANAGEMENT CONTRACT

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

## SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

### (I) Structure of Share Capital

The Company's share capital structure as at 31 December 2019 was as follows:

| Shareholder | Type | As at 31 December 2019<br>Number of shares | <br>% of issued share capital |
|---|---|---|---|
| China Railway Construction Corporation Limited | Domestic share | 968,224,320 | 63.70% |
| China Railway Construction Investment Group Co., Ltd. | Domestic share | 4,939,920 | 0.325% |
| China Railway Construction International Group Co., Ltd. | Domestic share | 4,939,920 | 0.325% |
| China Civil Engineering Construction Corporation | Domestic share | 4,939,920 | 0.325% |
| CRCC China-Africa Construction Limited | Domestic share | 4,939,920 | 0.325% |
| Shares in public hands | H Share | 531,900,000 | 35.00% |
| Total | | 1,519,884,000 | 100% |

## (II) Interests and Short Positions of Substantial Shareholders Disclosed According to the SFO

To the knowledge of the Directors, as of 31 December 2019, except for the Directors, Supervisors or the chief executive of the Company, the interests and short positions of any person in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO are set out as follows:

*Unit: share*

| Name of substantial Shareholder | Number of shares held Note 1 | Capacity | Approximate percentage of domestic share capital | Approximate percentage of H Share capital | Approximate percentage of issued share capital |
|---|---|---|---|---|---|
| China Railway Construction Corporation Limited Note 2 | 968,224,320(L) | Beneficial owner | 98.00% | – | 63.70% |
| | 19,759,680(L) | Interest of controlled corporation | 2.00% | – | 1.30% |
| China Railway Construction Group Corporation Note 3 | 987,984,000(L) | Interest of controlled corporation | 100.00% | – | 65.00% |
| Citigroup Inc. Note 4 | 32,237,117(L) | Interest of controlled corporation | – | 6.06%(L) | 2.12% |
| | 32,237,117(P) | Custodian – corporation/ Approved lending agent | – | 6.06%(L) | 2.12% |
| CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited Note 5 | 44,285,500(L) | Beneficial owner | – | 8.33%(L) | 2.91% |
| CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. Note 5 | 44,285,500(L) | Interest of controlled corporation | – | 8.33%(L) | 2.91% |
| CRRC Corporation Limited Note 5 | 44,285,500(L) | Interest of controlled corporation | – | 8.33%(L) | 2.91% |

| Name of substantial Shareholder | Number of shares held [Note 1] | Capacity | Approximate percentage of domestic share capital | Approximate percentage of H Share capital | Approximate percentage of issued share capital |
|---|---|---|---|---|---|
| CRRC Group Co., Ltd. [Note 5] | 44,285,500(L) | Interest of controlled corporation | – | 8.33%(L) | 2.91% |
| GIC Private Limited | 31,909,500(L) | Investment manager | – | 5.99%(L) | 2.09% |

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

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

*Note 3:* As at 31 December 2019, China Railway Construction Group Corporation directly held approximately 51.13% shares of CRCC, while CRCC directly or indirectly held 987,984,000 domestic shares of the Company. Therefore, China Railway Construction Group Corporation was deemed to be interested in these shares.

*Note 4:* Citigroup Inc. held a long position of 32,237,117 H Shares and a lending pool of 32,237,117 H Shares of the Company through its controlled corporations.

*Note 5:* As at 31 December 2019, CSR Zhuzhou Institute Co., Ltd. held 100% equity of CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Ltd. and was a wholly-owned subsidiary of CRRC Corporation Limited, of which 50.73% shares were held by CRRC Group Co., Ltd.. CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Ltd. held 44,285,500 H Shares in aggregate of the Company. Thus, CSR Zhuzhou Institute Co., Ltd., CRRC Corporation Limited and CRRC Group Co., Ltd. were deemed to be interested in these shares.

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

## PUBLIC FLOAT

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

## CONTINUING CONNECTED TRANSACTIONS

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

### Non-exempt continuing connected transactions

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

***The Machinery Equipment and Accessories Sales Framework Agreement with CRCC***

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

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

(ii) to sell machinery, equipment and materials;

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

The term of the agreement was commencing upon the conclusion of the 2016 annual general meeting and ending on 31 December 2019, subject to early termination by either party giving at least three months' prior written notice to the other party.

The principal pricing policies of the Machinery Equipment and Accessories Sales Framework Agreement were as follows:

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

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

As of 31 December 2019, CRCC directly and indirectly held approximately 65% issued share capital of the Company and was the controlling Shareholder of the Company. Therefore, CRCC and its associates constituted connected persons of the Company, transactions under the Machinery Equipment and Accessories Sales Framework Agreement constituted connected transactions of the Company.

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

The Company convened its 2018 annual general meeting on 28 June 2019, on which it considered and approved the resolution in relation to the Machinery Equipment and Accessories Sales Framework Agreement and the annual caps thereunder, agreed on the renewal of the Machinery Equipment and Accessories Sales Framework Agreement and set out the annual caps for the continuing connected transactions under the agreement to be RMB1,100 million, RMB1,100 million and RMB1,100 million for the years of 2020, 2021 and 2022, respectively. For details, please refer to the Company's circular dated 13 June 2019.

For the year ended 31 December 2019, the amount of products and services provided by the Group to CRCC and/or its associates under the Machinery Equipment and Accessories Sales Framework Agreement was RMB303 million, not exceeding the annual cap of RMB1,100 million for the year of 2019 as approved by the general meeting.

### *Financial Services Framework Agreement with CRCC Finance Company Limited*

On 28 December 2018, the Company renewed the financial services framework agreement (the "**Financial Services Framework Agreement**") with CRCC Finance Company Limited (a subsidiary of CRCC), pursuant to which CRCC Finance Company Limited agreed to provide deposit services to the Group for the term from 1 January 2019 till 31 December 2019; on 9 December 2019, the Group and CRCC Finance Company Limited renewed the Financial Services Framework Agreement, pursuant to which CRCC Finance Company Limited agreed to provide deposit services to the Group for the period from 1 January 2020 till 31 December 2020. For details, please refer to the continuing connected transaction announcements of the Company dated 28 December 2018 and 9 December 2019.

The main pricing policies of the Financial Services Framework Agreement were as follow:

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

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

For the year ended 31 December 2019, CRCC Finance Company Limited was a connected person of the Company by virtue of being a subsidiary of CRCC, the controlling Shareholder of the Company. Therefore, the transactions contemplated under the Financial Services Framework Agreement constituted continuing connected transactions of the Company.

The Company convened its 2015 annual general meeting on 21 June 2016, on which it considered and approved the resolution in relation to the renewal of the Financial Services Framework Agreement and the annual caps for the connected transactions thereunder, agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and the proposed maximum daily balance of deposits (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the years ended 31 December 2017 and 2018 to both be RMB1,200 million.

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

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

The Company convened the sixth meeting of the second session of the Board on 26 April 2019, on which it considered and approved the resolutions on the continuing connected transactions, agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and the proposed maximum daily balance of deposits (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the three years of 2019, 2020 and 2021 to all be RMB600 million. The aforesaid resolutions were not approved after consideration on 2018 annual general meeting held by the Company on 28 June 2019.

The Company convened the eighth meeting of the second session of the Board on 9 December 2019, on which it considered and approved the resolution on the continuing connected transactions, agreed on the renewal of the Financial Services Framework Agreement between the Company and CRCC Finance Company Limited and the proposed maximum daily balance of deposit (including accrued interest) under the agreement to be placed by the Group with CRCC Finance Company Limited for the year of 2020 to be RMB75 million.

During the year ended 31 December 2019, the maximum daily balance of deposits (including accrued interest) placed by the Group with CRCC Finance Company Limited under the Financial Services Framework Agreement was RMB99 million, not exceeding the annual cap RMB100 million for the year of 2019 as approved by the general meeting.

### *Product Sales and Paid Services Framework Agreement with CRCC*

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

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

(II) construction services;

(III) property leasing services;

(IV) railway line usage services;

(V) maintenance services;

(VI) other paid services.

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

The principal pricing polices of the Product Sales and Paid Services Framework Agreement were as follows:

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

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

As at 31 December 2019, CRCC was the controlling Shareholder of the Company which directly and indirectly held approximately 65% of the issued share capital of the Company, and thus CRCC and its associates constituted connected persons of the Company. Therefore, the transactions under the Product Sales and Paid Services Framework Agreement constituted continuing connected transactions of the Company.

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

As at 31 December 2019, the amount paid by CRCC and/or its associates to the Company in respect of the products and services under the Product Sales and Paid Services Framework Agreement was RMB30 million, not exceeding the annual cap of RMB80 million for the year of 2019 as approved by the Board.

## ANNUAL REVIEW FOR CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

## RELATED PARTY TRANSACTIONS

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

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

## NON-COMPETITION AGREEMENT

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

During the year ended 31 December 2019, the Company's independent non-executive Directors reviewed the compliance with the Non-Competition Agreement as well as relevant information provided by CRCC and CRCCG. In the opinions of the independent non-executive Directors, CRCC and CRCCG complied with the relevant provisions under the Non-Competition Agreement in 2019; their respective operations were independent of the Group's business, without any mutual competition conduct with the Group. The Board was able to independently operate and manage the Company's business well on the premise of the overall interests of the Company and the Shareholders.

## EVENTS AFTER THE BALANCE SHEET DATE

As disclosed in Note 11 to the financial statements, the Board proposed, on 20 March 2020, a final dividend of RMB0.04 per share in respect of the year ended 31 December 2019. The proposed final dividend is subject to the approval by the Shareholders at the forthcoming annual general meeting.

The outbreak of COVID-19 since January 2020 and the subsequent quarantine measures imposed by the Chinese and Europe government have had certain impact over the Group's restoration of production and operation since January 2020. The degree of impact will depend on the situation of epidemic prevention and the duration and implementation of various control policies.

The Directors are still assessing the financial impacts that the COVID-19 will have on the Group's financial position and operating performance up to the date of approval of these consolidated financial statements.

## TAXATION

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

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

On 20 March 2020, the Board proposed to pay a final dividend of RMB0.04 per share totaling RMB61 million, for the year ended 31 December 2019.

The proposed dividend is subject to approval by the Shareholders at the 2019 annual general meeting to be convened in 2020.

## AUDITOR

In order to strengthen the construction of the internal control system of the Company and ensure the objectivity and independence of the international and PRC auditors, the Company changed its auditors in 2018.

At the 2017 annual general meeting of the Company held on 29 June 2018, Ernst & Young and Ernst & Young Hua Ming LLP were removed as the Company's international and PRC auditors respectively, and Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP were appointed as the Company's international and PRC auditors respectively for the year 2018.

Financial statements for the year 2019 were audited by Deloitte Touche Tohmatsu. The Resolution in Relation to the Payment of Audit Fees for 2018 and the Appointment of the Auditor of the Company for 2019 was considered and approved at the 2018 annual general meeting convened on 28 June 2019, and Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP were appointed as the Company's auditors for 2019 in accordance with International Financial Reporting Standards and China Accounting Standards for Business Enterprises respectively.

By order of the Board of Directors
**Liu Feixiang**
*Chairman*

Kunming, Yunnan, the PRC
20 March 2020

# SUPERVISORY COMMITTEE'S REPORT

During the reporting period, pursuant to the PRC Company Law, the Articles, the Listing Rules and the terms of reference of the Supervisory Committee, with a view to protecting the interests of the Company and its Shareholders, all members of the Supervisory Committee performed their duties prudently and effectively and fully exercised their supervisory functions. The Supervisory Committee has conducted supervision over the major decision-making, financial reports, connected transactions of the Company and the duties performed by the Directors and senior management through organising and convening meetings of the Supervisory Committee and attending Shareholders' general meetings and Board meetings in order to safeguard the Company's and its Shareholders' interests.

## I. DETAILS OF MEETINGS OF THE SUPERVISORY COMMITTEE

During the year, the Company held two Supervisory Committee meetings. The notices, convening, holding and passing of resolutions of the meetings were in compliance with the requirements of the relevant laws and regulations and the Articles. Details of the relevant meetings are as follows:

| Session of meeting | Date of meeting | Matters for consideration |
|---|---|---|
| Third meeting of the second session of the Supervisory Committee | 28 February 2019 | 1. Proposal of the Company's 2018 Annual Report and Results Announcement;<br>2. Proposal of the Company's 2018 Supervisory Committee Work Report;<br>3. Proposal of the Company's Final Financial Report for 2018;<br>4. Proposal of the Company's Annual Profit Distribution Plan for 2018;<br>5. Proposal of the Company's 2018 Report of Internal Risk Control. |
| Fourth meeting of the second session of the Supervisory Committee | 30 July 2019 | Proposal of the Company's 2019 Interim Results Announcement and Interim Report. |

During the year, members of the Supervisory Committee attended the general meetings of the Company in person or by ways of telecommunication, at which they have proposed relevant suggestions and recommendations in a serious and responsible manner, supervised the procedures and contents of such meetings, supervised effectively the procedures for making operation decisions, legal compliance of the operations and the financial condition of the Company as well as performance of the Directors and management in daily operations of the Company. The reasonable suggestions and recommendations proposed by them were adopted by the Company to better protect the legal interests of the Company and its Shareholders.

## II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE IN RESPECT OF THE WORK OF THE COMPANY

2019 was the 70th anniversary of the founding of new China, and also a crucial year for building a moderately prosperous society in all respects. The Supervisory Committee believe that in the face of the complicated situation in which the China economy's domestic and international uncertainties have risen significantly, the Company effectively organized and dealt with complicated and ever-changing internal and external conditions, followed the national strategies and seized the market opportunities based on the general deployment and arrangement at the beginning of the year. We cooperated with each other to tackle problems in a prudent manner, thus maintaining solid and orderly advancement. The Supervisory Committee is satisfied with the Company's accomplishments.

## III. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY DURING THE REPORTING PERIOD

### 1. The Company carried on its operations lawfully

In 2019, in accordance with relevant laws and regulations of the PRC and under the authority conferred by the Articles, the Supervisory Committee reviewed the procedures adopted in the convening, passing of resolutions, decision-making procedures, results of voting of the Company's general meetings and the Board meetings, implementation of resolutions of general meetings by the Board, the performance of duties of senior management and the management system of the Company.

