



2019 | ANNUAL REPORT

株洲中车时代电气股份有限公司 ZHUSHOU CRRC TIMES ELECTRIC CO., LTD.

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

Stock Code: 3898

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Notes:

1. The financial data in this Annual Report are prepared under PRC Accounting Standards;
2. This Annual Report is prepared in Chinese and English. In the event of any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.

Financial Highlights

CONSOLIDATED STATEMENT OF PROFIT OR LOSS HIGHLIGHTS

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	16,304,207	15,657,900	15,143,709	14,657,820	14,800,035
Operating profit	2,901,285	2,942,893	2,816,361	2,971,620	3,270,376
Total profit	2,932,613	2,967,131	2,874,309	3,320,250	3,456,495
Net profit	2,657,559	2,650,535	2,562,210	2,902,686	2,978,237
Net profit attributable to shareholders of the Parent	2,659,164	2,612,488	2,523,471	2,893,142	2,965,278
Net profit attributable to non-controlling interests	(1,605)	38,047	38,739	9,544	12,959
Basic earnings per share (RMB Yuan/share)	2.26	2.22	2.15	2.46	2.52

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	32,985,615	29,034,522	26,649,648	23,735,276	22,932,182
Total liabilities	10,789,336	8,911,008	8,593,083	7,664,369	8,914,713
Net assets	22,196,279	20,123,514	18,056,565	16,070,907	14,017,469

Chairman's Report

Dear Shareholders,

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

PERFORMANCE REVIEW

The Group's revenue in 2019 amounted to RMB16,304.2 million (2018: RMB15,657.9 million), representing an increase of 4.1% year-on-year. Net profit attributable to Shareholders of the Parent Company amounted to RMB2,659.2 million (2018: RMB2,612.5 million), representing an increase of 1.8% year-on-year. Basic earnings per share amounted to RMB2.26 (2018: RMB2.22), representing an increase of 1.8% year-on-year.

The Board considered and approved the profit distribution plan for 2019 to distribute cash dividends of RMB529.0 million in total to all Shareholders, equivalent to the distribution of RMB0.45 per share (tax inclusive) based on the total number of 1,175,476,637 shares of the Company. The proposed dividend to be distributed is subject to the approval of the Shareholders at the general meeting.

BUSINESS REVIEW AND OUTLOOK

Business Review

Year 2019 was a critical year for the 13th Five-Year Plan. China Railway Corporation was restructured, and China State Railway Group Co., Ltd. was established. As the reform continued, fixed asset investment in China's railway industry remained at high level, and passenger and cargo volumes continued to increase. The Company thoroughly implemented the "Three-year Action Plan" (2018-2020) to steadily improve the operation efficiency and benefits.

In respect of the business of railway equipment, the Company maintained a stable market position for major railway equipment products and launched new products and technologies to the market. In particular, the Company consolidated its position in locomotive traction system market with increase in market shares, and achieved outstanding results for products of power head EMUs. It also delivered the bulk orders of China's standard electric multiple units with a speed of 350km/h, and achieved whole-platform assembling of traction system and ancillary system for electric multiple units with a speed of 250km/h. The Company received the first order for LKJ-15C and launched new products such as intelligent driving system into the market. With the founding of Taiyuan Times, the Company steadily consolidated the railway engineering resources of CRRC.

In respect of the business of urban railway equipment, our market share continued to have a leading position in the traction system market. The Company made breakthrough in products supplied by third parties for orders of repair and maintenance of traction system at later stage of product life cycle. It also smoothly expanded the business of non-traction system products, achieved breakthrough for high-end urban rail engineering vehicle, and received orders for various new products and technologies. Changsha Metro Line 4, which adopted the Company's self-developed CBTC signal system, was opened for operation with outstanding performance.

In respect of the business of new industry, the Company smoothly expanded in new energy vehicle market for its semi-conductor products, implemented corporate operation for semi-conductor assets, and commenced construction of automotive parts assembly project. The Company also launched the electric drive ROV, a marine engineering product, into the market, and made a breakthrough in development of new technology for underwater mining. The smart valley factory for electric drive system for EVs was completed and commenced operation, and received its first overseas order.

Chairman's Report

In the past year, the Company continued to consolidate its business operation and steadily increased the scale and benefit of business development. It also continued to put efforts in technology research and development, which significantly enhanced the vitality and motivation of technology innovation. The Company implemented refined management to improve operation quality and efficiency, and continuously enhanced the awareness and effectiveness of collaborative management and control.

Outlook

China issued the Outline for Developing China's Strength in Transportation (《交通強國建設綱要》) and proposed a major strategic decision to develop China's strength in transportation. Year 2020 is critical for facilitating the development of China's strength in transportation, and transportation industry will maintain stable development with favourable momentum. In 2020, the Group will adhere to the development idea of "operating with high quality and high efficiency", capture opportunities in the strategic period of national development and the period of the "Double-Hundred Actions", strengthen the refined management, and develop competitive advantages with intelligent and integrative "big system", thereby strengthening concentric and diversified businesses and forming new driver for the Group's development.

In respect of the business of railway equipment, the Company will strive to ensure the bulk delivery of major products such as power head EMUs and standard EMUs with a speed of 250km/h, and put great efforts in expansion in inter-city rail market and new railway markets.

In respect of the business of urban railway equipment, the Company will deeply implement the philosophy of "operating cities", carry out targeted marketing initiatives, develop in emerging industries, and expand the scope of cross-platform repair and maintenance business. The Company will also facilitate the promotion of CBTC systems in order to achieve the rapid and sustainable development of signal and communication business.

In respect of the business of new industry, for semiconductor products, the Company will focus on three major markets of railway transportation, high voltage transmission and distribution and new energy, establish an industrial quality management and control system with high volume capacity, low cost and high reliability, and vigorously promote the construction of automotive parts assembly project. For marine engineering business, the Company will adhere to the "market development" and "technology marketing promotion" approaches, consolidate its position in international market, and make breakthrough in target markets in China as soon as possible. The Company will facilitate the full collaboration between the electric drive system for EVs and resources of "electronic control, electric machinery, IGBT and sensor" businesses, thereby developing advantages in system integration.

Looking forward, the Group has confidence that it can consolidate its position in the industries it operates in by leveraging advantages, and will strive to grow businesses, thereby creating greater value for the Shareholders.

Li Donglin

Chairman of the Board

Zhuzhou, Hunan, the PRC
27 March 2020

Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with the Group's audited financial statements and their notes as set out in this Annual Report.

REVENUE

	For the year ended 31 December		
	2019 (RMB million)	2018 (RMB million)	2017 (RMB million)
Business of railway equipment	9,000.5	9,084.7	9,158.7
Business of urban railway equipment	4,263.1	3,375.1	2,761.1
Business of new industry	2,936.1	3,117.7	2,902.3
Others	104.5	80.4	321.6
Total revenue	16,304.2	15,657.9	15,143.7

The Group's revenue increased by RMB646.3 million or 4.1% from RMB15,657.9 million for the year ended 31 December 2018 to RMB16,304.2 million for the year ended 31 December 2019.

In 2019, the Group's revenue was mainly derived from the business of urban railway equipment, which increased by RMB888.0 million as compared to last year, which was mainly due to the delivery of Chongqing Metro Line 5 and Circle Line, Hangzhou Metro Line 5 and other products.

COST OF SALES

The Group's cost of sales increased by RMB175.5 million from RMB9,790.2 million for the year ended 31 December 2018 to RMB9,965.7 million for the year ended 31 December 2019. The increase in the cost of sales was mainly due to the combined effects of the growth in the Group's revenue and the change of product sales mix.

GROSS PROFIT

The Group's gross profit increased by RMB470.8 million from RMB5,867.7 million for the year ended 31 December 2018 to RMB6,338.5 million for the year ended 31 December 2019. The Group's gross profit margin increased from 37.5% for the year ended 31 December 2018 to 38.9% for the year ended 31 December 2019. The increase in gross profit margin was mainly due to the change of product sales mix.

SELLING EXPENSES

Selling expenses of the Group decreased by RMB31.4 million from RMB1,152.5 million for the year ended 31 December 2018 to RMB1,121.1 million for the year ended 31 December 2019. The decrease in selling expenses was mainly due to the selling business expenses of the Group for 2019 decreased as compared to last year.

Management Discussion and Analysis

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by RMB69.3 million from RMB780.6 million for the year ended 31 December 2018 to RMB849.9 million for the year ended 31 December 2019. The increase in administrative expenses was due to the increase in fixed management costs of the Group in 2019.

RESEARCH AND DEVELOPMENT EXPENSES

The Group's research and development expenses increased by RMB163.5 million from RMB1,443.0 million for the year ended 31 December 2018 to RMB1,606.5 million for the year ended 31 December 2019. The increase in research and development expenses was due to the increase in investment in research and development of the Group in 2019.

FINANCE COSTS

The Group's finance costs increased by RMB29.0 million from negative RMB24.6 million for the year ended 31 December 2018 to RMB4.4 million for the year ended 31 December 2019. The increase in finance costs was mainly due to the decrease in interest income and the increase in interest expenses of the Group in 2019.

OTHER INCOME

The Group's other income increased by RMB72.2 million from RMB378.3 million for the year ended 31 December 2018 to RMB450.5 million for the year ended 31 December 2019. The increase in other income was mainly due to the gain from government grants recognised by the Group in 2019.