The Supervisory Committee is of the view that the procedures for the decision making of the Company have complied with the relevant requirements of the Company Law and the Articles and the Board has operated under standardized and legal procedures with reasonable decisions and conscientiously executed the resolutions of the general meetings of the Company; the Directors and senior management of the Company diligently performed their responsibilities and were in compliance with the PRC laws and regulations, and no breaches of laws or regulations which were materially prejudicial to the interests of the Company and its Shareholders were discovered during the reporting period.

### 2. Financial reports give a true and accurate view

The Supervisory Committee seriously and thoroughly reviewed the Group's financial system and financial position, and considers that the Group's 2019 financial report is true and accurate and presents the financial position and operation performance fairly, and that the audit opinion issued and the evaluation of the relevant matters by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP are also true and fair.

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

During the year, members of the Supervisory Committee attended four Board meetings and one general meeting, had no objection to the various reports and resolutions submitted by the Board for consideration at the general meeting, and are of the view that the Board of Directors seriously carried out the resolutions approved at the general meeting.

4. **Connected transactions**

The Supervisory Committee considers that the connected transactions between the Group and CRCC during the year were entered into in the ordinary and usual course of our business. The transactions were on the principles of openness, fairness and justness and were entered into in the interests of the Group and the shareholders as a whole. After its review, the Supervisory Committee considers that the Group's procedures of connected transactions in 2019 were in compliance with the relevant laws and regulations of the PRC and is not aware of any impairment to the Company and its Shareholders' interests by means of connected transactions.

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

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

In 2020, the Supervisory Committee will continue to fulfill its supervisory duties faithfully and diligently in strict compliance with the Company Law, the Articles of Association of the Company and relevant provisions, and strive to fulfill its work with an aim to protect the interests of the Company and its Shareholders.

**Yu Qiuhua**
*Chairman of the Supervisory Committee*

Kunming, Yunnan, the PRC
20 March 2020

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this Environmental, Social and Governance (ESG) Report, which demonstrates the updates on sustainable development of the Company and its subsidiaries from 1 January 2019 to 31 December 2019 (the "**Reporting Period**"). This section has been prepared based on the ESG Reporting Guide issued by the Hong Kong Stock Exchange, with a purpose of reporting on employment and labour practice, operating practice, community and environment and so on.

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

## PART I CORPORATE SOCIAL RESPONSIBILITY GOVERNANCE

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

The Company has set up a comprehensive management system, including three levels of management system, namely GB/T19001-2016 idt ISO9001:2015 quality management system, ISO14001:2015 environmental management system and GB/T28001-2011 occupational health and safety management system. Through the comprehensive management system and providing trainings to employees, the various internal business units within the Company are guided to integrate corporate social responsibility into their operations and activities.

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

## PART II EMPLOYMENT AND LABOUR PRACTICE

### I. Our Staff

#### *1. Current conditions of staff*

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

As at 31 December 2019, the Company had a total of 2,019 employees, representing an increase of 5.87% as compared to the year of 2018.

| Indicator | Number of employees in 2019 | Number of employees in 2018 |
|---|---|---|
| **By gender** | | |
| Male | **1,644** | 1,540 |
| Female | **375** | 367 |
| **By employment type** | | |
| Middle and senior management | **104** | 105 |
| Production and relevant staff | **1,116** | 1,166 |
| Technical staff | **799** | 636 |
| **By age group** | | |
| Below 30 years old | **440** | 460 |
| 30 years to 50 years old | **1,418** | 1,288 |
| Above 50 years old | **161** | 159 |
| **By education level** | | |
| Doctor | **1** | 2 |
| Master | **175** | 137 |
| Bachelor | **785** | 640 |
| Junior college and below | **1,058** | 1,128 |
| **By geographic area** | | |
| The PRC | **2,019** | 1,907 |
| Total | **2,019** | 1,907 |

### 2. *Staff recruitment*

The Company maintains a sound staff recruitment system and complies with the requirements under the Labour Law of the PRC, the Labour Contract Law of the PRC, the Law on the Protection of Minors of the PRC, the Law on the Protection of Rights and Interests of Women of the PRC and other relevant laws and regulations strictly. Discrimination against language, wealth, social origin, social status, age, gender, race, disability, pregnancy, religion, political ideology, members of the community or marital status is forbidden. The Company neither employs child labour nor uses forced labour. With its main business as guidelines, the Company absorbs talent based on principles of openness, transparency, fairness and merit.

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

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

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

### 3. *Remuneration and benefits*

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

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

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

## II. Employee Occupational Health and Safety

### *1. Occupational health and safety management system*

In light of our business characteristics, the occupational health and safety of employees is considered to be an important social responsibility. The Company passed the GB/T28001-2011 certification of Occupational Health and Safety Management System in 2013 and has been improving and perfecting the system. The Company updated the system in accordance with the new standard of ISO45001-2018 Occupational Health and Safety Management System and passed the audit of external certification authority in 2019, obtaining the Occupational Health and Safety Management System Certificate for ISO45001-2018 Standard. The Company has developed a number of occupational health and safety management regulations which passed domestic certification and complied with international standards, implemented manuals and internal policies on safety control processes and standards, and required all employees to comply with relevant regulations.

**Occupational Health and Safety Management System Certificate for ISO45001-2018 Standard**

职业健康安全管理体系认证证书

OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM CERTIFICATE

中国铁建高新装备股份有限公司

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

**CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED**

has been found to conform to standard: **ISO45001:2018.**

This certificate is valid to the following scope for OHSMS: **"DESIGN, MANUFACTURE AND REPAIR OF RAILWAY MAINTENANCE MACHINERY AND ITS PARTS".**

本证书有效期至：2022年12月11日。

This certificate is valid until: 11 December 2022.

Issued on: 22 October 2019.

General Manager **Huang Shiyuan**

### 2. *Safety production management*

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

In 2019, the Company set up a special fund amounting to RMB4,905,903 for labour protective equipment, which was used to provide necessary protective equipment and medical security in all its business or business which may cause harm to employees. The Company has also established a safety education and training system, and conducted regular safety reviews, making sure that all employees are aware of hazards and conducts prevention and treatment. We also supported the development of occupational health and safety in the industry.

The Company achieved the following key safety indicators from 2014 to 2019: 1. the Company did not have any employee whose death was due to work; 2. there was no hazardous event such as fire disaster, explosion and special equipment accident; 3. all new employees received three-level safety education, all special operation staff held qualification certificates and all potential safety hazards were rectified; 4. no applicable laws or regulations relating to safe work environment and the avoidance of occupational hazards were violated.

### *3. Occupational health and safety assessment*

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

## III. Caring for Staff

### *1. Development and training*

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

Employee training is our primary means for human resource development. In view of this, the Company collects the training requirements for its subordinate units and its employees every year and proposes and implements training plans accordingly. The categories of training plans include qualification training and adaptive training while the programs include enterprise management, sales, software operation, safety knowledge, property management, key job skills and other aspects. During the Reporting Period, the Company completed 110 internal and external training programs with 3,256 actual trainees, 61,664 hours in total and employee training expenses of RMB1.997 million.

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

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

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

ii. Internal trainer development program

iii. Core curriculum development project

iv. Training for marketing talents

v. Training for debug talents

vi. Mentorship program

vii. Professional technical personnel training project in Beijing

viii. Training program for overseas talents

ix. 37 courses in six directions of the research and development system and five directions of the production technology and 1,620 hours of in-house teaching

### 2. *Colorful leisure activities*

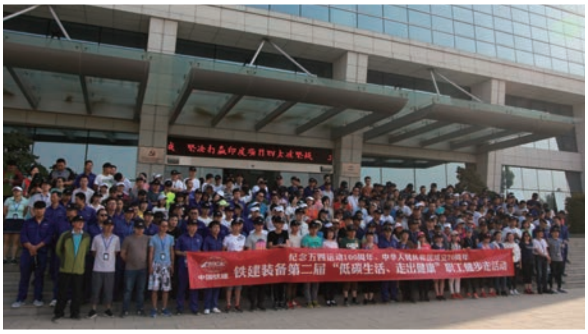
During the reporting period, the leisure activities organised by the Company included:

(i) On 29 January, the Company held the 2019 Model Worker Award Ceremony.

(ii) In March, enterprises and communities building happy and good neighbourhood together: the Company and the happy neighborhood community launched the "Women's Day" co-resident and joint construction activities.

(iii) In May, the Company organized a Youth Day activity.


(iv) In June, the Company held the 2nd health walking activity of "Low-carbon Life with a Healthy Walk".



(v) In August, the Company organized activities to celebrate the "August 1st" Army Day and commemorate the 92nd anniversary of the founding of the PLA. More than 170 serving veterans of the Company participated in the event.


(vi) In October, the Company held a flag-raising ceremony to celebrate the 70th anniversary of the founding of the PRC.

(vii) In December, the Company's first internal trainer competition started.

## IV. Labour Standard

We consider compliance as our minimum responsibility. In 2019, the Company collected and conducted risk assessment on a total of 34 laws and regulations applicable to human resource systems, including national laws, administrative regulations, national and industrial standards and normative requirements. The Company also conducted compliance evaluation, and translated into various rules and regulations and well-defined working procedures in a specific form. During the Reporting Period, the Company has complied with the relevant laws and regulations in relation to employment and labour practices that have a significant impact on the Company.

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

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

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

## PART III OPERATION PRACTICE

### I. Supplier Chain Management

#### *1. Supplier management*

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

We supported and opened door to suppliers who offered green products and services, employee benefits and welfare, and advocated their compliance with laws and regulations, as well as contractual obligations. For instance, the Company has added a supplier selection process which gives preference to suppliers who had been accredited by ISO14001:2015 Environmental Management System under same conditions. During the annual random on-site review of suppliers, the Company attached great importance to suppliers' environmental protection practices. The Company established an effective anti-corruption supervision system and a management supervision mechanism, for the purpose of identifying and preventing any bribery, fraud or misconduct in the course of procurement and tendering. Incorporating the concept of sustainable development into supply chain, the Company proposed green procurement and production and called on suppliers to act in concert to fulfill corporate social responsibilities, hoping to improve the overall performance of the industry. Should any supplier fail to meet environmental or social policies set by the Company or contractual requirements, the Company would terminate subsequent cooperation, until improvement has been made by the supplier.

### 2. *Supplier selection and engagement*

| | |
|---|---|
| Supplier on-site sourcing | On-site sourcing of suppliers and field inspection of supplier capabilities. |
| Potential supplier application process | Conduct preliminary surveys and evaluations of suppliers, and review related qualifications of suppliers. |
| Determine suppliers | Suppliers are determined through bargaining and competitive negotiations. |
| Admission supplier application process | After passing the audit, it enters as the temporary supplier (i.e. the lowest qualified supplier of Grade IV) - once passed, the good supplier (Grade III) - the excellent supplier (Grade II) - the strategic supplier (Grade I). The application process gradually evaluates and evaluates suppliers, and forms a grade-by-grade certification management. |

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

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

| | | |
|---|---|---|
| 2.1 | Potential suppliers: | 328 |
| 2.2 | Temporary suppliers: | 552 |
| 2.3 | Grade III good suppliers: | 482 |
| 2.4 | Grade II excellent suppliers: | 45 |
| 2.5 | Grade I strategic suppliers: | 4 |

### *3. Geographical distribution of suppliers*

Number of suppliers by geographical location:

| | | |
|---|---|---|
| 1.1 | Eastern China: | over 130 (including Shandong, Jiangsu, Anhui, Zhejiang, Fujian, Shanghai); |
| 1.2 | Southern China: | over 20 (including Guangdong, Guangxi, Hainan); |
| 1.3 | Central China: | over 100 (including Jiangxi, Hunan, Hubei, Henan); |
| 1.4 | Northern China: | over 260 (including Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia); |
| 1.5 | Northwest China: | 10 (including Ningxia, Xinjiang, Qinghai, Shanxi, Gansu); |
| 1.6 | Southwest China: | over 400 (including Sichuan, Yunnan, Guizhou, Tibet, Chongqing); |
| 1.7 | Northeast China: | 5 (including Liaoning, Jilin, Heilongjiang); |
| 1.8 | Hong Kong, Macau, Taiwan, Europe and America: | 14 (including Taiwan, Hong Kong, Macau). |

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

## II. Product Liability

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

### *1. Quality certification*

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

**Quality Management System Certificate for ISO9001:2015 Standard**


Certificate

Standard: ISO 9001:2015

Certificate Holder: CRRC HIGH-TECH EQUIPMENT CORPORATION LIMITED
Registration Address: No. 384, Yangfangwang, Jinma Town, Guandu District, Kunming City, Yunnan Province 650215, P. R. China
Operation Address: same as above

Scope: Design, Manufacture and Repair of Railway Maintenance Machinery and its Parts

Proof has been furnished by means of an audit that the requirements of ISO 9001:2015 are met.

Validity: The certificate is valid from 2019-12-12 until 2022-12-11. It remains valid subject to satisfactory surveillance audits. First certification 2016

This certificate information can be searched on CNCA official website http://www.cnca.gov.cn

2019-11-26

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### 2. *Quality assurance and service system*

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

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

### *3. Management method*

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

During the Reporting Period, the Company has complied with relevant laws and regulations on product liability which have a significant impact on the Company, and there have been no violations of health and safety, advertising, labeling, and privacy issues related to products and services.

## PART IV ANTI-CORRUPTION

### I. Implementing Supervision Responsibility

In 2019, the Discipline Inspection Committee of the Company adhered to the example effects from the leadership, perfected the responsibility system, strengthened the uprightness and discipline, and achieve a political and ecological integrity. It implemented "Party building + cleanliness and uprightness", strictly supervised and inspected, and realized that there was no restricted area, full coverage, and zero tolerance in terms of the discipline matters. The sense of responsibility for discipline supervision and accountability has been further strengthened.

First, we strictly implemented "Two Responsibilities". At the beginning of 2019, the Company organized and held a conference on the construction works of incorrupt construction of the Communist Party, conveyed and implemented the spirit of the construction works of incorrupt construction of the Communist Party from the above authorities, and fully deployed the the construction works of incorrupt construction of the Communist Party for the Company in 2019. We entered into Letter on the Responsibility of Incorrupt Construction of the Communist Party with the party committees of the subsidiaries.