INVESTMENT INCOME

The Group's investment income increased by RMB15.4 million from RMB79.6 million for the year ended 31 December 2018 to RMB95.0 million for the year ended 31 December 2019. The increase in investment income was mainly due to the increase in gains from the Group's bank wealth management products in 2019.

GAINS ON FAIR VALUE CHANGES

The gains on fair value changes of the Group in the year ended 31 December 2019 were increased by RMB5.8 million as compared to the year ended 31 December 2018.

ASSET IMPAIRMENT LOSSES

The Group's asset impairment losses increased by RMB189.7 million from negative RMB104.0 million for the year ended 31 December 2018 to RMB85.7 million for the year ended 31 December 2019. During the year, the Group performed impairment tests on the goodwill formed by the acquisition of the SMD Group in 2015 and found that there were signs of impairment and made provision for impairment of RMB68.0 million.

CREDIT IMPAIRMENT LOSSES

The Group's credit impairment losses increased by RMB164.6 million from RMB5.2 million for the year ended 31 December 2018 to RMB169.8 million for the year ended 31 December 2019, which was mainly due to the increase in provision for credit impairment of receivables assessed under expected credit losses model by the Group.

Management Discussion and Analysis

(LOSSES)/GAINS ON DISPOSAL OF ASSETS

The Group's (losses)/gains on disposal of assets decreased by RMB1.7 million from gain on disposal of assets of RMB1.4 million for the year ended 31 December 2018 to loss on disposal of assets of RMB0.3 million for the year ended 31 December 2019.

NON-OPERATING INCOME

The Group's non-operating income increased by RMB7.2 million from RMB26.3 million for the year ended 31 December 2018 to RMB33.5 million for the year ended 31 December 2019.

NON-OPERATING EXPENSES

The non-operating expenses of the Group for the year ended 31 December 2019 and the year ended 31 December 2018 were both RMB2.1 million.

TOTAL PROFIT

The Group's total profit decreased by RMB34.5 million from RMB2,967.1 million for the year ended 31 December 2018 to RMB2,932.6 million for the year ended 31 December 2019. The Group's sales profit margins for the years ended 31 December 2018 and 31 December 2019 were 18.9% and 18.0% respectively.

INCOME TAX EXPENSE

The Group's income tax expense decreased by RMB41.5 million from RMB316.6 million for the year ended 31 December 2018 to RMB275.1 million for the year ended 31 December 2019.

The Company, Times Electronics, Ningbo Times, Shenyang Times, Qingdao Electric, ZNERCC, Shanghai SMD and Times Signal & Communication were accredited as high and new technology enterprises and received approvals from the relevant government authorities, and they were subject to the preferential corporate income tax rate of 15%.

Baoji Times was subject to the preferential tax policy of the Development of the Western Region in China, and it was subject to to be taxed at the preferential corporate income tax rate of 15%.

Times Software enjoyed the preferential tax policy of "Two years exemptions and three years halve" ("兩免三減半").

The effective income tax rates of the Group for the years ended 31 December 2018 and 31 December 2019 were 10.7% and 9.4% respectively.

NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT

Net profit attributable to Shareholders of the Parent increased by RMB46.7 million from RMB2,612.5 million for the year ended 31 December 2018 to RMB2,659.2 million for the year ended 31 December 2019. The increase in the net profit attributable to Shareholders of the Parent was mainly due to the decrease in effective income tax rate of the Group in 2019.

Management Discussion and Analysis

NON-CONTROLLING INTERESTS

Non-controlling interests decreased by RMB39.6 million from RMB38.0 million for the year ended 31 December 2018 to negative RMB1.6 million for the year ended 31 December 2019. The decrease in non-controlling interests was mainly due to the decrease in net profit from the Group's non-wholly owned subsidiaries in 2019 as compared to last year.

EARNINGS PER SHARE

Earnings per share increased by RMB0.04 from RMB2.22 for the year ended 31 December 2018 to RMB2.26 for the year ended 31 December 2019.

LIQUIDITY AND SOURCE OF CAPITAL

Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. The net decrease in cash and cash equivalents of the Group amounted to RMB136.9 million for the current year.

Net cash inflows from operating activities

The Group's net cash inflow from operating activities decreased by RMB1,920.7 million from RMB3,758.6 million for the year ended 31 December 2018 to RMB1,837.9 million for the year ended 31 December 2019, which was mainly due to the increase in cash paid for goods and services by the Group as compared to last year.

Net cash outflows from investing activities

For the year ended 31 December 2019, the Group's net cash outflow from investing activities was approximately RMB1,475.5 million, which principally includes the cash received from disposal or returns of investments of RMB12,730.9 million, the cash paid for acquisition of investments of RMB13,574.4 million, and the cash paid for acquisition of fixed assets, intangible assets and other long-term assets of RMB750.5 million.

Net cash outflows from financing activities

For the year ended 31 December 2019, the Group's net cash outflow from financing activities was approximately RMB507.3 million. The cash outflow item in financing activities was mainly the amount of RMB570.2 million of cash paid for distribution of dividend or profits and for interest expenses.

LIQUIDITY

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

Management Discussion and Analysis

COMMITMENTS

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

	31 December 2019 (RMB million)	31 December 2018 (RMB million)
Contracted but not provided for		
Capital commitments	426.1	385.5
Investments in subsidiaries	50.0	27.5
Total	<u>476.1</u>	<u>413.0</u>

INDEBTEDNESS

The following table sets out the Group's indebtedness as at the dates indicated:

	31 December 2019 (RMB million)	31 December 2018 (RMB million)
Short-term borrowings	146.6	168.2
Long-term borrowings (inclusive of amounts due within one year)	<u>235.6</u>	<u>237.3</u>
Total	<u>382.2</u>	<u>405.5</u>

The Group's borrowings were mainly fixed rate loans.

Maturity analysis:

	31 December 2019 (RMB million)	31 December 2018 (RMB million)
Due within 1 year	151.7	173.1
Due within 1 to 2 years	147.8	5.1
Due within 2 to 5 years	15.0	154.6
Due over 5 years	<u>67.7</u>	<u>72.7</u>
Total	<u>382.2</u>	<u>405.5</u>

As at 31 December 2019, the annual interest rates for loans above were 1.08%-4.92% (31 December 2018: 1.08%-4.92%).

Pursuant to the relevant borrowing agreements, as at 31 December 2019, no loans were entitled to priority to be repaid with certain assets if the Group is incapable of repayment.

Management Discussion and Analysis

PLEDGE

As at 31 December 2019, no fixed assets (31 December 2018: nil) was pledged to secure general banking facilities granted to the Group.

As at 31 December 2019, the Group pledged no land use rights (31 December 2018: nil) to obtain bank borrowings.

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business development and maximise Shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and risk characteristics of underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. The Group made no changes in the objectives and processes for managing capital in 2019 and in 2018.

The Group monitors capital by using the gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio below 30%. Net debt includes all borrowings, bills payable, trade payables, employee benefits payable, other taxes payable excluding income tax payable, other payables, lease liabilities and long-term payables, less cash and cash equivalents. Capital includes equity attributable to Shareholders of the Parent. The Group's gearing ratio was 11.7% as at 31 December 2018 and 15.6% as at 31 December 2019.

OPERATING SEGMENTS

For management purposes, the Group's operating activities are attributable to a single operating segment, focusing on the provision of rolling stock and its extension products and services in the market. Therefore, no other operating segment is presented.

ACQUISITION OF NON-CONTROLLING INTERESTS

On 18 January 2019, the Company entered into a plan of arrangement with Dynex, pursuant to which, the Company acquired all the issued and outstanding shares of Dynex not held by the Company at a cash consideration of 0.65 Canadian dollar per share in accordance with the plan of arrangement under the Canada Business Corporations Act, at a total consideration of approximately Canadian dollar 13.1 million (equivalent to RMB65.9 million). The plan of arrangement was completed on 15 March 2019 and Dynex became a wholly-owned subsidiary of the Company. The delisting of the shares of Dynex from the TSX Venture Exchange took place at the close of trading on 19 March 2019 (Canada time). Please refer to the announcement of the Company dated 20 March 2019 for details.

POST BALANCE SHEET EVENTS

On 27 March 2020, the 12th meeting of the fifth session of the Board of the Company approved the profit distribution plan for 2019 to distribute cash dividends of RMB529.0 million in total to all Shareholders, equivalent to the distribution of RMB0.45 per share (tax inclusive) based on the total number of 1,175,476,637 shares of the Company.

The outbreak of COVID-19 (the "Outbreak") has spread to over 100 countries and regions in the world since January 2020. In February 2020, the Group resumed operation and production in an orderly manner according to the requirements of relevant local government to ensure the delivery of important orders as scheduled. As the Outbreak continues to evolve, the Group will continue to assess the impact of the Outbreak on the Group in the future.

Management Discussion and Analysis

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2019, and no member of the Group was engaged in any litigation, arbitration or claims of material importance and, so far as the Board was aware, no litigation or claim of material importance was pending or threatened by or against any member of the Group.

FUTURE PLAN FOR MATERIAL INVESTMENTS

In March 2019, the Company initiated the construction of automotive parts assembly project (the "Project"). The total investment amount of the Project is estimated to be approximately RMB3,337.7 million, which is expected to be funded by the Group's internal resources. As at the date of this annual report, the Project is in the stage of facilities procurement and calling for bidding of project construction. Please refer to the announcement of the Company dated 28 March 2019 for details.

MAJOR RISKS AND UNCERTAINTIES

The Group has reviewed the possible risks and uncertainties which may affect its businesses, financial condition, operations and prospects, and considered that the major risks and uncertainties that may affect the Group are those as set out below:

Market Risks

The Group is subject to various market risks, including foreign exchange risk. The businesses of the Group are principally located in China, while most of the transactions of the Group are denominated in RMB, certain of its sales, purchases and borrowings are denominated in foreign currencies including Japanese yen, United States dollar, the UK Pound sterling and Hong Kong dollar. Fluctuations of exchange rates of RMB against such foreign currencies can affect the Group's results of operations. Details of such risks are set out in Note VIII. 2.

Exchange Rate Risk

The Group also conducts derivative transactions, mainly including forward foreign exchange settlement and sale, aiming at managing the exchange rate risk from the operation of the Group.

Policy Risk

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

Risk of Outbreak of COVID-19

Since the outbreak of COVID-19, the Company has been paying close attention to its spread and development and makes active response to it. It is expected that the outbreak of COVID-19 will have short-term effect on the scheme of production and operation, equipment procurement, parts and raw material supply and product delivery of the Company.

EMPLOYEES, REMUNERATION AND TRAINING

Please refer to the subsections headed "Directors' Report – Share appreciation rights scheme" and "Directors' Report – Employees and remuneration policy" respectively for details on the number and remuneration policies of employees, bonus and share appreciation rights scheme and training scheme.

Directors, Supervisors and Senior Management

DIRECTORS



Li Donglin, aged 53, the Chairman of the Board and an executive Director, and also the chairman of the strategy committee and nomination committee of the Company. Mr. Li is a senior engineer. Mr. Li joined CRRC ZELRI in July 1989 and has held the positions of deputy chief engineer, deputy general manager of the rail transport department, director of the manufacturing centre, deputy general manager of the sales and marketing centre of CRRC ZELRI. Mr. Li served as the chief marketing officer of the Company from September 2005 to December 2007, vice president and Party secretary of the Company from December 2007 to December 2009. Mr. Li was a director, the general manager and deputy Party secretary of CRRC ZELRI from December 2015 to May 2018, was the chairman of the board of directors of Times New Materials from February 2016 to August 2018, and has been the chairman of the board of directors and Party secretary of CRRC ZELRI from since May 2018. Mr. Li graduated from Southwest Jiaotong University with a bachelor's degree in Electric Traction and Drive Control in 1989. Mr. Li was the general manager of the Company from January 2010 to April 2010. Mr. Li was an executive Director, a member of the strategy committee and the general manager of the Company from April 2010 to January 2016 and the chairman of the board of the directors of Dynex from May 2010 to June 2016. Mr. Li was the Vice Chairman of the Board, and an executive Director the chairman of the risk control committee and a member of the strategy committee of the Company from March 2017 to July 2018, and has been the Chairman of the Board and an executive Director, the chairman of the strategy committee and the nomination committee of the Company since July 2018.



Yang Shouyi, aged 57, Vice Chairman and an executive Director, and also the chairman of the risk control committee and a member of the strategy committee. Mr. Yang is a senior engineer. Mr. Yang joined CRRC ZELRI in 1984 and served as the deputy director, the director of the research and development centre, the vice chief engineer and the director of the investment planning department of CRRC ZELRI between January 2001 and December 2004. Mr. Yang was the assistant to the president of the Company from December 2004 to March 2006. He continued to hold various positions in CRRC ZELRI between April 2006 and August 2017, including the assistant to the director, the deputy general manager, the deputy Party secretary, the secretary of Party discipline inspection commission, chairman of the labour union, supervisor and the chairman of the supervisory board. Between August 2017 and May 2018, Mr. Yang was the vice chairman of the board of directors and the Party secretary of CRRC ZELRI. Since May 2018, Mr. Yang has been a director, the general manager and the deputy Party secretary of CRRC ZELRI and the chairman of the board of directors of Times New Materials since August 2018. Mr. Yang graduated from the Huazhong Institute of Technology (currently known as Huazhong University of Science and Technology) with a bachelor's degree in Measurement Technology and Automatic Instrumentation in 1984 and from the then Northern Jiaotong University (currently known as Beijing Jiaotong University) with a master's degree in Railway Traction Electrification and Automation in 1994. Mr. Yang has been the Vice Chairman and an executive Director of the Company as well as the chairman of the risk control committee and a member of the strategy committee since July 2018.

Directors, Supervisors and Senior Management



Liu Ke'an, aged 49, an executive Director and the general manager and also a member of the strategy committee of the Company. Mr. Liu is the chairman of the board of directors of Dynex, Shiling and CRRC Hofer and a vice chairman of Zhuzhou Guochuang Railway Technology Company Limited (株洲國創軌道交通科技有限公司). Mr. Liu is a professorate senior engineer. He joined CRRC ZELRI in August 1994 and served as engineer, the chief engineer, senior engineer and the chief designer of CRRC ZELRI. Mr. Liu has held various positions such as director of the drive technology department of technology centre, director of systems project department of the technology centre, deputy director and director of the technology centre of the Company since September 2005. He was an employee representative supervisor of the Company from December 2007 to January 2010, the chief technology officer of the Company from January 2010 to June 2012 and the vice general manager and the chief engineer of the Company from June 2012 to January 2016. Mr. Liu also served as the general manager of semi-conductor business unit of the Company from January 2014 to February 2016. Mr. Liu graduated from the Department of Electrical Engineering of Tongji University with a bachelor's degree in Engineering majoring in Industrial Electrical Automation in 1994 and graduated from Zhongnan University of Economics and Law with a master's degree in Corporate Management in 2008, and graduated from Central South University in December 2015 with a doctor's degree in transportation and communication engineering. Mr. Liu has served as an executive Director and the general manager of the Company since January 2016.



Yan Wu, aged 53, an executive Director, a vice general manager, the secretary to the Board and General Legal Counsel and also a member of the risk control committee of the Company. Mr. Yan is an executive director of HK Electric. Mr. Yan is a senior engineer. Mr. Yan graduated from Northwestern Polytechnical University with a bachelor's degree in Electro-Technology and a master's degree in Aircraft Navigation and Control in 1992. He joined CRRC ZELRI in 1992. Mr. Yan has held the positions as director of the technical standards department and the director of the securities and legal affairs department of the Company. Mr. Yan was appointed as the secretary to the Board of the Company in December 2007, a vice general manager of the Company in June 2012 and the General Legal Counsel of the Company in October 2019. He has been a non-executive Director of the Company from December 2010 to March 2014. Mr. Yan has served as an executive Director of the Company since March 2014.

Directors, Supervisors and Senior Management



Zhang Xinning, aged 56, a non-executive Director and a member of the strategy committee of the Company. Mr. Zhang is the chief engineer of CRRC. He has extensive technological expertise and management experience in the industry where CRRC specializes. Mr. Zhang served as the deputy head of the Equipment Technology Division of the Department of Technology and Education of the Ministry of Railways, the deputy chief engineer, deputy chief engineer and the general manager of the locomotives business department of CSR Group. He also served as the deputy general manager and chief engineer of CRRC Zhuzhou, the chief engineer of CSR Group as well as the chief engineer of CSR. Since June 2015, he has served as the chief engineer of CRRC. Mr. Zhang graduated from the Faculty of Electrical Engineering of the Northern Jiaotong University (currently known as Beijing Jiaotong University), majoring in electric traction and transmission control. He has also obtained the postgraduate qualification in system engineering and a master's degree in engineering from the Northern Jiaotong University. In addition, he obtained the Senior Professional Manager qualification awarded by China Enterprise Confederation and China Enterprise Directors Association. He is a professorate senior engineer and has been selected as a candidate for the Hundred Talents Program (百千萬人才工程) at the national level. He is entitled to the special government subsidy from the State Council. Mr. Zhang has been a non-executive Director of the Company since August 2017.



Chan Kam Wing, Clement, aged 62, an independent non-executive Director and also the chairman of the audit committee and a member of the risk control committee of the Company. Mr. Chan is a certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Institute of Chartered Accountants in England and Wales. Mr. Chan possesses the appropriate financial management expertise as required by the Listing Rules. Mr. Chan has been the managing director of BDO Limited since May 2009. Mr. Chan was the Asian regional director and a board member of Horwath International from 1996 to April 2009. Mr. Chan was appointed as a non-executive director of the Securities and Futures Commission of Hong Kong and a non-executive director of The Hong Kong Mortgage Corporation Limited in 2019. Mr. Chan has been an honorary advisor to the Financial Reporting Council of Hong Kong since 2015 to assist in handling cases involving compliant or investigation. Mr. Chan was elected as a council member of the HKICPA from 2007 to 2014, during which he was elected as the vice president of the HKICPA from 2012 to 2013, and was further elected as the president of HKICPA in 2014. In addition, he is actively involved in the work and matters of the technical and industry monitoring committees of the HKICPA. From 2010 to 2013, Mr. Chan was appointed as the chairman of the financial reporting standards committee of the HKICPA and was responsible for the research, editing and promulgation of the Hong Kong Financial Reporting Standards. Mr. Chan has also served as the chairman of the Asian-Oceanian Standard Setters Group in 2014 and 2015 and attended various international conferences on the setting of accounting standards on behalf of Hong Kong. Mr. Chan obtained a bachelor's degree in Accounting and a master's degree in Commerce from the United Kingdom and Australia, respectively. In addition, he was awarded an Honorary Fellowship by the Open University of Hong Kong in 2018 in recognition of his contribution to society and outstanding achievements. Mr. Chan has been an independent non-executive Director of the Company since September 2005.