Second, we continuously strengthened the education on incorrupt construction of the Communist Party. We conveyed the spirit and instruction on the construction works of incorrupt construction of the Communist Party and anti-corruption works from the above authorities. We incorporated the learning of Party rules and regulations and disciplines into the study and education plans of Party organizations at all levels. Through the themed study of the central working group of the Party Committee and the study of "Party member activity day", a normal and full-covered learning pattern has been formed, which has further improved the awareness and consciousness on the discipline of party members and cadres.

Third, we fully implemented the responsibility system for the incorrupt construction of the Communist Party. We organized the assessment of the responsibility system for the construction of the incorrupt construction of the Communist Party, and required members of the leadership team and leading cadres above the middle level to write a report on personal integrity in the previous year, fill in the "income report of the leading Cadres" and sign a "committee letter on clean government". The Commission for Discipline Inspection organized cadres and staff to conduct democratic evaluations on the construction works of incorrupt construction of the Communist Party of 97 leading cadres above the middle level, including members of the leadership team.

Fourth, we must check the integrity and honesty of cadre before appointment. We put an end to the "Promotion with dishonesty" and actively participate in the selection process of cadres, focusing on exercising the right of veto and recommendation. From the end of 2018 to 31 October 2019, the Discipline Inspection Committee carried out democratic evaluations and clean government talks before appointment with 29 newly promoted middle-level cadres of the Company in strict accordance with the organizational procedures, and issued opinions of integrity and honesty, to assist the Party Committee in establishing a virtuous environment for selecting and employing talents.

Fifth, we focused on the main business and major responsibility. We attached importance to petitions and reports and made sure that each report was well received. In 2019, the Discipline Inspection Committee of the Company received a total of 14 petitions and reports, concluded 12 reports, reported 6 reports to the higher-level disciplinary committees, and received 3 general petition visits. We have achieved the fact that all reports must be checked and well received.

Sixth, we focused on the supervision and discipline innovation. We carried out the supervision and inspection on the implementation of the main responsibility for the incorrupt construction of the Communist Party on a quarterly basis, focusing on the implementation of the main responsibility list system. When problems are discovered, a standing book must be established, and timely rectification is implemented to promote the comprehensive extension of the strict governance from the Party to the grassroots. In order to standardize the business interaction between marketing staff and agents, and the procurement and supply personnel and suppliers, and to further strengthen the supervision of marketing and procurement to prevent the violations of disciplines and laws, the Discipline Inspection Committee of the Company has developed a template for clean contracts. Agents and suppliers with an annual business volume of more than RMB100,000 must sign a clean contract with the Company.

## II. The Internal Monitoring System of the Enterprise

1. It covers the establishment of the supervision work system of various governance entities and auditing, disciplinary inspection and supervision, inspections, legal, financial and other departments, including the establishment of institutions and the relevant provisions of supervision duties:

   The Company's disciplinary inspection and supervision agency includes the Discipline Inspection Committee (5 members), the Discipline Inspection Committee office (3 full-time personnel), two disciplinary committees of subsidiaries, and part-time disciplinary personnel.

The establishment of the supervision work system: First, strengthen daily supervision. In accordance with the principle of "whoever is in charge should be responsible", we urge all functional units to effectively take responsibility for the "management" and "governance" of the incorrupt construction in the business field, and urge the functional departments to strengthen the supervision on their responsible business. If the supervision is not in place, causing serious impact and major losses, the relevant functional departments shall be held accountable, which enable them to conduct standardized management and plug the loopholes. We pay close attention to the eight-point decisions and the practice of formalities for formalities' sake, bureaucratism, hedonism, and extravagance during the holidays. We carried out special supervision and inspection of internal canteens, official receptions, and business vehicles before the holidays, and remind the leading cadres of the integrity of the discipline before the holidays. We conduct 144 bidding supervision and inspections throughout the year to be precautious beforehand. Secondly, we focused on improving the system process. Thirdly, we established integrity records for cadres. We continuously complement and improve the implementation of discipline supervision and inspection, and implement dynamic management. Fourth, we carried out joint prevention and control of the incorrupt construction with business-related units, to promote the "enterprise-enterprise co-construction" for the incorrupt construction. We signed an "integrity contracts" with the relevant units, which set out the requirements that personnel on both parties should abide by, and propose the establishment of a joint conference system and the requirements for the prevention of job-related crimes so that the joint prevention and control model was strengthened and good results were achieved; Fifth, we advanced the supervision and enforcement of disciplines, carried out integrity risk prevention and control works, compiled integrity risk prevention and control manuals, and further strengthened the identification and management of integrity risks at key links in production and operation and key positions.

In a bid to help employees to cope with conflicts of interests and to resist temptations of illegitimate benefits, the Company worked out the "Administrative Measures on Anti-fraud", the "Administrative Measures on Complaint Letters and Whistle-blowing", the "Measures on Investigating the Dereliction of Duty of Management" and other corporate regulations. In the meantime, the Company propagated anti-corruption policies and relevant measures via various means, and made efforts to nurture a corporate culture that values honesty and diligence. The Company arranges training sessions on laws and regulations, integrity and ethical conduct on an annual basis, requiring all employees to comply with state laws and regulations, industry code of conduct, corporate ethics and regulations.

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

i. Holding learning session on warning education on anti-corruption in 2019;

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

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

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

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

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

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

Enhancing the warning education for key personnel. We regularly organised key personnel such as leaders and cadres of the middle-level and higher-level, personnel of finance, bidding and procurement and logistics to visit the Yunnan Anti-corruption Warning Education Base, to give warning education through real cases;

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

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

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

2. Establishment and implementation of internal supervision system

Through the improvement of the system and processes in 2019, the Discipline Inspection Committee of the Company has basically improved the discipline inspection and supervision work system. In 2019, it revised the Detailed Implementation Rules for the Responsibility System for the Incorrupt Construction of the Communist Party and the Application Procedures for Dealing with Employees' Violations of Discipline in accordance with actual conditions, further strengthening the continuity, operability and traceability of discipline supervising for the Company.

## PART V COMMUNITY

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

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

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

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

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

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

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

(i) In March, the Youth League Committee of the Company's manufacturing plant and the Research and Design Institute organized a volunteer service activity called "Friends for Children".

19 young volunteers from the Company's manufacturing plant and the Research and Design Institute went to Hongxiang School in Guandu District and gave three extra-curricular tutoring classes to nearly 100 children in the third grade.

(ii) In May, the Company organized the 54KM public welfare walk for employees.

On 25 May, the large-scale public welfare walking event of "Kunming 2019 54KM New Energy of the Spring City" was held in Kunming. 44 employees of the Company formed 11 teams, including the secretaries of the Party Committee and the Youth League Committee of the Company, youth civilization representative and other young employees who are enthusiastic about public welfare, have participated in the event.

(iii) In July, the employees actively participated in the designated poverty alleviation donation activities of CRCC.

In July, 1,839 employees (including the present employees and party members, leading cadres) actively respondeded to CRCC's call for "dedication of love and help to alleviate poverty". We donated RMB108,105.22 as poverty alleviation donation to Wanquan District, Zhangjiakou City, Hebei Province, Shangyi County, Zhangjiakou City, Hebei Province, and Gande County, Guoluo Prefecture, Qinghai Province. On 5 July, the donation payment was remitted to the special poverty alleviation account of CRCC, which reflects the social responsibility of employees of the state-owned enterprise and their love for the poverty areas.


(iv) In October, the Second Middle School of Guandu District, Kunming City went to the Company to carry out social practice activities.

In order to further increase the students' experience and knowledge of equipment manufacturing enterprises, help and guide high school students to establish career planning awareness from high school subjects to university majors to future careers, and to look forward to their careers, on the afternoon of 22 October, 64 students of grade one of high school and 10 teachers from the Second Middle School of Guandu District came to the Company to carry out career planning social practice activities, to experience the Company's corporate culture on-site, and to have a close contact with large railway road maintenance machinery.

(v) In November, the technical service company of the Company carried out the "Warm Winter Action" charity donation activity.

The caring delegation and the teachers of the Kunming Youth Development Foundation went to Lianhe Village Primary School in Xundian County to bring warm winter clothing, school bags and other school supplies to 29 children.


## PART VI ENVIRONMENTAL PROTECTION

### I. Environmental Management

#### *1. Environmental management system certification*

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

**Environmental Management System Certificate for ISO14001:2015 Standard**

CHINA CLASSIFICATION SOCIETY CERTIFICATION COMPANY

环境管理体系认证证书

ENVIRONMENTAL MANAGEMENT SYSTEM CERTIFICATE

中国铁建高新装备股份有限公司

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

CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED

has been found to conform to standard: GB/T24001-2016/ISO14001:2015.

This certificate is valid to the following scope for EMS: "DESIGN, MANUFACTURE AND REPAIR OF RAILWAY MAINTENANCE MACHINERY AND ITS PARTS".

This certificate is valid until: 11 December 2022.

Issued on: 22 October 2019.

General Manager Huang Shiyuan

### 2. *Establishing environmental management system*

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

### 3. *Measures on environmental management*

During the reporting period, main measures taken by the Company regarding environmental protection include:

i. Establishing an environmental management system, conducting regular internal inspection and audit on an annual basis and engaging external certification institution to inspect and audit the environmental management of the Company. Ensuring the effectiveness of the system. The Company passed the supervision and audit on the environmental management system by China Classification Society Quality Assurance Center in 2019;

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

iii. Highlighting the monitoring of hazardous waste and establishing a management system, under which hazardous waste should be stored in the designated place, handled by dedicated personnel and with clear accounts. In 2019, the Company passed the assessment of standardised management of hazardous waste conducted by Kunming Environmental Protection Bureau.

## II. Emission Management

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

### *1. Strictly complying with national laws and regulations*

The Company strictly complies with applicable national and industry requirements, including the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC, the Law on Prevention and Control of Atmospheric Pollution of the PRC, the Water Law of the PRC, the Law on Prevention and Control of Water Pollution of the PRC, the Law on the Prevention and Control of Environmental Pollution by Solid Waste of the PRC, and the Measures for the Administration of Energy Efficiency Labeling, etc. The Company has established various systems in respect of wastewater, waste gas and waste discharge. Compliance assessment is conducted annually, the results of which are in compliance with laws and regulations. No violations occurred between 2014 and 2019. Three wastes discharge met with relevant standards, with emissions (concentration) falling within the scope of the pollutant discharge permit as approved.

The main pollutants of the Company's exhaust emissions are benzene, toluene and xylene. The main pollutants of wastewater discharged are chemical oxygen demand (COD), ammonia nitrogen and total phosphorus. In 2019, the Company treated 251,332 tons of wastewater, of which 249,697 tons were recycled, and discharged 1,635 tons of wastewater, 0.084 ton of COD, 0.062 ton of ammonia nitrogen, 0.0166 ton of benzene, 0.01539 ton of toluene and 0.1392 ton of xylene.

Statistics of total greenhouse gas generated from the consumption of gasoline and diesel oil during the Company's production process in 2019 are summarized as follows:

| Type | Active data | Type of greenhouse gas | Emission ($tCO_2e$) |
|---|---|---|---|
| Diesel oil | 528 tons | $CO_2$ | 1,642.43 |
| | | $CH_4$ | 0.95 |
| | | $N_20$ | 21.43 |
| Gasoline | 18 tons | $CO_2$ | 58.19 |
| | | $CH_4$ | 0.13 |
| | | $N_20$ | 8.45 |

Statistics of various kinds of waste goods and materials during the Company's production process in 2019 are summarized as follows:

General waste goods and materials (innocuous)

| Category | Weight |
|---|---|
| Steel scrap | 1,287.15 tons |
| Iron scurf | 205.03 tons |
| Aluminium scrap | 5.48 tons |
| Waste wire | 6.42 tons |
| Copper scale | 3.41 tons |
| Oxidising slag | 119.06 tons |
| Waste wooden boards | 86.87 tons |
| Waste oil barrels | 331 |

Hazardous waste (harmful)

| Category | Weight (ton) |
|---|---|
| Waste spongy filter | 2.1 |
| Emulsion | 24.55 |
| Waste paints | 3.87 |
| Waste paint pot | 15.26 |
| Mineral oils | 32.3 |
| Asbestos | 3.03 |

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

### 2. *Measures and technology of pollutants prevention and treatment*

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

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

i. Wastewater treatment;

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

ii. Waste gas treatment;

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

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

iii. Noise at boundary treatment;

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

During the Reporting Period, the Company monitored the emission of wastewater, waste gas and noise at boundary, with results thereof reaching the relevant standards. Hazardous wastes such as emulsions and paint residues are all handled by qualified Yunnan Province Dadi Fengyuan Environmental Protection Co., Ltd., and non-hazardous wastes such as scrap steel and iron filings are sold via external bidding. During the Reporting Period, there is no occurrence of environment emergency for which the Company shall be liable.