Directors, Supervisors and Senior Management



Pao Ping Wing, aged 73, an independent non-executive Director and also the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Company. Since 1987, Mr. Pao has been appointed as the independent non-executive director of various companies listed on the Stock Exchange. Mr. Pao has substantial experiences in corporate governance. Mr. Pao is an independent non-executive director of Oriental Press Group Limited, Sing Lee Software (Group) Limited, Maoye International Holdings Limited, Capital Environment Holdings Limited and Soundwill Holdings Limited. Mr. Pao was appointed as a Justice of Peace in 1987. He was also appointed by the Hong Kong government as a member of the Town Planning Board, the Advisory Council on the Environment, the Hong Kong Housing Authority and the Land Development Corporation. Mr. Pao obtained a master's degree in Science of Human Settlement Planning and Development. Mr. Pao has been an independent non-executive Director of the Company since September 2005.



Liu Chunru, aged 49, an independent non-executive Director and a member of the audit committee, nomination committee and remuneration committee of the Company. Ms. Liu is a certified assets valuer. Ms. Liu was the vice president of Beijing China Enterprise Appraisal Co., Ltd. and the president of Zhongfa International Appraisal Co., Ltd.. She has been the vice chairman of the board of Beijing Zhuoxindahua Appraisal Co., Ltd. since September 2012. Ms. Liu graduated from Chongqing University with a bachelor's degree in Engineering in 1994 and graduated from Tsinghua University with a master's degree in Business Administration in 2008. Ms. Liu was a supervisor of the Company from September 2005 to April 2008. Ms. Liu has been an independent non-executive Director of the Company since June 2008.



Chen Xiaoming, aged 57, an independent non-executive Director and also a member of the audit committee and the remuneration committee of the Company. Mr. Chen was a lawyer of Shenzhen Foreign Economic Law Firm from July 1988 to December 1993. Mr. Chen was a partner and lawyer of Guangdong Huaye Law Firm from January 1994 to December 2002. He was a partner and lawyer of Guangdong Shengdian Law Firm from January 2003 to December 2006. He has been a partner and lawyer of Beijing Zhonglun (Shenzhen) Law Firm since January 2007 and is currently a consultant and lawyer of Beijing Zhonglun (Shenzhen) Law Firm. Mr. Chen graduated from the Law Department of Southwest University of Political Science & Law with a bachelor's degree in Laws in July 1985. He graduated from the Law Department of Southwest University of Political Science & Law in July 1988 with a master's degree in Laws. He has been an independent non-executive Director of the Company since March 2017.

Directors, Supervisors and Senior Management



Gao Feng, aged 43, an independent non-executive Director and also a member of the strategy committee and audit committee of the Company. Mr. Gao is professorate senior engineer. Mr. Gao graduated from the Department of Electrical Engineering and Applied Electronic Technology of Tsinghua University with a bachelor's degree and a master's degree in Engineering in July 2000 and July 2003, respectively. He also obtained a doctor's degree in Electrical Engineering from University of Washington in the United States of America in June 2008. Mr. Gao served as a senior researcher at the sustainable energy and electrical grid laboratory at Technical University of Berlin in Germany from January 2008 to April 2010. Between April 2010 to April 2015, he has been a senior researcher, chief scientist in smart energy of IBM China Research Institute and the vice chairman of IBM Global Smart Energy Professional Group. Since April 2015, Mr. Gao has served as the vice president of the Energy Internet Research Institute of Tsinghua University and is responsible for the daily administration. From June 2015 to December 2019, Mr. Gao served as a director of Beijing Tsingsoft Technology Co., Ltd.* (北京清軟創新科技股份有限公司), a company whose shares were traded on New OTC Market in China (stock code: 833852) and delisted in December 2019. Mr. Gao has been an independent non-executive Director of the Company since August 2018.

SUPERVISORS



Li Lue, aged 51, a Shareholders' representative Supervisor and the Chairman of the Supervisory Committee. Mr. Li is a senior accountant and certified public accountant. Mr. Li joined Zhuzhou Electric Locomotive Works* (株洲電力機車廠) in July 1990. He has held several positions including as an accountant and the deputy director of the finance department and the director of the restructuring office of the finance department. From November 2005 to March 2006, Mr. Li successively served as the director and manager of the audit department of Zhuzhou Electric Locomotive Co., Ltd.* (株洲電力機車有限公司); from March 2006 to January 2008, as chief accountant of Shijiazhuang Vehicles Works* (石家莊車輛廠); from January 2008 to December 2010, as deputy director general and chief financial officer of Shijiazhuang Vehicles Co., Ltd.* (石家莊車輛有限公司); from January 2011 to August 2018, as deputy general manager and chief financial officer of Guangzhou Locomotive Co., Ltd.* (廣州電力機車有限公司); from August 2018 to May 2019, as deputy general manager of Guangzhou Locomotive Co., Ltd.* (廣州電力機車有限公司). Since May 2019, Mr. Li has served as deputy general manager and chief financial officer of CRRC Zhuzhou Institute Co., Ltd. (中車株洲電力機車研究所有限公司), the controlling shareholder of the Company. Since July 2019, Mr. Li has served as a director of Times New Materials. Mr. Li graduated from the Hunan Finance and Economics College in July 1990 majoring in accounting. From September 2000 to June 2003, he studied accounting at the Hunan University Network College. In December 2010, Mr. Li graduated from Kunming University of Science and Technology with a master's degree in business administration. Mr. Li has been the Chairman of the Supervisory Committee and a supervisor of the Company since June 2019.

Directors, Supervisors and Senior Management



Pang Yiming, aged 56, a supervisor. Mr. Pang joined CRRC ZELRI in October 1982 and held the positions of assistant to the general manager of the manufacturing centre of CRRC ZELRI and deputy general manager of Times Electronics, the chief production officer and director of the production department of Times Electronics. Mr. Pang served as assistant to the director and deputy general manager of the marketing management department of the marketing centre of the Company from January 2007 to January 2009, director of the marketing management department of the Company from January 2009 to December 2009, and director of the operation management department of the Company from January 2010 to December 2011. Mr. Pang was the general manager of the printed circuit business department of the Company from January 2012 to July 2016. He was the general manager of the electrical interconnection technology business unit of the Company from July 2016 to March 2018, Mr. Pang has been a director of expert committee of the industrial development committee (preparation) of the Company since March 2018. Mr. Pang graduated from Central South University in 2004 after a three-year study in management and engineering. Mr. Pang has been an employee representative supervisor of the Company since September 2005.



Zhou Guifa, aged 56, a supervisor. Mr. Zhou is a professorate senior engineer. He joined CRRC ZELRI in 1985 and has held various positions as engineer, senior engineer and professorate senior engineer at the R&D centre of CRRC ZELRI and the technology centre of the Company. Mr. Zhou served as the chief technology officer of Shanghai branch of the technology centre of the Company from September 2005 to December 2006, and has been the chief expert of the Company since January 2007. He was voted as the chief technical expert of CSR in 2011, as the Principal Design Expert of CRRC in 2016 and as a scientist of CRRC in 2018. Mr. Zhou graduated from Dalian Railway Institute with a bachelor's degree in Engineering in 1985, obtained a master's degree in Engineering from Central South University in 1997 and a doctor's degree in Engineering from Tongji University in 2009. Mr. Zhou has been an employee representative supervisor of the Company since January 2010.



Geng Jianxin, aged 66, an independent supervisor. Mr. Geng has been a teacher at the Department of Accounting of Renmin University of China since 1993 and used to serve as a professor and a doctoral supervisor. Mr. Geng has retired from Renmin University of China in August 2019. Mr. Geng graduated from Zhejiang Metallurgy and Economics College in 1981 majoring in Accounting. He worked as an assistant accountant for a geophysics exploration company of the Ministry of Metallurgical Industry from 1981 to 1984 and for the Taxation Bureau of Baoding, Hebei from 1984 to 1985. He obtained a master's degree in economics from Zhongnan University of Economics and Law in 1988 and worked as a lecturer and associate professor at Hebei Institute of Economics and Business from 1988 to 1990. He obtained a doctor's degree in administration from the Department of Accounting of the Renmin University of China in 1993. Mr. Geng has been an independent supervisor of the Company since June 2011.

Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Liu Ke'an, aged 49, an executive Director and the general manager. Biographical details of Mr. Liu are set out above.



Niu Jie, aged 52, the Party secretary and the vice general manager. Mr. Niu is an executive director of Times Australia, Times USA, Times Brasil and Times Signal & Communication, and the director of the board of Baoji Times. Mr. Niu is an engineer. He joined CRRC ZELRI in October 1994 and served as the director of the production department of the PCB plant, the sales director of the production and operation department and the vice general manager of the marketing centre of CRRC ZELRI. He was the deputy general manager of the marketing centre of the Company from September 2005 to December 2006 and the general manager of the locomotives business department of the marketing centre of the Company from January 2007 to December 2008. He was the general manager of the locomotives business department of the Company from January 2009 to May 2013 and was deputy chief economist of the Company from January 2010 to June 2012. Mr. Niu was a technician and office director of the loading and unloading machinery plant of Lanzhou Railway Bureau from February 1988 to October 1994. Mr. Niu graduated from Central South University in June 2003 with an undergraduate certificate of graduation in machinery design, manufacturing and automation. Mr. Niu has been a vice general manager of the Company since June 2012 and the Party secretary of the Company since October 2018.



Liu Daxi, aged 55, a vice general manager. Mr. Liu is the chairman of the board of directors of CRRC-AVC Thermal. Mr. Liu is a senior engineer. He joined CRRC ZELRI in July 1988. He has worked for the trial production department, the electrical equipment factory and the manufacturing centre of CRRC ZELRI. He has held various positions as deputy director and director of the engineering department of electrical equipment factory, deputy director of the electrical equipment factory, deputy director, director and general manager of the manufacturing centre. Mr. Liu served as deputy chief economist of the Company from January 2008 to December 2009 and the chief production officer of the Company from January 2010 to June 2012. He graduated from Northern Jiaotong University (currently known as Beijing Jiaotong University) in July 1988 with a bachelor's degree in Electric Traction and Drive Control, and studied the MBA programme at Business School of Central South University from June 2003 to April 2005. He undertook a programme in leadership in manufacturing technology at the George Washington University in the United States from November 2003 to December 2003 and studied the programme for chief operation officer at Fudan University from September 2006 to March 2007. Mr. Liu has been a vice general manager of the Company since June 2012.

Directors, Supervisors and Senior Management



Tan Yongneng, aged 50, the secretary of party discipline inspection commission, the chief administration officer and the chairman of the labour union. Mr. Tan is a director of Qingdao Electric and Lanzhou Times. He joined CRRC ZELRI in July 1990, and has held various positions as director of general manager's office of Times Electronics, director of department of Party and mass affairs and director of Party office of CRRC ZELRI. He was director of department of Party and mass affairs and director of department of auditing of the Company from December 2004 to December 2005, director of department of Party and mass affairs and director of Party office of CRRC ZELRI from December 2005 to December 2007, and director of administration office and director of secretary office of decision-making committee of CRRC ZELRI from January 2008 to January 2010. Mr. Tan graduated from Xiangtan University majoring in Electrical Technology in July 1995. He attended the on-the-job postgraduate programme in Psychology and Human Resources of Peking University in 2000, and obtained a certificate of graduation by completing the full postgraduate programme in July 2002. He attended the on-the-job MBA programme of Business School of Central South University in 2003 and obtained a certificate of graduation by completing the full postgraduate programme in July 2005. Mr. Tan was the chief administration officer and the chairman of the labour union of the Company from January 2010 to January 2018, and has been the secretary of party discipline inspection commission, the chief administration officer and the chairman of the labour union of the Company since January 2018.

Yan Wu, aged 53, an executive Director, a vice general manager, the secretary to the Board and General Legal Counsel. Biographical details of Mr. Yan are set out above.



Zhang Hua, aged 44, a vice general manager and the chief financial officer. Ms. Zhang is a supervisor of Times Signal & Communication. Ms. Zhang is a professorate senior accountant and a Certified Public Accountant of China. Ms. Zhang joined CRRC ZELRI in 1998 and served as accountant and accounting manager. She served as a director of financial assets department of CRRC ZELRI from January 2005 to November 2007, the chief financial officer of Times New Materials from December 2007 to December 2009 and a vice general manager and the chief financial officer of Times New Materials from January 2010 to May 2013. Ms. Zhang graduated from Xiangtan University in June 1998 with a bachelor's degree in Economics and graduated from Hunan University with a master's degree in Professional Accounting in November 2012. Ms. Zhang has been a vice general manager and the chief financial officer of the Company since May 2013.

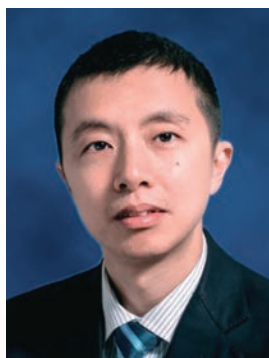
Directors, Supervisors and Senior Management



Yan Changqi, aged 52, a vice general manager. Mr. Yan is the chairman of the board of Qingdao Electric, an executive director of Ningbo Times, a director of Shanghai CRRC Rail Transit, Wenzhou Electric, Lanzhou Times, Shiling and Zhuzhou Siemens. Mr. Yan is a senior engineer. He joined CRRC ZELRI in August 1991 and has held various positions as the director of the sales department of the marketing centre, the deputy director of Foreign Economic Cooperation Office (FECO), a vice general manager of the marketing centre of CRRC ZELRI, the chief marketing officer of Times Electronics and the chief marketing officer of the passenger car electric business department. Mr. Yan served as the general manager of the EMU business department of the Company from January 2007 to December 2009, a vice chief economist of the Company from January 2010 to January 2013, the assistant to general manager and the general manager of the EMU business department of the Company from February 2013 to May 2013, and the assistant to general manager and the general manager of the railway business department of the Company from May 2013 to January 2016. Mr. Yan graduated with a bachelor's degree in Machinery Manufacturing Technology and Equipment (機械製造工藝與設備) from Xi'an Jiaotong University in July 1991. Mr. Yan has been a vice general manager of the Company since January 2016.



Yu Liu, aged 55, a vice general manager. Mr. Yu is the chairman of the board of directors of Guangzhou Times and CRRC Wabtec, and an executive director of Shenyang Times, Kuming Times and Chengdu Times and a director of Hangzhou Electric and Shanghai Shentong CRRC. Mr. Yu is a senior engineer. He joined CRRC ZELRI in June 1999 and has held various positions as the director of the marketing division of the production operations department, the director of the marketing division for urban railway equipment and the vice general manager of the business division for urban railway equipment. He was the general manager of the business division for urban railway of the Company from September 2005 to December 2009, the vice chief economist and the general manager of the business division for urban railway of the Company from January 2010 to January 2013, the assistant to general manager and the general manager of the business division for urban railway of the Company from February 2013 to February 2016. Mr. Yu graduated with a master's degree in Software Engineering from Wuhan University in July 2009. Mr. Yu has been a vice general manager of the Company since January 2016.



Shang Jing, aged 43, a vice general manager and chief engineer. Mr. Shang is an executive director of Times Semiconductor and a director of Traction Inspection. Mr. Shang is a professorate senior engineer. He joined CRRC ZELRI in July 2003 and has held the position as an engineer at the R&D centre. He served as engineer at the R&D centre, the director and the deputy director of the industrial drive department of the Company from September 2005 to May 2011, and the deputy director and the director of the foundation and platform research and development centre of CRRC ZELRI Research Institute from June 2011 to February 2015, respectively. He was also the vice chief engineer and the director of the foundation and platform research and development centre of CRRC ZELRI Research Institute from February 2015 to January 2016. Mr. Shang graduated with a bachelor's degree in Mechanical and Electrical Engineering and a master's degree in Power System and Automation from Southwest Jiaotong University in July 2000 and April 2003 respectively. In December 2016, he graduated from Central South University with a doctor degree in control science and engineering. Mr. Shang has been a vice general manager and chief engineer of the Company since January 2016.

Directors, Supervisors and Senior Management



Zhang Xiangyang, aged 45, a vice general manager. Mr. Zhang is the chairman of the board of directors of Baoji Times and Taiyuan Times, an executive director of Times Electronics and a director of SMD. Mr. Zhang is a senior engineer. He joined CRRC ZELRI in August 1998 and has taken various positions at the after-sale service department, human resources department, research and development centre and rail transport department of CRRC ZELRI from August 1998 to December 2014. Mr. Zhang was the director of the human resources department of the Company from December 2004 to July 2009, the deputy general manager and general manager of Baoji Times from April 2009 to May 2013. Mr. Zhang was the deputy general manager of the railway engineering machinery department of the Company and the general manager of Baoji Times from June 2013 to February 2016. He was the general manager of the railway engineering machinery department of the Company and the general manager of Baoji Times from March 2016 to March 2017. He was the vice chief economist and the general manager of the railway engineering machinery department of the Company and the general manager of Baoji Times from April 2017 to February 2018. Mr. Zhang graduated from Zhejiang University with a bachelor's degree in Industrial Electrical Automation in June 1998. Mr. Zhang has been a vice general manager of the Company since February 2018.



Peng Miaomiao, aged 42, a vice general manager. Mr. Peng is a director of Shiling and Wenzhou Electric. Mr. Peng is a senior engineer. He joined CRRC ZELRI in July 2001 and has held various positions at the human resources department and the manufacturing centre of CRRC ZELRI. He was the director of the engineering department, assistant to the director, executive deputy director and director of the manufacturing centre of the Company from July 2005 to February 2016. He was the vice chief economist of the Company and the director of the manufacturing centre from February 2016 to February 2018. Mr. Peng graduated from Nanjing University of Science and Technology with a bachelor's degree in Electro-Technology in June 2001. Mr. Peng has been a vice general manager of the Company since February 2018.