## III. Management on Energy Use

### *1. Energy-saving and consumption-reducing*

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

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

Statistics of total energy consumption during the production process of the Company in 2019 are summarised as follows:

| Type | Total consumption |
|---|---|
| Electricity | 10,970,000 kwh |
| Gasoline | 18 tons |
| Diesel oil | 528 tons |
| Lubricating oil | 86 tons |
| Water | 48,714 tons |

Statistics of total usage of packaging materials during the production process of the Company in 2019 are summarised as follows:

| Material Name | Model Specification | Unit | Total annual usage |
|---|---|---|---|
| Wire drawing die | 1.2MM×25KG | roll | 2 |
| Bubble film | 1.5m*100m | roll | 4 |
| No. 10 ziplock bag | 100 pieces per bag (Thickened) | bag | 100 |
| No. 6 ziplock bag | 100 per bag (Thickened) | bag | 100 |
| Wooden box for export | 1,100×950×950 | piece | 1,000 |
| Anti-rust bag | 1,150×1,150×1,550 | box | 80 |
| Packaging plywood | 12mm | square meter | 2,818 |
| Tin strap | 16mm | roll | 40 |
| Packaging plywood | 18mm | square meter | 3,205 |
| Tin strap | 18mm×50KG | roll | 20 |
| TL-024 composite vapor phase antirust protective film | 1m×100m | roll | 70 |
| Canvas protective cover | 2,400×1,100×1,100 | piece | 141 |
| Ordinary carton | 250mm×150mm×200mm | piece | 500 |
| No. 9 ziplock bag (100 pieces per bag) | 280mm×200mm (Thickened) | bag | 100 |
| Canvas protective cover | 300×100 | piece | 41 |
| No. 11 ziplock bag (100 pieces per bag) | 400mm×280mm (Thickened) | bag | 100 |

| Material Name | Model Specification | Unit | Total annual usage |
|---|---|---|---|
| Tarpaulin | 5 meters×5 meters | piece | 5 |
| Tarpaulin | 5 meters×8 meters | piece | 10 |
| No. 16 ziplock bag (100 pieces per bag) | 600mm×400mm (Thickened) | bag | 100 |
| Scotch tape | 60mm | roll | 200 |
| Plastic film | A4*100 pieces per bag | bag | 20 |
| Steel row nails | ST-32 | box | 500 |
| Steel row nails | ST-64 | box | 150 |
| Invisible protection against metal rust | TL-019 | KG | 40 |

### 2. *Integrated control and management*

In 2019, with the support of the Company's leaders and joint effort of the energy management office, the Company strictly followed requirements stipulated in relevant documents of CRCC and the local governments to implement two "Subdivision" regarding energy management. Firstly, as to refining energy management, the Company enhanced control and management of indicators of energy consumption with increased institutional and managerial efforts, through which the Company is able to find out the key reason and make response in time in case of abnormal movement of energy consumption data. Secondly, the Company subdivided the indicators of energy saving. The Company revised and circulated the "Administration Measures on Energy Management of the Company" and "Management Measures on Energy Saving and Emission Reduction of the Company", aiming to regulate energy consumption and assessment of the energy consuming production departments. The office of energy management of the Company requires all energy consuming production departments to file a statement of energy consumption each month, thus conducting real-time control of energy consumption. Since the circulation and implementation of the above two measures, the Company has conducted assessments twice to indicators of energy consumption of each energy consuming production departments, imposed severe punishment to departments that exceeded the standard limits of energy consumption and that had weaker performance in terms of energy saving, and circulated the results through the intranet of the Company. Through implementing this policy stringently, the Company has further improved its energy management, and tended to carry out work actively instead of passively. With shifts in thinking, employees proactively cooperated with the Company to carry out energy saving in good order. All of the above have laid a solid foundation for the Company to achieve target of energy saving for the national "13$^{th}$ Five-Year" plan in the next step.

### 3. *Efficiency of control and management*

The Company is committed to the development of energy-saving and environmentally friendly industries, and has been promoting the use of energy-saving products as well as clean energy. Taking full advantage of the geographical advantages and abundant solar energy resources in Kunming, the Company has been actively introducing photovoltaic power generation projects. This project was completed and put into production in July 2018. It can offer a total installed capacity of 6,500KVA, and the power generated is distributed to the Company's 10KV power distribution system. All of the power generated will be used for production in the factory area, while the surplus power will be distributed to the municipal network for sale. As of 31 December 2019, the Company had consumed a total of 4,194,850KWh of electricity generated by photovoltaic power generation facilities during the year, saving electricity costs of a total amount of RMB2.11 million for the Company. At the same time, all equipment of the project is supplied by domestic manufacturers, which is of great significance to support the development of domestic photovoltaic power generation equipment industry.

According to the "Power Market Trading Implementation Plan of Yunnan for the Year 2018", the Company actively participated in the power market trading in Yunnan province. According to statistics, in 2019, the Company was involved in the trading of 8,584,000KWh of electricity on the power market in Yunnan, saving electricity costs of a total amount of RMB1.51 million for the Company.

At the same time, the Energy Management Office of the Company actively promoted the technical transformation of lighting in the manufacturing plant and the plant roads, replacing traditional metal halide lamps with energy-saving LED lamps, and the illumination level fully met the criteria for acceptance. By the end of December 2019, the Company had replaced a total of 400 sets of LED lights. This work will continued to be proceeded in 2020.

According to the requirements under the document of "Notice of Commission of Industry and Information Technology of Yunnan Province on Forwarding the Document of Ministry of Industry and Information Technology regarding Carrying out Supervision and Inspection for 2012 on the Implementation of Standard Limits of Energy Consumption of Unit Product and High Energy-Consumption Outdated Electrical and Mechanical Equipment (Products) Catalog", members of the Company's energy management office conduct check on electric machines equipped on mechanical equipment for production twice a year, during which electric machines equipped on mechanical equipment which are found to be listed on the catalog will be arranged stocktaking at the end of year and included on the list of equipment for condemnation and then eliminated. In 2019, the Company invested RMB13.2 million to purchase production equipment, with 19 sets of equipment scrapped, stored and to be disposed, which were mainly for upgrading and disposing of high energy-consumption electrical and mechanical equipment. When studying and selecting equipment, relevant personnel from the Company's energy management office takes equipment that are certified by the country as their first choice, striving to further enhance the energy management of the Company and all relevant energy consuming departments, increase efficiency of energy utilisation, propel technical improvement and optimise industrial structure.

The Company keeps reinforcing energy management and continues to improve the management system of water use. In 2019, third parties were engaged for the continuous improvement in the balance of water in areas such as production areas. The Company actively promoted the implementation of reuse of grey water, which was mainly for large-scale road maintenance machinery raining test, cleaning as well as greening, etc. As of December 2019, a total of 52,848 $m^3$ of grey water was used. The conditions for the use of tap water had reached national water use standard requirements, and no water leakage problem was identified, thus laying a solid foundation for the Company's next-step initiative in energy management.

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

## OPINION

We have audited the consolidated financial statements of CRCC High-Tech Equipment Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 106 to 192, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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 Standard Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of goodwill* | |
| During the year, impairment loss amounting to RMB15,656,000 was recognized on the goodwill arising from the acquisitions of CE Cideon Engineering Verwaltungs GmbH, CE Cideon engineering GmbH & Co. KG and CE Cideon Engineering Schweiz AG in prior years. The carrying amount of the relevant goodwill amounted to RMB75,711,000 as at 31 December 2019. Further details of the goodwill and the impairment are set out in notes 4 and 14 to the consolidated financial statements.<br><br>We identified the impairment of goodwill as a key audit matter because impairment testing of goodwill is relied on a value in use model which required significant management judgment particularly with respect to the future revenue growth rate based on expectation of future market and economic conditions and the discount rate applied. | Our procedures in relation to the impairment of goodwill mainly included:<br>– Understanding control procedures adopted by the management to develop the revenue growth rate and discount rate adopted in the cash flow projection;<br>– Performing retrospective review on the cash flow projection to identify any significant deviations from the 2019 cash flow projection and evaluating whether the management has made necessary changes in the current year cash flow projection to incorporate the factors resulting in the deviations;<br>– Involving internal expert to evaluate the methodology adopted by the management and to develop a range estimates on the applicable discount rate to assess its reasonableness:<br>• Challenge client's estimate on the revenue growth rate. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Lung Kwok Hung.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
20 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
|---|---|---|---|
| Revenue | 6 | **2,109,179** | 2,410,714 |
| Cost of sales | | **(1,527,715)** | (1,835,346) |
| Gross profit | | **581,464** | 575,368 |
| Other income and gains and losses | 7 | **87,552** | 87,581 |
| Impairment losses under expected credit loss model, net of reversal | 8 | **(44,267)** | (28,869) |
| Distribution and selling expenses | | **(79,193)** | (52,892) |
| Administrative expenses | | **(211,698)** | (211,750) |
| Research and development expenses | | **(167,930)** | (156,730) |
| Impairment loss on goodwill | 14 | **(15,656)** | – |
| Other expenses | | **(7,644)** | (40,319) |
| Profit before tax | 8 | **142,628** | 172,389 |
| Income tax expense | 9 | **(20,465)** | (16,029) |
| **Profit for the year** | | **122,163** | 156,360 |
| **Other comprehensive income (expense)** | | | |
| ***Items that will not be reclassified to profit or loss:*** | | | |
| Fair value loss on investments in equity instruments measured at fair value through other comprehensive income | | **(81,316)** | (28,528) |
| Re-measurement loss of defined benefit pension plan | | **(110)** | (10) |
| Income tax effect | | **12,214** | 4,281 |
| | | **(69,212)** | (24,257) |
| ***Items that may be reclassified subsequently to profit or loss:*** | | | |
| Fair value loss on debt instruments measured at fair value through other comprehensive income | | **(8,546)** | – |
| Exchange differences arising on translation of foreign operations | | **3,412** | 220 |
| Income tax effect | | **1,282** | – |
| | | **(3,852)** | 220 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
|---|---|---|---|
| Other comprehensive expense for the year, net of income tax | | **(73,064)** | (24,037) |
| Total comprehensive income for the year | | **49,099** | 132,323 |
| Profit attributable to: | | | |
| Owners of the Company | | **122,163** | 156,360 |
| Non-controlling interests | | **–** | – |
| | | **122,163** | 156,360 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **49,099** | 132,323 |
| Non-controlling interests | | **–** | – |
| | | **49,099** | 132,323 |
| **EARNINGS PER SHARE:** | *12* | | |
| Basic (expressed in RMB per share) | | **0.08** | 0.10 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Equity instruments at fair value through other comprehensive income | 13 | **160,914** | 242,230 |
| Goodwill | 14 | **75,711** | 91,367 |
| Property, plant and equipment | 15 | **996,721** | 959,306 |
| Right-of-use assets | 16 | **408,640** | – |
| Prepaid land lease payments | 17 | **–** | 408,615 |
| Other intangible assets | 18 | **8,216** | 8,244 |
| Trade receivables | 21 | **171,311** | 164,067 |
| Long-term prepayments | 22 | **19,155** | 19,155 |
| Deferred tax assets | 19 | **19,936** | 31,488 |
| **Total non-current assets** | | **1,860,604** | 1,924,472 |
| **CURRENT ASSETS** | | | |
| Prepaid land lease payments | 17 | **–** | 10,831 |
| Inventories | 20 | **1,211,644** | 1,160,315 |
| Trade and bills receivables | 21 | **2,249,063** | 2,534,841 |
| Contract assets | 23 | **28,977** | 2,379 |
| Prepayments, deposits and other receivables | 22 | **211,217** | 42,149 |
| Pledged deposits | 24 | **2,884** | 3,958 |
| Cash and cash equivalents | 24 | **1,832,773** | 1,789,207 |
| **Total current assets** | | **5,536,558** | 5,543,680 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 25 | **1,713,093** | 1,649,316 |
| Other payables and accruals | 26 | **158,141** | 242,177 |
| Contract liabilities | 27 | **41,240** | 42,161 |
| Tax payable | | **11,125** | 5,748 |
| Defined benefit obligations | | **40** | 130 |
| Provisions | 28 | **4,979** | 4,751 |
| **Total current liabilities** | | **1,928,618** | 1,944,283 |
| **Net current assets** | | **3,607,940** | 3,599,397 |
| **Total assets less current liabilities** | | **5,468,544** | 5,523,869 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Defined benefit obligations | | – | 40 |
| Deferred tax liabilities | *19* | – | 28,390 |
| **Total non-current liabilities** | | – | 28,430 |
| **Net assets** | | **5,468,544** | 5,495,439 |
| **EQUITY** | | | |
| Issued capital | *29* | **1,519,884** | 1,519,884 |
| Reserves | *30* | **3,948,660** | 3,975,555 |
| **Total equity** | | **5,468,544** | 5,495,439 |

The consolidated financial statements on pages 106 to 192 were approved and authorised for issue by the board of directors on 20 March 2020 and are signed on its behalf by:

**Tong Pujiang**
*Executive director*

**Chen Yongxiang**
*Executive director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Issued capital RMB'000 | Capital reserve RMB'000 | Surplus reserve RMB'000 | Special reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Fair value through other comprehensive income investments reserve RMB'000 | Defined benefit plan revaluation reserve RMB'000 | Retained profits RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 1,519,884 | 3,224,727 | 104,470 | – | (473) | 160,869 | (10,270) | 496,232 | 5,495,439 |
| Profit for the year | – | – | – | – | – | – | – | 122,163 | 122,163 |
| Other comprehensive expense (income) for the year: | | | | | | | | | |
| Investments in equity instruments measured at fair value through other comprehensive income | – | – | – | – | – | (69,118) | – | – | (69,118) |
| Investments in debt instruments measured at fair value through other comprehensive income | – | – | – | – | – | (7,264) | – | – | (7,264) |
| Exchange differences related to foreign operations | – | – | – | – | 3,412 | – | – | – | 3,412 |
| Re-measurement loss on defined benefit plan, net of tax | – | – | – | – | – | – | (94) | – | (94) |
| Total comprehensive income (expense) for the year | – | – | – | – | 3,412 | (76,382) | (94) | 122,163 | 49,099 |
| Dividends recognised as distribution *(note 11)* | – | – | – | – | – | – | – | (75,994) | (75,994) |
| Appropriation to special reserve *(note (a))* | – | – | – | 7,310 | – | – | – | (7,310) | – |
| Utilisation of special reserve *(note (a))* | – | – | – | (7,310) | – | – | – | 7,310 | – |
| Appropriation to statutory surplus reserve *(note (b))* | – | – | 6,344 | – | – | – | – | (6,344) | – |
| At 31 December 2019 | 1,519,884 | 3,224,727 | 110,814 | – | 2,939 | 84,487 | (10,364) | 536,057 | 5,468,544 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Issued capital RMB'000 | Capital reserve RMB'000 | Surplus reserve RMB'000 | Special reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Fair value through other comprehensive income investments reserve RMB'000 | Defined benefit plan revaluation reserve RMB'000 | Retained profits RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 1,519,884 | 3,224,727 | 84,382 | – | (693) | 185,118 | (10,262) | 375,159 | 5,378,315 |
| Profit for the year | – | – | – | – | – | – | – | 156,360 | 156,360 |
| Other comprehensive income (expense) for the year: | | | | | | | | | |
| Investments in equity instruments at fair value through other comprehensive income | – | – | – | – | – | (24,249) | – | – | (24,249) |
| Exchange differences related to foreign operations | – | – | – | – | 220 | – | – | – | 220 |
| Re-measurement loss on defined benefit plan, net of tax | – | – | – | – | – | – | (8) | – | (8) |
| Total comprehensive income (expense) for the year | – | – | – | – | 220 | (24,249) | (8) | 156,360 | 132,323 |
| Dividends recognised as distribution *(note 11)* | – | – | – | – | – | – | – | (15,199) | (15,199) |
| Appropriation to special reserve *(note (a))* | – | – | – | 5,220 | – | – | – | (5,220) | – |
| Utilisation of special reserve *(note (a))* | – | – | – | (5,220) | – | – | – | 5,220 | – |
| Appropriation to statutory surplus reserve *(note (b))* | – | – | 20,088 | – | – | – | – | (20,088) | – |
| At 31 December 2018 | 1,519,884 | 3,224,727 | 104,470 | – | (473) | 160,869 | (10,270) | 496,232 | 5,495,439 |