Liu Haitao, aged 44, a vice general manager. Mr. Liu is a senior engineer with professorship. Mr. Liu joined CRRC ZELRI in November 2002. He has taken various positions as an engineer of the industrial drive division and leader of the medium power converter group of the R&D centre of the Company from September 2005 to January 2012, leader of the medium power converter group of the industrial drive division, assistant to director and director of the industrial drive division of the foundation and platform research and development centre of CRRC ZELRI Research Institute from January 2012 to January 2014, deputy director of the Rail Transit Technology Centre of the Company from January 2014 to February 2016, director of the Rail Transit Technology Centre of the Company and an executive director and general manager of Times Software from March 2016 to February 2018, and a deputy chief engineer of the Company from February 2018 to January 2019. Mr. Liu graduated from East China Jiaotong University with a bachelor's degree in Electro-Technology in June 1999 and from Southwest Jiaotong University with a master's degree in Electrical Engineering in June 2010. Mr. Liu has been a vice general manager of the Company since January 2019.

Directors, Supervisors and Senior Management



Gong Tong, aged 46, a vice general manager. Mr. Gong is a director of Guangzhou Times and Xi Cheng CRRC (Wu Xi) Urban Rail Transit Engineering Co., Ltd.. Mr. Gong is an engineer. Mr. Gong joined CRRC ZELRI in August 1996 and has worked for the electrical equipment factory, after-sales service department, quality service department of CRRC ZELR, Zhuzhou Times Fittings Technical Service Co., Ltd. and the technical service department. He has taken various positions as a marketing center service director, director of the quality and safety department, general manager of after-sales service department, and a director of planning and development department of the Company from January 2005 to July 2011, a general manager of Guangzhou CRRC Times Electric Technology Co., Ltd. from July 2011 to April 2013, a deputy general manager of the business division for urban railway equipment of the Company from May 2013 to February 2016, a deputy chief economist, director of planning and development department, deputy general manager of the business division for new industry of the Company from February 2016 to July 2017, and a deputy chief economist and general manager of the business division for urban railway equipment of the Company from July 2017 to March 2020. Mr. Gong graduated from Southwest Jiaotong University with a bachelor's degree in Electric Traction and Transmission Control in July 1996. Mr. Gong has been a deputy general manager of the Company since March 2020.



Yu Kang, aged 42, a vice general manager. Mr. Yu is an engineer. Mr. Yu is the director of Wuxi CRRC Hofer Powertrain CO., Ltd.. Mr. Yu joined CRRC ZELRI in August 2000 and has worked for the equipment department and engineering technology department of the manufacturing centre of CRRC ZELRI. He has taken various positions as a director of the electronic equipment factory of the manufacturing centre and a director of the general management department of the Company from June 2005 to January 2011, a director of the general manager's office of the Company from January 2011 to February 2016, a director of the general manager's office and a general manager of the business division for automobile of the Company from February 2016 to March 2017, a general manager of the business division for automobile of the Company from March 2017 to February 2018, and a deputy chief economist and general manager of the business division for automobile of the Company from February 2018 to March 2020. Mr. Yu has been the general manager of Wuxi CRRC Hofer Powertrain CO., Ltd. since March 2020. Mr. Yu graduated from Nanchang Hangkong University with a bachelor's degree in Mechanical and Electrical Engineering in July 2000. Mr. Yu has been a deputy general manager of the Company since March 2020.

COMPANY SECRETARY



Tang Tuong Hock, Gabriel, aged 67, the company secretary. Mr. Tang has been a member of the Institute of Chartered Accountants in England and Wales since 1981 and is also a member of the Chartered Association of Certified Accountants in the United Kingdom. Mr. Tang has more than 20 years of experience in accounting and management in various industries. He was appointed as qualified accountant and joint company secretary of the Company from July 2006 to June 2011. Mr. Tang has served as the joint company secretary and the authorised representative of CRRC since December 2017. Mr. Tang has served as the company secretary and the authorised representative of the Company since July 2011.

Corporate Governance Report

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

I. CORPORATE GOVERNANCE PRACTICES

The Company places great emphasis on the superiority, stability and reasonability of its corporate governance.

During the year ended 31 December 2019, the Company has fully complied with all the code provisions of the CG Code, except for code provisions A.6.7 and E1.2 as set out below.

Due to other important commitments, Mr. Zhang Xinning, a non-executive Director of the Company, did not attend the annual general meeting for 2018 of the Company on 20 June 2019, which constituted a deviation from the requirement of code provision A.6.7. Due to other important commitments, Mr. Li Donglin, the Chairman, did not attend the annual general meeting for 2018 of the Company on 20 June 2019, which constituted a deviation from the requirement of code provision E1.2.

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

In accordance with the relevant laws and regulations, the Company has set up a structure with general meetings, the Board, committees of the Board, the Supervisory Committee and the management to act as check and balance against one another. The division of responsibilities among the general meetings, the Board, committees of the Board, the Supervisory Committee and the management are distinct, and each of them is assigned with clearly defined responsibilities. The Board has delegated the execution and daily operations of the Group'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 Group. The Company will continue to improve its corporate governance mechanism, exercise discipline in the fulfilment of corporate duties, and enhance the disclosure of information.

II. SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors' securities transactions.

Having made specific inquiries of all Directors in relation to the compliance with the Model Code, the Company confirmed that all Directors have complied with the required standards set out in the Model Code during the reporting period.

Corporate Governance Report

III. BOARD OF DIRECTORS

1. Composition of the Board

According to the Articles, the Board of Directors shall comprise ten Directors, with one Chairman, one Vice Chairman and eight other Directors, among which three or more shall be independent non-executive Directors.

As at the date of this report, the Board consists of ten Directors, among whom Mr. Li Donglin is the Chairman of the Board and an executive Director; Mr. Yang Shouyi is the Vice Chairman of the Board and an executive Director; Mr. Liu Ke'an and Mr. Yan Wu are the other two executive Directors; Mr. Zhang Xinning is the non-executive Director; and Mr. Chan Kam Wing, Clement, Mr. Pao Ping Wing, Ms. Liu Chunru, Mr. Chen Xiaoming and Mr. Gao Feng are the five independent non-executive Directors.

Throughout the year ended 31 December 2019, the Board complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing at least one-third of the Board, and with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has entered into a service contract with each of the Directors which sets out, among other things, the term of office and remuneration. Each session of the Board has a term of three years. Directors elected as the members of any new session of the Board will have a term of office commencing from the date on which he/she is elected up to the date on which members of the next session of the Board are elected or for a shorter period as may be decided upon at the general meeting. Directors appointed to fill casual vacancy will have a term of office commencing from the date of his/her appointment up to the next general meeting or for a shorter period as may be decided upon at the general meeting. Notice shall be given by either party not less than three months prior to termination of the service contract.

The Directors have strictly complied with their undertakings, and have been honest, trust-worthy and diligent in the performance of their duties. The number of Board members and the composition of the Board have complied with the relevant laws and regulatory requirements. Other than working relationship, there is no other relationship among the members of the Board (especially the Chairman and the general manager), including any financial, business, family or other material or relevant relationship.

The Directors have distinguished themselves in their respective fields of expertise, and have demonstrated high standards of personal and professional ethics and integrity. All Directors have devoted sufficient time and attention to the Company's affairs. The Board believes that the ratio of executive Directors to non-executive Directors is reasonable and adequate to provide checks and balances that safeguard the interests of the Shareholders and the Company as a whole.

Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

1. Composition of the Board (continued)

The Company has received the annual confirmation letters from each of the independent non-executive Directors, namely, Mr. Chan Kam Wing, Clement, Mr. Pao Ping Wing, Ms. Liu Chunru, Mr. Chen Xiaoming and Mr. Gao Feng of their independence as required under Rule 3.13 of the Listing Rules and the Company considers that they remain independent in accordance with the guidelines set out in the Listing Rules.

2. Board and General Meetings and Directors' Attendances

During the reporting period, the Company held eight Board meetings and one general meeting.

The following is the attendance record of the Directors at the Board meetings and the general meeting held during the reporting period.

Name	Title	Attendances at the Board meetings	Attendances at the general meeting
Li Donglin (Note 1)	Chairman of the Board and Executive Director	8/8	0/1
Yang Shouyi (Note 1)	Vice Chairman of the Board and Executive Director	8/8	0/1
Liu Ke'an	Executive Director	8/8	1/1
Yan Wu	Executive Director	8/8	1/1
Zhang Xinning (Note 1) (Note 2)	Non-Executive Director	7/8	0/1
Chan Kam Wing, Clement	Independent non-Executive Director	8/8	1/1
Pao Ping Wing	Independent non-Executive Director	8/8	1/1
Liu Chunru	Independent non-Executive Director	8/8	1/1
Chen Xiaoming	Independent non-Executive Director	8/8	1/1
Gao Feng	Independent non-Executive Director	8/8	1/1

Note 1: Due to other important commitments, Mr. Li Donglin, Chairman of the Board and Executive Director, Mr. Yang Shouyi, Vice Chairman of the Board and Executive Director, and Mr. Zhang Xinning, non-Executive Director of the Company, did not attend the annual general meeting for 2018 of the Company on 20 June 2019.

Note 2: Mr. Zhang Xinning appointed Mr. Li Donglin as his representative to attend the eighth meeting of the fifth session of the Board held on 26 March 2019.

Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

3. Directors' Continuous Training and Development Program

Pursuant to the CG Code, all Directors should participate in continuous professional development program to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains fully informed and relevant.