*Notes:*

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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **142,628** | 172,389 |
| Adjustments for: | | |
| Foreign exchange gains/(losses), net | **292** | (7,538) |
| Interest income | **(42,167)** | (29,912) |
| Dividends from equity investments at fair value through other comprehensive income | **(4,410)** | (4,410) |
| Depreciation of property, plant and equipment | **61,764** | 52,543 |
| Depreciation of right-of-use assets | **10,806** | – |
| Amortisation of prepaid land lease payments | **–** | 10,806 |
| Amortisation of other intangible assets | **5,851** | 5,710 |
| Impairment loss under expected credit loss model, net of reversal | | |
| – trade and bills receivables | **43,876** | 28,777 |
| – other receivables | **257** | 80 |
| – contract assets | **134** | 12 |
| Write-down of inventories to net realisable value | **3,315** | 7,290 |
| Impairment loss on goodwill | **15,656** | – |
| Loss on disposal of property, plant and equipment and other intangible assets | **918** | 19 |
| Operating cash flows before movements in working capital | **238,920** | 235,766 |
| (Increase)/decrease in inventories | **(54,406)** | 538,915 |
| Decrease/(increase) in trade and bills receivables | **237,335** | (1,133,757) |
| (Increase)/decrease in prepayments, deposits and other receivables | **(174,189)** | 51,046 |
| Decrease in pledged deposits | **1,074** | 41,973 |
| Increase in contract assets | **(26,732)** | (2,391) |
| Increase in trade and bills payables | **63,777** | 401,542 |
| (Decrease)/increase in other payables and accruals | **(84,036)** | 143,924 |
| Decrease in contract liabilities | **(921)** | (27,558) |
| Decrease in defined benefit obligations | **(240)** | (460) |
| Increase/(decrease) in provisions | **228** | (237) |
| Cash generated from operations | **200,810** | 248,763 |
| Interest received | **34,356** | 22,455 |
| Income taxes paid | **(13,566)** | (9,737) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
|---|---|---|---|
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | | **221,600** | 261,481 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for acquisition of items of property, plant and equipment | | **(102,437)** | (25,324) |
| Payments for acquisition of other intangible assets | | **(5,828)** | (200) |
| Proceeds from disposal of items of property, plant and equipment and other intangible assets | | **2,107** | 95 |
| Dividend income from equity investments at fair value through other comprehensive income | | **4,410** | 4,410 |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | **(101,748)** | (21,019) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid | | **(76,518)** | (15,508) |
| **NET CASH FLOWS USED IN FINANCING ACTIVITIES** | | **(76,518)** | (15,508) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **43,334** | 224,954 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **1,789,207** | 1,556,406 |
| Effect of exchange rate changes on cash and cash equivalents | | **232** | 7,847 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | *24* | **1,832,773** | 1,789,207 |

## 1. GENERAL INFORMATION

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

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

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

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

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

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "**IASB**") for the first time in the current year:

| | |
|---|---|
| IFRS 16 | Leases |
| IFRIC 23 | Uncertainty over Income Tax Treatments |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2015-2017 Cycle |

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

### *IFRS 16 Leases*

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("**IAS 17**"), and the related interpretations.

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

**New and Amendments to IFRSs that are mandatorily effective for the current year** (Continued)

***IFRS 16 Leases*** *(Continued)*

*Definition of a lease*

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

*As a lessee*

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits, if any, and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the short-term lease recognition exemption to leases of machinery and equipment previously classified as operating leases under IAS 17, and elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

On transition, the Group recognised right-of-use assets of RMB419,446,000 at 1 January 2019. Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB10,831,000 and RMB408,615,000 respectively were reclassified to right-of-use assets. The application of IFRS 16 has had no impact on the Group's retained profits at 1 January 2019.

*As a lessor*

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

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

### New and amendments to IFRSs in issue but not yet effective

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

| | |
|---|---|
| IFRS 17 | Insurance Contracts[1] |
| Amendments to IFRS 3 | Definition of a Business[2] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current[5] |
| Amendments to IAS 1 and IAS 8 | Definition of Material[4] |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform[4] |

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

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of preparation (Continued)

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

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

The principal accounting policies are set out below.

### Basis of consolidation

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

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

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

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

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill is, from the acquisition date, allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units (or group of cash-generating units). Each unit to which the goodwill is so allocated represents the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). An impairment loss recognised for goodwill is not reversed in a subsequent period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is recognised only if the carrying amount of an asset (or a cash-generating unit) exceeds its recoverable amount. An impairment loss is charged to profit or loss in the period in which it arises.

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 (or a cash-generating unit) is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset (or cash-generating unit), but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

### Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Related parties** (Continued)

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

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

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

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

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

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

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property, plant and equipment and depreciation** (Continued)

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Intangible assets (other than goodwill)**

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

**Office software**

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

**Research and development costs**

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

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

**Leases**

***Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)***

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Leases** (Continued)

***Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)*** *(Continued)*

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

*The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)*

Short-term leases

The Group applies the short-term lease recognition exemption to leases of machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities, if any.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

*The Group as a lessee (prior to 1 January 2019)*

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Leases** (Continued)

***Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)*** *(Continued)*

*The Group as a lessor*

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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

Prepaid land lease payments (prior to 1 January 2019)

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

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

**Financial instruments**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

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

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

***Financial assets***

*Classification and subsequent measurement of financial asset*

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

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Financial assets*** *(Continued)*

*Classification and subsequent measurement of financial asset (Continued)*

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

Amortised cost and interest income

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

Debt instruments/receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI investments reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments/receivables. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Financial assets*** *(Continued)*

*Classification and subsequent measurement of financial asset (Continued)*

Equity instruments designated as at FVTOCI

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

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

*Impairment of financial assets and other items subject to impairment assessment under IFRS 9*

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Financial assets*** *(Continued)*

*Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)*

(i) Significant increase in credit risk

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

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

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

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Financial assets*** *(Continued)*

*Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)*

(ii) Definition of default

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

(iii) Credit-impaired financial assets

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

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

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

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

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

(iv) Write-off policy

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Financial assets*** *(Continued)*

*Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)*

(v) Measurement and recognition of ECL

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Financial assets*** *(Continued)*

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI investments reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI investments reserve is not reclassified to profit or loss, but is transferred to retained profits.

***Financial liabilities and equity***

*Classification as debt or equity*

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

*Equity instruments*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Financial liabilities***

*Initial recognition and measurement*

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

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

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

*Subsequent measurement*

Financial liabilities at amortised cost

After initial recognition, financial liabilities of the Group including trade and bills payables and other payables are subsequently measured at amortised cost, using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Inventories

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

### Cash and cash equivalents

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 original maturity of generally within three months when acquired.

### Provisions

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

### Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, 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 taxes 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

### Revenue from contracts with customers

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

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue from contracts with customers** (Continued)

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

*Output method*

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

***Existence of significant financing component***

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

***Principal versus agent***

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Employee benefits**

***Retirement benefits***

1. *Social pension plans*

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

2. *Annuity plan*

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

3. *Post-employment benefit plan*

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

Net interest is calculated by applying the discount rate to the net defined benefit liability.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Employee benefits** (Continued)

***Retirement benefits*** *(Continued)*

*3. Post-employment benefit plan (Continued)*

The Group recognises the following changes in the net defined benefit obligation in the consolidated statement of profit or loss and other comprehensive income by function:

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

***Housing fund and other social insurances***

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

***Short-term employee benefits***

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

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

**Dividends**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries 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 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, all of the exchange differences accumulated in equity in respect of that particular foreign operation is recognised in profit or loss.

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

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

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Estimation uncertainty

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

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

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods. Further details are set out in note 15.

### Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 35 and 21 respectively.

### Provision against obsolete inventories

Management reviews the condition of inventories of the Group at the end of each reporting period and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for use or sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of each reporting period. Further details are set out in note 20.

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

### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. 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. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, further impairment loss may arise. The carrying amount of goodwill at 31 December 2019 was RMB75,711,000 (2018: RMB91,367,000), and an impairment loss of RMB15,656,000 (2018: Nil) has been recognised during the year ended 31 December 2019. Further details are set out in note 14.

### Development costs

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

### Fair value measurement of equity investments

As disclosed in note 13, certain of the Group's financial assets amounting to RMB160,914,000 as at 31 December 2019 (2018: RMB242,230,000) are measured at fair values which were determined based on market quotation and non-liquidity effect. Judgement and estimation are required for determination of the non-liquidity discount ratio. Changes in assumptions relating to these factors could affect the reported fair values of these instruments.

### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences to the extent it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax assets of RMB19,936,000 has been recognised as at 31 December 2019 (2018: RMB31,488,000). Further details are set out in note 19.

## 5. OPERATING SEGMENT INFORMATION

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

### Geographical information

#### *(a) Revenue from external customers*

| | **Year ended 31 December 2019 RMB'000** | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Mainland China | **2,012,931** | 2,351,837 |
| Other countries | **96,248** | 58,877 |
| | **2,109,179** | 2,410,714 |

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

#### *(b) Non-current assets*

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Mainland China | **1,429,602** | 1,392,958 |
| Other countries | **78,841** | 93,729 |
| | **1,508,443** | 1,486,687 |

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

## 5. OPERATING SEGMENT INFORMATION (Continued)

### Information about a major customer

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

| | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| China State Railway Group Co., Ltd. | 543,408 | 776,611 |
| China Railway Construction Heavy Industry Co., Ltd. | N/A | 487,528 |

## 6. REVENUE

### (a) Disaggregation of revenue from contracts with customers

| | For the year ended 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Sales of machinery RMB'000 | Overhaul services RMB'000 | Sales of parts and components RMB'000 | Railway line maintenance services RMB'000 | Rail vehicles engineering and technical services RMB'000 | Total RMB'000 |
| Timing of revenue recognition | | | | | | |
| At a point in time | 1,074,651 | 632,832 | 245,448 | – | – | 1,952,931 |
| Over time | – | – | – | 59,499 | 96,749 | 156,248 |
| Total | 1,074,651 | 632,832 | 245,448 | 59,499 | 96,749 | 2,109,179 |

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

## 6. REVENUE (Continued)

### (b) Performance obligations for contracts with customers

***Sales of machinery***

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

***Overhaul services***

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

***Sales of parts and components***

Revenues from sales of parts and components are mainly generated from sales of parts and components of large railway track maintenance machinery. Revenue is recognised when control of the parts and components has transferred, being at the point that the parts and components are delivered to the customers. The normal credit term is 30 to 60 days upon delivery.

***Railway line maintenance services***

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

***Rail vehicles engineering and technical services***

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

## 6. REVENUE (Continued)

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

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

**31 December 2019**

| | Sales of machinery RMB'000 | Overhaul services RMB'000 | Sales of parts and components RMB'000 | Railway line maintenance services RMB'000 | Rail vehicles engineering and technical services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Within one year | 500,000 | 158,658 | 63,728 | 108,359 | 11,638 | 842,383 |
| After one year | 465,662 | – | – | – | – | 465,662 |
| | 965,662 | 158,658 | 63,728 | 108,359 | 11,638 | 1,308,045 |

31 December 2018

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

## 7. OTHER INCOME AND GAINS AND LOSSES

| | **Year ended 31 December 2019 RMB'000** | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Interest income | **42,167** | 29,912 |
| Government grants (note) | **21,531** | 25,262 |
| Training income | **7,569** | 5,803 |
| Rental income | **2,388** | 3,573 |
| Dividend income from equity instruments at FVTOCI | **4,410** | 4,410 |
| Sale of scrap materials | **3,011** | 1,578 |
| Net exchange (loss) gain | **(292)** | 7,538 |
| Loss on disposal of property, plant and equipment and other intangible assets | **(918)** | (19) |
| Others | **7,686** | 9,524 |
| | **87,552** | 87,581 |

*Note:*

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

## 8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

| | **Year ended 31 December 2019 RMB'000** | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Depreciation of item of property, plant and equipment | **61,764** | 52,543 |
| Amortisation of right-of-use assets | **10,806** | – |
| Amortisation of prepaid land lease payments | **–** | 10,806 |
| Amortisation of other intangible assets | **5,851** | 5,710 |
| Total depreciation and amortisation *(note a)* | **78,421** | 69,059 |
| Impairment of trade and bill receivables | **43,876** | 28,777 |
| Impairment of deposits and other receivables | **257** | 80 |
| Impairment of contract assets | **134** | 12 |
| Total impairment losses, net *(note b)* | **44,267** | 28,869 |
| Write-down of inventories to net realisable value | **3,315** | 7,290 |
| Impairment loss on goodwill *(note 14)* | **15,656** | – |
| Operating lease expenses of buildings and equipment | **–** | 5,400 |
| Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 | **6,138** | – |
| Auditors' remuneration | **1,460** | 1,180 |
| Employee benefit expenses (including directors', supervisors' and chief executive's remuneration) *(note 10)*: | | |
| Wages, salaries and allowances | **272,599** | 212,581 |
| Defined contribution scheme expenses | **44,133** | 47,643 |
| Welfare and other expenses | **148,178** | 154,341 |
| Total employee benefit expenses *(notes c and d)* | **464,910** | 414,565 |

## 8. PROFIT BEFORE TAX (Continued)

| | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Research and development costs recognised as an expense *(note d)* | **167,930** | 156,730 |
| Provisions for warranties, net of reversal | **11,652** | 9,212 |
| Impairment losses on prepayments | **–** | 12,319 |

*Notes:*

(a) Depreciation of approximately RMB44,688,000 was capitalised in inventories for the year ended 31 December 2019 (2018: RMB38,902,000).

(b) Details of impairment assessment for the year ended 31 December 2019 are set out in note 35(c).

(c) Employee benefit expenses of approximately RMB253,900,000 were capitalised in inventories for the year ended 31 December 2019 (2018: RMB229,128,000).

(d) Employee benefit expenses of approximately RMB69,440,000 are included in research and development costs for the year ended 31 December 2019 (2018: RMB46,917,000).

## 9. INCOME TAX EXPENSE

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

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

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

Other entities in other jurisdictions are subject to enterprise income tax according to existing laws, interpretations and practices of the countries or regions in which the Group operates.

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

| | **Year ended 31 December 2019 RMB'000** | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax | **21,226** | 12,942 |
| Other jurisdictions | **62** | 773 |
| Under provision in prior year: | | |
| PRC Enterprise Income Tax | **2,519** | 359 |
| Deferred tax | **(3,342)** | 1,955 |
| Tax charge for the year | **20,465** | 16,029 |

## 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 for the years ended 31 December 2019 and 2018 is as follows:

| | **Year ended 31 December 2019 RMB'000** | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Profit before tax | **142,628** | 172,389 |
| Income tax charge at the statutory income tax rate of 25% | **35,657** | 43,097 |
| Adjustments in respect of current tax of previous periods | **2,519** | 359 |
| Effect of preferential income tax rate for some group entities | **(10,149)** | (9,019) |
| Additional deduction of research and development costs *(Note)* | **(12,108)** | (15,804) |
| Tax effect of expenses not deductible for tax purpose | **5,765** | 502 |
| Tax effect of income not taxable for tax purpose | **(1,103)** | (1,103) |
| Deferred tax changes resulting from changes in applicable tax rates | **–** | (2,197) |
| Others | **(116)** | 194 |
| Tax charge at the effective rate | **20,465** | 16,029 |

*Note:*

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

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

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

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

| | **Year ended 31 December 2019 RMB'000** | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Fees | **372** | 372 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **598** | 594 |
| Performance related bonuses | **2,960** | 1,004 |
| Pension scheme contributions | **93** | 113 |
| | **4,023** | 2,083 |

Bonuses are determined based on the Group's performance.

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

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

The names of the directors, supervisors and chief executive and their remuneration for the years ended 31 December 2019 and 2018 are as follows:

**Year ended 31 December 2019**

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Tong Pujiang (Chief executive) | – | 192 | 1,300 | 35 | 1,527 |
| Mr. Chen Yongxiang | – | 192 | 1,086 | 35 | 1,313 |
| Mr. Liu Feixiang | – | – | – | – | – |
| **Non-executive directors** | | | | | |
| Mr. Wu Zhixu | 78 | – | – | – | 78 |
| Mr. Zhao Hui *(note i)* | – | – | – | – | – |
| Mr. Sha Mingyuan | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Mr. Yu Jiahe | 98 | – | – | – | 98 |
| Mr. Sun Linfu | 98 | – | – | – | 98 |
| Mr. Wong Hin Wing | 98 | – | – | – | 98 |
| | 372 | 384 | 2,386 | 70 | 3,212 |
| **Supervisors** | | | | | |
| Mr. Yu Qiuhua | – | 214 | 574 | 23 | 811 |
| Mr. Wang Huaming | – | – | – | – | – |
| Mr. Wang Shuchuan | – | – | – | – | – |
| | – | 214 | 574 | 23 | 811 |
| | 372 | 598 | 2,960 | 93 | 4,023 |

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

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

Year ended 31 December 2018

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

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

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

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

*Notes:*

(i) Mr. Zhao Hui resigned as an executive director and is appointed as a non-executive director with effect from 30 July 2019.

(ii) Mr. Li Xuefu resigned as a non-executive director with effect from 29 June 2018.

(iii) Mr. Lyu Jianming resigned as a supervisor with effect from 29 June 2018.

### (b) Five highest paid employees

The five highest paid employees within the Group for the years ended 31 December 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Directors | 2 | – |
| Non-director and non-supervisor employees | 3 | 5 |
| | 5 | 5 |

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

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

| | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 2,956 | 5,455 |
| Performance related bonuses | 1,058 | – |
| Pension scheme contributions | 35 | – |
| | 4,049 | 5,455 |

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

### (b) Five highest paid employees (Continued)

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

| | 2019 | 2018 |
|---|---|---|
| Nil to HKD1,000,000 | – | 1 |
| HKD1,000,001 to HKD1,500,000 | 1 | 4 |
| HKD1,500,001 to HKD2,000,000 | 2 | – |
| | 3 | 5 |

During the years ended 31 December 2019 and 2018, no directors, supervisors, chief executive or any of the non-director and non-supervisor highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors, supervisors, chief executive or any of the non-director and non-supervisor highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 11. DIVIDENDS

Dividends for the year ended 31 December 2019 are set out below:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Declared: | | |
| Dividend declared to owners of the Company *(note i)* | **75,994** | 15,199 |
| Proposed: | | |
| Final dividend – RMB0.04 (2018: RMB0.05) per share *(note ii)* | **60,795** | 75,994 |

*Notes:*

(i) A final dividend of RMB0.05 (2018: final dividend in respect of the year ended 31 December 2017 of RMB0.01) per share in respect of the year ended 31 December 2018 was approved in the Company's annual general meeting held on 28 June 2019.

(ii) The board of directors of the Company proposed, on 20 March 2020, a final dividend of RMB0.04 per share in respect of the year ended 31 December 2019. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE

The calculation of the basic earnings per share amount is based on the profit for the year attributable to the owners of the Company, and the number of ordinary shares of 1,519,884,000 (2018: 1,519,884,000) in issue during the year.

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Earnings | | |
| Profit attributable to the owners of the Company, used in the basic earnings per share calculation | **122,163** | 156,360 |

## 12. EARNINGS PER SHARE (Continued)

| | **2019** | 2018 |
|---|---|---|
| | **'000** | '000 |
| Numbers of shares | | |
| Number of ordinary shares in issue during the year used in the basic earnings per share calculation | **1,519,884** | 1,519,884 |

No diluted earnings per share for both 2019 and 2018 were presented as there were no potential ordinary shares in issue for both 2019 and 2018.

## 13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **31 December 2019** | 31 December 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Equity investments: | | |
| Domestic shares in a Hong Kong listed company | **160,914** | 242,230 |

## 14. GOODWILL

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **COST** | | |
| At beginning of year | **91,367** | 91,367 |
| **IMPAIRMENT** | | |
| Impairment loss recognised in the year | **(15,656)** | – |
| **CARRYING VALUES** | | |
| At end of year | **75,711** | 91,367 |

## 14. GOODWILL (Continued)

### Impairment assessment of goodwill

Goodwill acquired through business combinations is allocated to rail vehicles engineering and technical services cash-generating unit for impairment assessment:

The carrying amount of goodwill allocated to rail vehicles engineering and technical services cash-generating unit is as follows:

| | Rail vehicles engineering and technical services | |
|---|---|---|
| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
| Carrying amount of goodwill | **75,711** | 91,367 |

In 2019, the Group's management adjusted the operating strategy of the rail vehicles engineering and technical services cash-generating unit concerning Mainland China market. Goodwill impairment assessment has been performed as at 31 December 2019. Due to the changes in circumstances and based on the impairment assessment, the directors of the Company have consequently determined impairment of goodwill directly related to the rail vehicles engineering and technical services cash-generating unit amounting to RMB15,656,000. The impairment loss has been charged to profit or loss.

The recoverable amount of the rail vehicles engineering and technical services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on a financial forecast covering a five-year period (2018:five-year) approved by senior management. The pre-tax discount rate applied to the cash flow projections is 10.38% (2018: 9.45%) per annum. The cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate which is the projected long-term average growth rate for the industry. Other major assumptions for the recoverable amount estimation relate to the estimation of cash inflows/outflows which include future sales growth rate. Such estimation is based on the rail vehicles engineering and technical services cash-generating unit's past performance and management's expectations for the market development.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings and structures RMB'000 | Machinery, production equipment and measurement and experimental equipment RMB'000 | Vehicles RMB'000 | Other equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2019 | 900,895 | 460,203 | 28,448 | 78,999 | 106,490 | 1,575,035 |
| Additions | 568 | 11,285 | 2,012 | 6,299 | 82,273 | 102,437 |
| Transfers | 19,213 | 4,714 | – | – | (23,927) | – |
| Disposals and others | (2,952) | (6,403) | (2,788) | (892) | (238) | (13,273) |
| At 31 December 2019 | 917,724 | 469,799 | 27,672 | 84,406 | 164,598 | 1,664,199 |
| Depreciation: | | | | | | |
| At 1 January 2019 | (203,252) | (321,694) | (23,346) | (67,437) | – | (615,729) |
| Depreciation charge for the year | (24,381) | (29,355) | (3,167) | (4,861) | – | (61,764) |
| Disposals | 1,954 | 4,638 | 2,649 | 774 | – | 10,015 |
| At 31 December 2019 | (225,679) | (346,411) | (23,864) | (71,524) | – | (667,478) |
| Net carrying amount: | | | | | | |
| At 31 December 2019 | 692,045 | 123,388 | 3,808 | 12,882 | 164,598 | 996,721 |
| At 1 January 2019 | 697,643 | 138,509 | 5,102 | 11,562 | 106,490 | 959,306 |

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

| | Buildings and structures RMB'000 | Machinery, production equipment and measurement and experimental equipment RMB'000 | Vehicles RMB'000 | Other equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2018 | 887,108 | 456,475 | 29,619 | 72,982 | 115,014 | 1,561,198 |
| Additions | 1,083 | 4,991 | – | 5,336 | 8,727 | 20,137 |
| Transfers from construction in progress | 12,704 | – | – | 681 | (13,385) | – |
| Transfers to other intangible assets | – | – | – | – | (3,866) | (3,866) |
| Disposals | – | (1,263) | (1,171) | – | – | (2,434) |
| At 31 December 2018 | 900,895 | 460,203 | 28,448 | 78,999 | 106,490 | 1,575,035 |
| Depreciation: | | | | | | |
| At 1 January 2018 | (179,234) | (298,498) | (23,101) | (64,663) | – | (565,496) |
| Depreciation charge for the year | (24,018) | (24,395) | (1,356) | (2,774) | – | (52,543) |
| Disposals | – | 1,199 | 1,111 | – | – | 2,310 |
| At 31 December 2018 | (203,252) | (321,694) | (23,346) | (67,437) | – | (615,729) |
| Net carrying amount: | | | | | | |
| At 31 December 2018 | 697,643 | 138,509 | 5,102 | 11,562 | 106,490 | 959,306 |
| At 1 January 2018 | 707,874 | 157,977 | 6,518 | 8,319 | 115,014 | 995,702 |

## 16. RIGHT-OF-USE ASSETS

| | Leasehold lands RMB'000 |
|---|---|
| As at 1 January 2019 | |
| Carrying amount | 419,446 |
| As at 31 December 2019 | |
| Carrying amount | 408,640 |
| For the year ended 31 December 2019 | |
| Depreciation charge | 10,806 |
| Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 | 6,138 |
| Total cash outflow for leases | 6,138 |

The Group regularly entered into short-term leases for machinery and equipment. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

## 17. PREPAID LAND LEASE PAYMENTS

| | RMB'000 |
|---|---|
| Carrying amount at 1 January 2018 | 430,252 |
| Amortisation for the year | (10,806) |
| Carrying amount at 31 December 2018 | 419,446 |
| Portion classified as current assets | (10,831) |
| Non-current portion | 408,615 |

## 18. OTHER INTANGIBLE ASSETS

| | Office software RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|
| Cost: | | | |
| At 1 January 2018 | 49,724 | 6,869 | 56,593 |
| Additions | 200 | – | 200 |
| Transfers from construction in progress | 3,866 | – | 3,866 |
| At 31 December 2018 | 53,790 | 6,869 | 60,659 |
| Additions | 5,828 | – | 5,828 |
| Disposals | (68) | – | (68) |
| At 31 December 2019 | **59,550** | **6,869** | **66,419** |
| Accumulated amortisation: | | | |
| At 1 January 2018 | (44,302) | (2,403) | (46,705) |
| Amortisation for the year | (4,774) | (936) | (5,710) |
| At 31 December 2018 | (49,076) | (3,339) | (52,415) |
| Amortisation for the year | (4,915) | (936) | (5,851) |
| Eliminated on disposals | 63 | – | 63 |
| At 31 December 2019 | **(53,928)** | **(4,275)** | **(58,203)** |
| Net carrying amount: | | | |
| At 31 December 2019 | **5,622** | **2,594** | **8,216** |
| At 31 December 2018 | 4,714 | 3,530 | 8,244 |

## 19. DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Deferred tax assets | **19,936** | 31,488 |
| Deferred tax liabilities | **–** | (28,390) |
| | **19,936** | 3,098 |

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

| | Deductible tax losses RMB'000 | Allowance for impairment loss of financial assets and contract assets RMB'000 | Allowance for impairment loss of prepayments RMB'000 | Unrealised gains arising from intra-group transactions RMB'000 | Discount on long-term trade receivables RMB'000 | Accruals and provisions RMB'000 | Impairment of inventories RMB'000 | Government grants received not yet recognised as income RMB'000 | Fair value adjustments on debt instruments RMB'000 | Fair value change on equity instruments at FVTOCI RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2018 | 11,804 | 7,542 | – | 5,626 | 4,796 | 1,811 | 1,559 | 303 | – | (32,669) | 772 |
| Recognised in profit or loss | (11,212) | 4,581 | 1,848 | (3,491) | (1,119) | 4,451 | 1,093 | (303) | – | – | (4,152) |
| Recognised in other comprehensive income | – | – | – | – | – | 2 | – | – | – | 4,279 | 4,281 |
| Effect of change in tax rate credited to profit or loss | 1,059 | 993 | – | – | – | 51 | 94 | – | – | – | 2,197 |
| Balance at 31 December 2018 | 1,651 | 13,116 | 1,848 | 2,135 | 3,677 | 6,315 | 2,746 | – | – | (28,390) | 3,098 |
| Recognised in profit or loss | (1,651) | 5,864 | – | (303) | (1,172) | 341 | 263 | – | – | – | 3,342 |
| Recognised in other comprehensive income | – | – | – | – | – | 16 | – | – | 1,282 | 12,198 | 13,496 |
| Balance at 31 December 2019 | **–** | **18,980** | **1,848** | **1,832** | **2,505** | **6,672** | **3,009** | **–** | **1,282** | **(16,192)** | **19,936** |

As at 31 December 2019 and 2018, there were no unrecognised deferred tax assets in respect of deductible temporary differences and unused tax losses.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 20. INVENTORIES

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Raw materials and parts and components | **613,042** | 600,509 |
| Materials in transit | **14,891** | 12,553 |
| Work in progress | **452,629** | 360,722 |
| Finished goods | **71,473** | 204,215 |
| Goods in transit | **79,672** | – |
| | **1,231,707** | 1,177,999 |
| Allowance for impairment | **(20,063)** | (17,684) |
| | **1,211,644** | 1,160,315 |

Movements in the allowance for impairment losses are as follows:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Impairment: | | |
| At 1 January | **17,684** | 10,394 |
| Impairment losses | **3,315** | 7,290 |
| Write off | **(936)** | – |
| At 31 December | **20,063** | 17,684 |

## 21. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has control to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customer. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Trade receivables | **1,836,088** | 2,141,528 |
| Less: Impairment losses under expected credit loss model | **(122,124)** | (79,057) |
| Trade receivables, net | **1,713,964** | 2,062,471 |
| Bills receivables at amortised costs | **164,084** | 636,437 |
| Less: Impairment losses under expected credit loss model | **(809)** | – |
| Bills receivables at FVTOCI | **543,135** | – |
| | **2,420,374** | 2,698,908 |
| Less: Non-current portion | **(171,311)** | (164,067) |
| Current portion | **2,249,063** | 2,534,841 |

An ageing analysis of current portion of trade and bills receivables, based on the billing date and net of allowance for credit losses, as at the end of the reporting period is as follows:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Within 1 year | **1,702,334** | 1,958,967 |
| 1 to 2 years | **319,668** | 302,640 |
| 2 to 3 years | **112,130** | 232,294 |
| Over 3 years | **114,931** | 40,940 |
| | **2,249,063** | 2,534,841 |

All bills receivable of the Group are with a maturity period of less than one year.