All Directors have received regular briefings and updates on the Group's business, operations, risk management and corporate governance matters, and have been provided with material information on new laws and ordinances or changes to important laws and ordinances applicable to the Group. All Directors are required to provide the Company with their respective training records pursuant to the CG Code.

During the reporting period, the Company has provided the Directors with appropriate and continuous training, and professional development courses, the Directors attended the relevant training, and some of the independent non-executive Directors attended relevant trainings arranged by other organizers. The Company has received from each of the Directors the confirmation on attending continuous professional trainings. The trainings received by each Director in 2019 are as follows:

Executive Directors

Li Donglin	A、B、D
Yang Shouyi	A、B、D
Liu Ke'an	A、B、D
Yan Wu	A、B、D

Non-Executive Directors

Zhang Xinning	B、D
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Independent non-Executive Directors

Chan Kam Wing, Clement	A、B、C、D
Pao Ping Wing	A、B、C、D
Liu Chunru	A、B、C、D
Chen Xiaoming	A、B、C、D
Gao Feng	A、B、D

Note: A, B, C and D in the above table represent trainings of the following types respectively:

- A. Attending trainings in relation to updates on compliance with the Listing Rules arranged by lawyers of the Company
- B. Attending trainings in relation to audit and financial knowledge arranged by the accountant of the Company
- C. Attending trainings in relation to connected transactions, directors' responsibilities, the CG Code and accounting standards arranged by other organizers
- D. Studying and reading briefings and analysis on the Group's business, operations, risk consciousness and corporate governance matters, as well as the latest laws and regulations on directors' responsibilities

Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

4. Operation of the Board

The Board of Directors is responsible to the general meetings of Shareholders in relation to the leadership and supervision of the Company. The Board is responsible for formulating the Group's overall development strategies, reviewing and monitoring the Group's business performance, and preparing and reviewing its financial statements. The Board delegates the day-to-day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group. Please refer to the subsection headed "Corporate Governance Report – Chairman and General Manager" below for the specific powers exercised by the management.

The Board convenes regular and ad hoc meetings in accordance with legal procedures and complies strictly with relevant laws and regulations and the Articles in the exercise of its authorities with an emphasis on protecting the interests of the Company and the Shareholders as a whole.

All Directors are given no less than 14 days' notice of regular Board meetings and are generally given reasonable prior notice of Board meetings other than regular meetings.

The secretary to the Board records and prepares documents concerning matters that are discussed during the Board meetings. The minutes of every Board meeting are circulated to all Directors for their review. After the Board minutes have been finalized, the minutes will be signed by all Directors who have attended the meeting, the secretary to the Board and the person(s) recording at the meeting and will be permanently kept as an important record of the Company at the Company's registered office.

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

- (1) to convene general meetings of the Shareholders and to report its work at general meetings;
- (2) to implement the resolutions of general meetings;
- (3) to make decisions on business plans and investment plans of the Company;
- (4) to draw up annual financial budget and final budgetary reports;
- (5) to draw up profit distribution plans and plans for making up for losses;
- (6) to draw up plans for the material investments, material acquisitions or disposals, mergers, split or dissolution of the Company; and
- (7) to draw up proposals for any amendments to 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 make requests to the general manager, 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 Directors considers necessary, an independent institution can be engaged to provide independent opinions to assist his/her in decision-making. The Company is responsible for arranging the engagement of independent institution at the Company's costs.

Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

4. Operation of the Board (continued)

When voting on any connected transaction of the Company, Director(s) with interest in such connected transaction shall abstain from voting. If a resolution cannot be passed due to the concerned Director(s) abstaining from voting, the resolution will be submitted directly to the Shareholders at a general meeting for consideration and approval.

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

5. Committees of the Board

The Company has established strategy, audit, risk control, remuneration and nomination committees under the Board. The function of each committee is to study specific issues in its area of expertise and to provide opinions and suggestions for consideration by the Board.

a. Strategy committee

The Company's strategy committee was established in October 2005. Currently, the strategy committee consists of three executive Directors, one non-executive Director and one independent non-executive Director, namely Mr. Li Donglin, Mr. Yang Shouyi, Mr. Liu Ke'an, Mr. Zhang Xinning and Mr. Gao Feng, among whom Mr. Li Donglin is the chairman of the committee.

The main responsibilities of the strategy committee are:

- (1) to provide study reports to the Board in respect of government policies and industry trends;
- (2) to conduct strategic research concerning the Group;
- (3) to review and assess material investments and financial plans; and
- (4) to review material capital expenditure projects.

During the reporting period, the strategy committee of the Company held one meeting which was attended by all committee members except that Mr. Zhang Xinning appointed Mr. Li Donglin to attend and vote at the meeting. Main issues discussed at the meeting were work report of the strategy committee and annual investment plan of the Company, etc.

Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

5. Committees of the Board (continued)

b. Audit committee

The Company's audit committee was established in October 2005. Currently, the audit committee consists of five independent non-executive Directors. The committee's members are Mr. Chan Kam Wing, Clement, Mr. Pao Ping Wing, Ms. Liu Chunru, Mr. Chen Xiaoming and Mr. Gao Feng, among whom Mr. Chan Kam Wing, Clement is the chairman of the audit committee. Mr. Chan Kam Wing, Clement has appropriate professional qualifications and related financial management expertise.

The main responsibilities of the audit committee are: to review and supervise the financial reporting processes, risk management and internal control procedures of the Company, to exercise its authority to guide and supervise internal audits; and to make recommendations on the appointment, reappointment or change of external auditor. The terms of reference of the audit committee are posted on the Company's website and the Stock Exchange's HKExnews website.

The audit committee of the Company held four meetings during the reporting period. The committee mainly reviewed and discussed issues concerning the Company's annual results, interim results, quarterly results, connected transactions, internal audit and internal control related issues, etc. at the meetings.

The following table shows the record of attendance of the audit committee members:

Chan Kam Wing, Clement	4/4
Pao Ping Wing	4/4
Liu Chunru	4/4
Chen Xiaoming	4/4
Gao Feng	4/4

In order to meet the responsibility in its review of the quarterly, half-yearly and annual results, apart from convening audit committee meetings to conduct a review on the results, the audit committee also had discussions with the auditors to ensure that the results give a true and fair view of the state of affairs of the Group.

The Company has established an audit and risk control department with internal audit function which generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group. The audit and risk control department is under the guidance and supervision of the audit committee, and reports its work to the audit committee. The audit committee has conducted one review of the effectiveness of the Group's internal audit function during the year and considered that the Group's internal audit function is effective and adequate in carrying out the above functions.

Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

5. Committees of the Board (continued)

c. Risk control committee

The Company's risk control committee was established in June 2006. It currently consists of three Directors, including two executive Directors and an independent non-executive Director. The members of the risk control committee are Mr. Yang Shouyi, Mr. Yan Wu and Mr. Chan Kam Wing, Clement, among whom Mr. Yang Shouyi is the chairman of the risk control committee.

The main responsibility of the risk control committee is to formulate, assess and revise risk management strategies.

During the reporting period, the risk control committee of the Company held one meeting which was attended by all committee members. At this meeting, the committee mainly discussed issues concerning corporate governance report, risk management and internal control of the Company, etc.

d. Remuneration committee

The Company's remuneration committee was established in October 2005. Its name was changed to nomination and remuneration committee on 27 June 2008. On 29 March 2012, it was approved by the Board to be separated into two committees and renamed as nomination committee and remuneration committee, respectively. Currently the remuneration committee consists of three independent non-executive Directors. The committee members are Mr. Pao Ping Wing, Ms. Liu Chunru and Mr. Chen Xiaoming. Mr. Pao Ping Wing is the chairman of the remuneration committee.

The main responsibilities of the remuneration committee are to review and make recommendation of the terms of the remuneration packages of Directors and members of senior management and the procedure for developing remuneration policy to the Board. The terms of reference of the remuneration committee are posted on the Company's website and the Stock Exchange's HKExnews website.

The remuneration committee has adopted the manner set out under the code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual executive Director and senior management.

For the year ended 31 December 2019, the remuneration of senior management fell within the following bands:

HKD1,000,000 or below	3
HKD1,000,001 – HKD2,000,000	10

Further details required to be disclosed in respect of the remuneration of Directors, supervisors, general manager and the five highest paid individuals under Appendix 16 to the Listing Rules are set out in Notes X.5.(12) and XIII.3.(3).

Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

5. Committees of the Board (continued)

d. Remuneration committee (continued)

The remuneration committee of the Company held two meetings during the reporting period. Remuneration of the Directors and the senior management members and other matters were the main issues discussed at the meetings. The following table shows the record of attendance of the remuneration committee members:

Pao Ping Wing	2/2
Liu Chunru	2/2
Chen Xiaoming	2/2

During the year ended 31 December 2019, the work performed by the remuneration committee included determining the policy for the remuneration of executive Directors, assessing performance of executive Directors and approving the terms of executive Directors' service contracts.

e. Nomination committee

The nomination and remuneration committee was separated to nomination committee and remuneration committee, respectively as approved by the Board on 29 March 2012. It currently consists of three Directors, including an executive Director and two independent non-executive Directors. The committee members are Mr. Li Donglin, Mr. Pao Ping Wing and Ms. Liu Chunru, among whom Mr. Li Donglin was appointed as the chairman of the nomination committee.