Details of the outstanding balances with related parties included in trade and bills receivables are set out in note 38.

Details of impairment assessment of trade receivables are set out in note 35.

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Deposits and other receivables | **18,677** | 10,924 |
| Less: Impairment losses under expected credit loss model | **(585)** | (328) |
| | **18,092** | 10,596 |
| Prepayments | **194,748** | 45,158 |
| Deductible input VAT | **17,529** | 683 |
| Tax receivables | **3** | 4,867 |
| | **230,372** | 61,304 |
| Less: Long-term prepayments | **(19,155)** | (19,155) |
| Current portion | **211,217** | 42,149 |

Details of the outstanding balances with related parties included in prepayments, deposits and other receivables are set out in note 38.

## 23. CONTRACT ASSETS

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Railway line maintenance services | **28,977** | 2,379 |
| | **28,977** | 2,379 |
| Current | **28,977** | 2,379 |
| Non-current | **–** | – |
| | **28,977** | 2,379 |

The contract assets are primarily related to the Group's right to consideration for work completed and not billed because the rights are conditional upon the Group's fulfilment of certain future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Cash | **8** | 1 |
| Bank balances | **1,832,765** | 1,789,206 |
| Pledged deposits | **2,884** | 3,958 |
| | **1,835,657** | 1,793,165 |
| Less: Pledged deposits for guarantees of sales contracts | **(2,884)** | (3,958) |
| Cash and cash equivalents in the consolidated statements of financial position and cash flows | **1,832,773** | 1,789,207 |

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB1,793,528,000 (2018: RMB1,765,720,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

Details of the outstanding balance with a related party included in cash and cash equivalents are set out in note 38.

## 25. TRADE AND BILLS PAYABLES

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

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Within 1 year | **1,700,596** | 1,614,878 |
| 1 to 2 years | **9,353** | 22,778 |
| 2 to 3 years | **2,816** | 407 |
| Over 3 years | **328** | 11,253 |
| | **1,713,093** | 1,649,316 |

Trade payables are non-interest-bearing and are normally settled within the agreed periods.

Details of the outstanding balances with related parties included in trade and bills payables are set out in note 38.

## 26. OTHER PAYABLES AND ACCRUALS

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Advance lease payments | **2,765** | 1,667 |
| Accrued salaries, wages and benefits | **32,319** | 22,201 |
| Other tax payables | **11,718** | 96,526 |
| Other payables | **111,339** | 121,783 |
| | **158,141** | 242,177 |

Other payables are unsecured, non-interest-bearing and have no fixed terms of settlement.

Details of the outstanding balances with related parties included in other payables and accruals are set out in note 38.

## 27. CONTRACT LIABILITIES

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Contract liabilities | **41,240** | 42,161 |
| | **41,240** | 42,161 |
| Current | **41,240** | 42,161 |
| Non-current | **–** | – |
| | **41,240** | 42,161 |

The Group's contract liabilities represent advance payments from customers in respect of sales of machinery, parts and components contracts, overhaul services and railway line maintenance services contracts. The contract liabilities are recognised as revenue on a systematic basis that is consistent with the transfer to the customer the goods or services to which the liabilities relate.

The following table presented the amounts of revenue recognised which were included in contract liabilities carried forward from prior periods.

| | Sales of machinery RMB'000 | Overhaul services RMB'000 | Sales of parts and components RMB'000 | Railway line maintenance services RMB'000 | Rail vehicles engineering and technical services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | | | |
| Revenue recognised that was included in the contract liability balance at beginning of the year | **28,025** | **5,377** | **2,788** | **5,971** | **–** | **42,161** |
| **For the year ended 31 December 2018** | | | | | | |
| Revenue recognised that was included in the contract liability balance at beginning of the year | 33,121 | 7,216 | 12,282 | 17,100 | – | 69,719 |

## 28. PROVISIONS

| | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Provision for product warranties: | | |
| At 1 January | **4,751** | 4,988 |
| Additional provision, net | **11,652** | 9,212 |
| Amounts utilised during the year | **(11,424)** | (9,449) |
| At 31 December | **4,979** | 4,751 |

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

## 29. ISSUED CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | Year ended 31 December 2019 '000 | Year ended 31 December 2018 '000 | Year ended 31 December 2019 RMB'000 | Year ended 31 December 2018 RMB'000 |
| Issued and fully paid | | | | |
| At beginning of the year and at end of the year | **1,519,884** | 1,519,884 | **1,519,884** | 1,519,884 |

## 30. RESERVES

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

## 31. CONTINGENT LIABILITIES

At 31 December 2019, the Group did not have any material contingent liabilities not provided for in the consolidated financial statements (2018: Nil).

## 32. OPERATING LEASE COMMITMENTS

**The Group as lessee**

| | 31 December 2018 RMB'000 |
|---|---|
| Minimum lease payments paid under operating leases during the year | 357 |

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 31 December 2018 RMB'000 |
|---|---|
| Within one year | 357 |

**The Group as lessor**

At the end of the reporting period, the Group had the following total future minimum lease payments receivable on leases are as follows:

| | **31 December 2019 RMB'000** |
|---|---|
| Within one year | **2,423** |
| In the second year | **2,425** |
| In the third year | **2,428** |
| In the fourth year | **2,512** |
| In the fifth year | **2,476** |
| After five years | **2,476** |
| | **14,740** |

## 32. OPERATING LEASE COMMITMENTS (continued)

The Group had contracted with lessees for the following future minimum lease payments:

| | 31 December 2018 RMB'000 |
|---|---|
| Within one year | 2,583 |
| In the second to fifth year, inclusive | 9,787 |
| | 12,370 |

## 33. CAPITAL COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | **47,787** | 44,089 |
| | **47,787** | 44,089 |

## 34. TRANSFERS OF FINANCIAL ASSETS

### Transferred financial assets that are derecognised in their entirety

At 31 December 2019, certain bills receivable accepted by banks in Mainland China were discounted or endorsed to banks or certain of its suppliers with an aggregate carrying amount of RMB229,675,000 (2018: RMB47,823,000) and derecognised by the Group (the "**Derecognised Bills**"). The Derecognised Bills had a maturity of less than one year at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have the recourse against the Group if the banks default (the "**Continuing Involvement**"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2019, the Group has recognised a loss of RMB3,894,000 (2018: Nil) related to derecognition of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, equity instruments at FVTOCI and debt instruments at FVTOCI. Details of the financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments include interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on cash and cash equivalents based on or by reference to the interest rates promulgated by the People's Bank of China. No sensitivity analysis has been presented for bank balances as the Directors consider that the fluctuation in interest rates on bank balances is minimal.

The Group did not have any interest-bearing borrowings as at 31 December 2019 and 2018.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's business transacted in RMB, the aforesaid currency is defined as the functional currency of the Company and its principal subsidiaries. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

As a result of its significant business operations in Mainland China, the Group's revenue and expenses are mainly denominated in RMB and over 99% of the financial assets and liabilities are denominated in RMB. The effect of the fluctuations in the exchange rates of RMB against foreign currencies on the Group's results of operations is therefore minimal and the Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regard.

Details of the Group's cash and cash equivalents and pledged deposits at the end of the reporting period are disclosed in note 24.

### (c) Credit risk and impairment assessment

The Group trades only with recognised and creditworthy third parties with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

According to the Group's credit risk management policy, the Group always recognises lifetime ECL for trade receivables and contract assets arising from contracts with customers.

The carrying amounts of cash and cash equivalents and pledged deposits represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Credit risk and impairment assessment (Continued)

The table below details the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

| 31 December 2019 | *Note* | 12-month or lifetime ECL | 2019 Gross carrying amount | 2018 Gross carrying amount |
|---|---|---|---|---|
| **Financial assets at amortised costs** | | | | |
| Trade receivables | *(i)* | Lifetime ECL (provision matrix) | **1,706,688** | 2,058,248 |
| | | Lifetime ECL (credit-impaired) – assessed individually | **129,400** | 83,280 |
| Bills receivable | *(i)* | Lifetime ECL (not credit-impaired) | **164,084** | 636,437 |
| Deposits and other receivables | | 12-month ECL | **18,391** | 10,924 |
| Pledged deposits | | 12-month ECL | **2,884** | 3,958 |
| Cash and cash equivalents | | 12-month ECL | **1,832,773** | 1,789,207 |
| **Financial assets at FVTOCI** | | | | |
| Bill receivables at FVTOCI | *(i)* | Lifetime ECL (not credit-impaired) | **543,135** | – |
| **Other items** | | | | |
| Contract assets | *(i)* | Lifetime ECL (not credit-impaired) | **29,123** | 2,391 |

*Note:*

(i) The Group has applied the simplified approach in IFRS 9 to measure the loss allowance for trade receivables, trade bill receivables and contract assets arising from contracts with customers at lifetime ECL. Except for assets credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Credit risk and impairment assessment (Continued)

***Provision matrix***

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers are with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2019 within lifetime ECL. Debtors which are credit-impaired with gross carrying amounts of RMB129,400,000 as at 31 December 2019 (2018: RMB83,280,000) were assessed individually.

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Expected credit loss rates** | **Gross carrying amount of trade receivables RMB'000** | Expected credit loss rates | Gross carrying amount of trade receivables RMB'000 |
| Within 1 year | **0.50%** | **1,173,185** | 0.20% | 1,489,578 |
| 1 to 2 years | **3.5%** | **331,262** | 3% | 312,000 |
| 2 to 3 years | **6%** | **119,287** | 5% | 177,182 |
| 3 to 4 years | **20%** | **38,102** | 15% | 29,575 |
| 4 to 5 years | **40%** | **15,499** | 35% | 24,473 |
| Over 5 years | **100%** | **29,353** | 100% | 25,440 |
| | | **1,706,688** | | 2,058,248 |

The expected credit loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2019, the Group provided RMB7,650,000 (2018: RMB7,417,000) impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of RMB35,417,000 (2018: RMB21,360,000) were made on debtors individually during the year ended 31 December 2019.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Credit risk and impairment assessment (Continued)

***Provision matrix** (Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

| | Lifetime ECL (not credit-impaired) RMB'000 | Lifetime ECL (credit-impaired) RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2018 | 32,048 | 18,232 | 50,280 |
| Changes due to financial instruments recognised as at 1 January 2018: | | | |
| – Transfer to credit-impaired | (5,176) | 5,176 | – |
| – Impairment losses recognised | 15,135 | 21,360 | 36,495 |
| – Impairment losses reversed | (10,697) | – | (10,697) |
| New trade receivables originated during the year | 2,979 | – | 2,979 |
| As at 31 December 2018 | 34,289 | 44,768 | 79,057 |
| Changes due to financial instruments recognised as at 1 January 2019: | | | |
| – Transfer to credit-impaired | **(3,676)** | **3,676** | **–** |
| – Impairment losses recognised | **16,006** | **35,417** | **51,423** |
| – Impairment losses reversed | **(13,361)** | **–** | **(13,361)** |
| New trade receivables originated during the year | **5,005** | **–** | **5,005** |
| As at 31 December 2019 | **38,263** | **83,861** | **122,124** |

As disclosed in note 5, the Group generates substantial proportion of revenue from a small number of customers. As a result, it faces concentration of credit risk. The Group manages this risk by maintaining a strict control over its outstanding receivables and senior management regularly reviews the overdue balances. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. As the Group's major customers are either PRC government agencies at the national, provincial and local levels or other state-owned entities, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. Senior management of the Company keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (d) Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period based on contractual undiscounted payments.

**31 December 2019**

| | Within 1 year<br>RMB'000 |
|---|---|
| Trade and bills payables | 1,713,093 |
| Financial liabilities included in other payables and accruals | 111,339 |
| | 1,824,432 |

31 December 2018

| | Within 1 year<br>RMB'000 |
|---|---|
| Trade and bills payables | 1,649,316 |
| Financial liabilities included in other payables and accruals | 121,783 |
| | 1,771,099 |

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (e) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from equity instruments at FVTOCI (note 13) as at 31 December 2019 and 2018. The Group's equity investment represents domestic ordinary shares of an entity listed on the Hong Kong Stock Exchange and is valued based on quoted market prices after considering non-liquidity discount effect at the end of each reporting period.

The market equity index for the following stock exchange, at the close of business of the nearest trading day in the year to the end of each reporting period, and its respective highest and lowest points during the reporting period were as follows:

| | **31 December 2019 RMB'000** | **High/low RMB'000** | 31 December 2018 RMB'000 | High/low RMB'000 |
|---|---|---|---|---|
| Hong Kong – Hang Seng Index | **28,190** | **30,157/25,281** | 25,846 | 32,967/24,586 |

The following table demonstrates the sensitivity to every 10% change in the fair value of the equity investments, with all other variables held constant, based on their carrying amounts at the end of each reporting period.

| | **Increase/ (decrease) in carrying amount of equity investments %** | **Increase/(decrease) in equity 2019 RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| Equity investments: | | | |
| Equity instruments at FVTOCI | 10 | **13,678** | 20,590 |
| | (10) | **(13,678)** | (20,590) |

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (f) Capital management

The Group's primary objective for managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, by pricing services and good products commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debts. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

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

The Group's strategy is to maintain the gearing ratio at a healthy level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its businesses. The gearing ratios as at the end of the reporting periods were as follows:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Trade and bills payables | **1,713,093** | 1,649,316 |
| Financial liabilities included in other payables and accruals | **111,339** | 121,783 |
| Less: | | |
| Cash and cash equivalents | **(1,832,773)** | (1,789,207) |
| Pledged deposits | **(2,884)** | (3,958) |
| Net debt | **(11,225)** | (22,066) |
| Equity attributable to owners of the Company | **5,468,544** | 5,495,439 |
| Net debt and equity attributable to owners of the Company | **5,457,319** | 5,473,373 |
| Gearing ratio | **(0.2%)** | (0.4%) |

## 36. FINANCIAL INSTRUMENTS

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

**Financial assets**

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Financial assets at amortised cost: | | |
| Trade and bills receivables at amortised cost | **1,877,239** | 2,698,908 |
| Financial assets included in prepayments, deposits and other receivables | **17,806** | 10,596 |
| Pledged deposits | **2,884** | 3,958 |
| Cash and cash equivalents | **1,832,773** | 1,789,207 |
| Equity instruments at FVTOCI | **160,914** | 242,230 |
| Debt instruments at FVTOCI: | | |
| Bills receivable at FVTOCI | **543,135** | – |
| | **4,434,751** | 4,744,899 |

**Financial liabilities**

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Financial liabilities at amortised cost: | | |
| Trade and bills payables | **1,713,093** | 1,649,316 |
| Financial liabilities included in other payables and accruals | **111,339** | 121,783 |
| | **1,824,432** | 1,771,099 |

## 37. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period.

| | Fair values | |
|---|---|---|
| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
| Equity instruments at FVTOCI | **160,914** | 242,230 |
| Bill receivables at FVTOCI | **543,135** | – |

The Group's equity instruments measured at fair value at the end of the reporting period represent domestic ordinary shares of an entity listed in Hong Kong, are categorised within level 2 of the fair value hierarchy and the fair values of which are based on quoted market prices, after considering the non-liquidity discount effect. The non-liquidity discount ratio applied to the calculation of the fair value of equity investment is 65% (2018: 65%) as at 31 December 2019, which is determined based on the price quotations of similar financial instruments.

The fair value of bill receivables measured at fair value has been calculated by discounting the expected future cash flows using discount rates by reference to rates of discounting the bills receivables with similar credit risk and similar terms to the bank and is categorised within level 2 of the fair value hierarchy.

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 (2018: nil).

## 37. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

**Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

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

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
| Trade receivables, non-current portion | **171,311** | 164,067 | **171,349** | 164,401 |

Management has assessed that the fair values of cash and cash equivalents and pledged deposits, the current portion of trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the non-current portion of trade receivables has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities and is categorised within level 2 of the fair value hierarchy.

## 38. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the years ended 31 December 2019 and 2018:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Sales of machinery:** | | |
| Fellow subsidiaries | **260,703** | 525,175 |
| **Sales of parts and components:** | | |
| Fellow subsidiaries | **3,550** | 767 |
| **Overhaul services provided to:** | | |
| Fellow subsidiaries | **23,341** | 4,905 |
| **Railway line maintenance services provided to:** | | |
| Fellow subsidiaries | **15,107** | 18,850 |
| **Rail vehicles engineering and technical services provided to:** | | |
| A fellow subsidiary | **501** | 10,574 |
| **Receiving services from:** | | |
| A fellow subsidiary | **29,723** | 1,254 |
| **Bills payable issuance fee paid to:** | | |
| A fellow subsidiary | **63** | 80 |
| **Interest income received from:** | | |
| A fellow subsidiary | **1,172** | 12,097 |

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

In addition, the above related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 38. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| **Cash and cash equivalents:** | | |
| Deposits in a fellow subsidiary | **73,783** | 756,609 |
| **Trade and bills receivables:** | | |
| Due from fellow subsidiaries | **327,242** | 562,003 |
| **Prepayments, deposits and other receivables:** | | |
| Due from fellow subsidiaries | **1,473** | – |
| **Trade and bills payables:** | | |
| Due to fellow subsidiaries | **151,034** | 245,362 |
| **Other payables and accruals:** | | |
| Due to fellow subsidiaries | **3,820** | 17,487 |

Cash and cash equivalents are unsecured and earn interest pursuant to the financial services framework agreement with the fellow subsidiary.

Trade and bills receivables are unsecured, non-interest-bearing and have similar credit terms with other customers of the Group.

Trade and bills payables are unsecured, non-interest-bearing and have similar credit terms with other suppliers of the Group.

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

## 38. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

| | **Year ended 31 December 2019 RMB'000** | Year ended 31 December 2018 RMB'000 |
|---|---|---|
| Short-term employee benefits | **10,028** | 4,465 |
| Pension scheme contributions | **342** | 341 |
| | **10,370** | 4,806 |

Further details of directors', supervisors' and chief executive's remuneration are disclosed in note 10.

## 39. CORPORATE AND GROUP INFORMATION

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out below:

| Name of subsidiary | Place of registration and business | Registered/ issued capital | Percentage of equity interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Beijing Ruiweitong Engineering Machinery Co., Ltd.* ("北京瑞維通工程機械有限公司") | Beijing, China | RMB584,370,622 | 100% | – | Provision of overhaul services, and manufacturing and sale of parts and components |
| Kunming Aotongda Railway Machinery Co., Ltd.* ("昆明奧通達鐵路機械有限公司") | Kunming, China | RMB50,000,000 | 100% | – | Manufacturing and sale of parts and components |
| Beijing Kunweitong Railway Mechanization Engineering Co., Ltd.* ("北京昆維通鐵路機械化工程有限公司") | Beijing, China | RMB60,000,000 | 100% | – | Provision of railway line maintenance services |
| CRCC Yukun Limited | Hong Kong | HKD10,000 | 100% | – | Investment holding |

## 39. CORPORATE AND GROUP INFORMATION (Continued)

| Name of subsidiary | Place of registration and business | Registered/ issued capital | Percentage of equity interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| CE cideon engineering GmbH & Co. KG | Bautzen, Germany | Euro("**EUR**")500,000 | – | 100% | Provision of rail vehicles engineering and technical services |
| CE cideon engineering Verwaltungs GmbH | Bautzen, Germany | EUR26,000 | – | 100% | Investment holding |
| CE cideon engineering Schweiz AG | Basel, Switzerland | Swiss Franc 160,000 | – | 100% | Provision of rail vehicles engineering and technical services |

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

None of the subsidiaries had issued any debt securities at the end of the year.

## 40. EVENT AFTER THE REPORTING PERIOD

### (a) Proposed dividend

As disclosed in note 11, the board of directors of the Company proposed, on 20 March 2020, a final dividend of RMB0.04 per share in respect of the year ended 31 December 2019. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

### (b) The outbreak of the 2019 Novel Coronavirus ("COVID-19")

The outbreak of COVID-19 since January 2020 and the subsequent quarantine measures imposed by the Chinese and Europe government have had certain impact over the Group's restoration of production and operation since January 2020. The degree of impact will depend on the situation of epidemic prevention and control, duration and implementation of various control policies.

The Directors are still assessing the financial impact that the COVID-19 will have on the Group's financial position and operating performance up to the date of approval of these consolidated financial statements.

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | **431,876** | 431,876 |
| Equity instruments at FVTOCI | **160,914** | 242,230 |
| Property, plant and equipment | **868,156** | 826,460 |
| Prepaid land lease payments | **–** | 241,108 |
| Right-of-use assets | **241,108** | – |
| Other intangible assets | **4,891** | 3,713 |
| Trade receivables | **171,311** | 164,067 |
| Long-term prepayments | **19,155** | 19,155 |
| Deferred tax assets | **12,202** | 20,769 |
| Other receivables | **105,393** | 105,393 |
| Total non-current assets | **2,015,006** | 2,054,771 |
| **CURRENT ASSETS** | | |
| Prepaid land lease payments | **–** | 6,283 |
| Inventories | **872,405** | 796,444 |
| Trade and bills receivables | **2,105,175** | 2,167,042 |
| Prepayments, deposits and other receivables | **297,195** | 215,978 |
| Pledged deposits | **244** | 721 |
| Cash and cash equivalents | **1,666,915** | 1,661,504 |
| Total current assets | **4,941,934** | 4,847,972 |

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Trade and bills payables | **1,502,848** | 1,290,643 |
| Other payables and accruals | **144,933** | 184,268 |
| Contract liabilities | **26,700** | 28,025 |
| Tax payable | **528** | – |
| Defined benefit obligations | **40** | 130 |
| Provisions | **1,521** | 1,970 |
| Total current liabilities | **1,676,570** | 1,505,036 |
| Net current assets | **3,265,364** | 3,342,936 |
| Total assets less current liabilities | **5,280,370** | 5,397,707 |
| **NON-CURRENT LIABILITIES** | | |
| Defined benefit obligations | **–** | 40 |
| Deferred tax liabilities | **–** | 28,390 |
| Total non-current liabilities | **–** | 28,430 |
| Net assets | **5,280,370** | 5,369,277 |
| **EQUITY** | | |
| Issued capital | **1,519,884** | 1,519,884 |
| Reserves *(note)* | **3,760,486** | 3,849,393 |
| Total equity | **5,280,370** | 5,369,277 |

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

*Note:*

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

| | Capital reserve RMB'000 | Special reserve RMB'000 | Surplus reserve RMB'000 | FVTOCI investments reserve RMB'000 | Defined benefit plan revaluation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 3,271,445 | – | 84,382 | 185,118 | (10,262) | 157,290 | 3,687,973 |
| Profit for the year | – | – | – | – | – | 200,876 | 200,876 |
| Other comprehensive expense for the year: | | | | | | | |
| Investments in equity instruments at FVTOCI, net of tax | – | – | – | (24,249) | – | – | (24,249) |
| Re-measurement loss on defined benefit plan, net of tax | – | – | – | – | (8) | – | (8) |
| Total comprehensive (expense)/income for the year | – | – | – | (24,249) | (8) | 200,876 | 176,619 |
| Dividends declared | – | – | – | – | – | (15,199) | (15,199) |
| Appropriation to statutory surplus reserve | – | – | 20,088 | – | – | (20,088) | – |
| Transfer to special reserve | – | 3,386 | – | – | – | (3,386) | – |
| Utilisation of special reserve | – | (3,386) | – | – | – | 3,386 | – |
| **At 31 December 2018** | **3,271,445** | **–** | **104,470** | **160,869** | **(10,270)** | **322,879** | **3,849,393** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **63,447** | **63,447** |
| Other comprehensive expense for the year: | | | | | | | |
| Investments in equity instruments at FVTOCI, net of tax | **–** | **–** | **–** | **(69,118)** | **–** | **–** | **(69,118)** |
| Investments in debt instruments at FVTOCI, net of tax | **–** | **–** | **–** | **(7,148)** | **–** | **–** | **(7,148)** |
| Re-measurement loss on defined benefit plan, net of tax | **–** | **–** | **–** | **–** | **(94)** | **–** | **(94)** |
| Total comprehensive (expense)/income for the year | **–** | **–** | **–** | **(76,266)** | **(94)** | **63,447** | **(12,913)** |
| Dividends declared | **–** | **–** | **–** | **–** | **–** | **(75,994)** | **(75,994)** |
| Appropriation to statutory surplus reserve | **–** | **–** | **6,344** | **–** | **–** | **(6,344)** | **–** |
| Transfer to special reserve | **–** | **4,663** | **–** | **–** | **–** | **(4,663)** | **–** |
| Utilisation of special reserve | **–** | **(4,663)** | **–** | **–** | **–** | **4,663** | **–** |
| At 31 December 2019 | **3,271,445** | **–** | **110,814** | **84,603** | **(10,364)** | **303,988** | **3,760,486** |

## 42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 20 March 2020.

# BASIC CORPORATE INFORMATION

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

# BASIC CORPORATE INFORMATION

| | |
|---|---|
| Legal advisers | Baker & McKenzie<br>14th Floor, One Taikoo Place<br>979 King's Road<br>Quarry Bay<br>Hong Kong |
| | Jia Yuan Law Offices<br>F408, Ocean Plaza<br>158 Fuxing Men Nei Street<br>Xicheng District<br>Beijing, China |
| Auditor | Deloitte Touche Tohmatsu<br>35/F<br>One Pacific Place<br>88 Queensway<br>Hong Kong |

# DEFINITIONS

| | |
|---|---|
| "Articles" | the Articles of Association of the Company |
| "Board" or "Board of Directors" | the board of Directors of the Company |
| "CG Code" | the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules |
| "Company" | CRCC High-Tech Equipment Corporation Limited (中國鐵建高新裝備股份有限公司), a joint stock company incorporated in the PRC |
| "Company Law" | Company Law of the People's Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People's Congress on 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on 28 December 2013 and took effect on 1 March 2014, which was subsequently amended and took effect on 26 October 2018 |
| "CRCC" | China Railway Construction Corporation Limited (中國鐵建股份有限公司), the controlling shareholder of the Company |
| "CRCCG" | China Railway Construction Corporation (中國鐵道建築有限公司), the indirect controlling shareholder of the Company |
| "CRCHI" | China Railway Construction Heavy Industry Co., Ltd. (中國鐵建重工集團有限公司) |
| "Deloitte" | Deloitte Touche Tohmatsu |
| "Director(s)" | the director(s) of the Company |
| "Group" | the Company and its subsidiaries |
| "H Share(s)" | overseas listed foreign shares in the share capital of the Company with the nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange |
| "Hong Kong Stock Exchange" or "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

# DEFINITIONS

| | |
|---|---|
| "Listing Rules" | The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules |
| "PRC" or "China" | The People's Republic of China |
| "Shareholder(s)" | holder(s) of shares of the Company |
| "Supervisor(s)" | the supervisor(s) of the Company |
| "Supervisory Committee" | the supervisory committee of the Company |

中國鐵建高新裝備股份有限公司

CRCC HIGH-TECH EQUIPMENT CORPORATION LIMITED