The main responsibilities of the nomination committee are to be responsible for nomination and appraisal of Directors and senior management members and to make recommendations to the Board on any related adjustments. The amended terms of reference of the nomination committee (incorporating the nomination policy) were approved by the Board on 26 March 2019 to take effect on 1 January 2019 and are posted on the Company's website and the Stock Exchange's HKExnews website.

Pursuant to the nomination policy, the nomination committee is responsible for, among other things, identifying suitably qualified candidates to become Board members and senior management members, and selecting and nominating the relevant person for appointment as a Director (and senior management member) or make recommendations to the Board on such matter. When identifying suitable candidates, the nomination committee shall comply with the principle of meritocracy, consider the strengths of the relevant candidate, the contributions they can make to the Board and give due consideration to the benefits of membership diversity in terms of objective conditions. When making recommendations to the Board on the appointment of independent non-executive Directors, the nomination committee shall take into account the process used for identifying that person, the reasons for the person to be independent and to be able to devote sufficient time to perform the duties of a director, the perspectives, skills and experience that the person can bring to the Board, and how the person would contribute to the diversity of board members.

The procedures for Shareholders of the Company to nominate a candidate for election as a director are available on the Company's website. Please refer to the subsection headed "Corporate Governance Report – Board Diversity Policy" below for the Board's policy on board diversity.

Corporate Governance Report

III. BOARD OF DIRECTORS (continued)

5. Committees of the Board (continued)

e. Nomination committee (continued)

During the reporting period, the nomination committee of the Company held three meetings. Re-appointment of Directors, and members of senior management, and implementation of the board diversity policy were the main issues discussed at such meetings. The following table shows the record of attendance of the nomination committee members:

Li Donglin	3/3
Pao Ping Wing	3/3
Liu Chunru	3/3

f. Corporate governance functions

The Board is responsible for the following corporate governance functions:

- (1) to formulate, and review and make recommendations to the Company's corporate governance policy and practices;
- (2) to review and monitor the trainings and continuing professional development of the Directors and senior management members;
- (3) to review and monitor the Company's policies and practices on compliance with laws and regulations;
- (4) to formulate, review and monitor any code of conduct and compliance manual, where appropriate, applicable to Directors and employees; and
- (5) to review the Company's compliance with the CG Code and the disclosure in the corporate governance report as set out in the annual report of the Company.

Corporate Governance Report

IV. CHAIRMAN AND GENERAL MANAGER

The offices of the Chairman and the general manager (equivalent to the role of a chief executive officer) of the Company are held by different persons. Currently, Mr. Li Donglin is the Chairman, and Mr. Liu Ke'an is the general manager. The division of responsibilities between the Chairman and the general manager of the Company has been clearly established and set out in the Articles. The Chairman is responsible for leadership of the Board and chairing Board meetings, while the general manager is responsible for the Company's day-to-day operations.

According to the Articles, the Chairman mainly exercises the following powers:

- (1) to preside at general meetings, and to convene and preside at Board meetings;
- (2) to examine the implementation of the Board's resolutions;
- (3) to sign the securities issued by the Company; and
- (4) other powers and duties granted by the Board.

The general manager is responsible to the Board of Directors. The general manager and the management team under his leadership mainly exercise the following powers as delegated by the Board:

- (1) to be in charge of the Company's production, operation and management and to organise the implementation of the Board's resolutions;
- (2) to organise the implementation of the Company's annual business plan and investment plan;
- (3) to formulate plans for the 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 the appointment or removal of deputy general managers, chief officers and general manager assistants of the Company;
- (7) to appoint or remove management personnel other than those required to be appointed or removed by the Board; and
- (8) to formulate plans for the wages, benefits, incentives and penalties of employees, to determine the appointment and removal, promotion and demotion, salary increment and decrement, appointment, employment, termination of employment of employees.

Corporate Governance Report

V. NON-EXECUTIVE DIRECTORS

According to the Articles, non-executive Directors of the Company are elected at general meetings for a term of three years. Upon expiry of terms of office, non-executive Directors are eligible for re-election.

VI. BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy effective on 11 October 2013, which was subsequently amended by the Board on 26 March 2019 to take effect on 1 January 2019. When determining the composition of the Board, the Company seeks to achieve board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board may consider relevant and applicable from time to time. All appointments of the Board will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity of the Board. Selection of candidates will be based on a range of diversity perspectives as mentioned above. The ultimate decision will be based on merits of the candidates and the contribution that they may bring to the Board, having due appropriate regard to the benefits of diversity to the Board and also the needs of the Board without focusing on a single diversity aspect.

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 year under review, the nomination committee has considered the board diversity policy and whether the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the nomination committee has concluded that the current composition of the Board is a balanced and diversified combination that suits the business development of the Company and satisfies the board diversity policy for the year under review.

VII. NOMINATION OF DIRECTORS

In accordance with the Articles, Directors are elected at general meetings. Written notice of intention to nominate a candidate for appointment as director and the candidate's consent to be nominated must be given to the Company after the notice of the general meeting has been issued at least seven days prior to the holding of the general meeting.

Corporate Governance Report

VIII. DIVIDEND POLICY

The Board has adopted a dividend policy on 26 March 2019 to take effect on 1 January 2019, which aims to provide the Shareholders with stable dividends and sets out the principles and guidelines for declaring, paying and distributing the profits of the Company as dividends.

In deciding whether to propose a dividend and determining the amount of dividend, the Board takes into account (i) the Company's actual and expected financial performance, (ii) retained earnings and distributable reserves of the Company and each of the members of the Group, (iii) the debts to equity ratio, return on equity and relevant financial covenants of the Group, (iv) the Group's expected working capital requirements and future strategic plans, (v) the general economic conditions, the Group's financial conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and status of the Group, and (vi) other factors that the Board deems appropriate.

The Company does not have any pre-determined dividend distribution ratio. The declaration and payment of dividends is subject to the absolute discretion of the Board, and any restrictions under the Articles, the Company Law of the PRC, the Corporate Income Tax Law of the PRC and any other applicable laws and regulations. The Board will periodically review the dividend policy and reserves the right in its sole and absolute discretion to amend the policy at any time.

IX. REMUNERATION OF THE AUDITOR

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

	For the year ended 31 December 2019 (RMB'000)
Service provided:	
Audit Service	3,980
Non-audit Services (Note)	<u>235</u>
Total	<u><u>4,215</u></u>

Note: Non-audit services include tax service of related party transactions and contemporaneous documentation and tax advisory.

Corporate Governance Report

X. DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL REPORTS

The Directors acknowledged their responsibilities for the preparation of financial reports, and to give a true and fair view of the Group's financial status and operating results for the financial year ended 31 December 2019. The statement by the external auditors of the Company regarding its reporting responsibilities on the consolidated financial statements of the Group is set out in the "Auditors' Report" on pages 60 of this annual report.

The Directors also confirmed that there were no material uncertainties which may materially affect the ability of the Company to carry on as a going-concern.

XI. COMPANY SECRETARY

Mr. Tang Tuong Hock, Gabriel was appointed as the company secretary of the Company in July 2006. Biographical details of Mr. Tang are set out under the section headed "Directors, Supervisors and Senior Management".

Mr. Tang took no less than 15 hours of relevant professional training during the financial year ended 31 December 2019 as required under Rule 3.29 of the Listing Rules.

XII. CONSTITUTION

During the reporting period, no amendment was made to the Articles.

XIII. RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledged that it is responsible for the establishment, improvement and effective implementation of risk management and internal control systems as well as carrying out supervision on the effectiveness of the risk management and internal control systems of the Company and its subsidiaries. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has a sound organization system of internal control and has established the audit and risk control department in charge of internal audit. Guided by the Board, the audit committee and the risk control committee, the audit and risk control department carries out supervision and evaluation for internal controls of the Company and its branches and subsidiaries in respect of important control functions such as financial monitoring, operation monitoring, compliance monitoring, overseas business monitoring and risk prevention and management, supervises and timely rectifies internal control deficiencies and effectively controls operating risks.

The Company continues to improve its risk management systems based on the industry requirements, ensures the implementation of risk management and internal control for all business segments with focus on areas exposed to major risks, improves the risk management, control and response mechanism, and continues to enhance the risk prevention and control ability of the Company. The Company reviews merger, acquisition and investment of overseas enterprises, examines and assesses special risks related to international investment and operation, and establishes risk management system for overseas enterprises to ensure that the operation risks of overseas businesses are under control. The Company continued to mitigate major risks such as management of trade receivables in an orderly manner, carried out annual risk assessment to collect information and updated the database of annual risk events, and formulated relevant risk response strategies. It also followed up and made response to major risk events to ensure that the major risk events of the Company were under control.

Corporate Governance Report

XIII. RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Company improved its internal control system pursuant to the Basic Guidelines of Internal Control, which ensured the effective implementation and stable operation of internal control system. During the reporting period, the Company placed great emphasis on various business lines, the full implementation of corporate procedural system and the closed cycle of rectification of internal control defects with focus on supervision of major businesses. The Company controlled the risks within tolerable bounds through various controlling measures such as authorization approval, accounting system, comprehensive budgeting, operation analysis, performance appraisal and crisis management. Through annual internal monitoring and evaluation, the Company ensured the reasonable design, effective operation and appropriate implementation of internal monitoring systems. During the reporting period, the Company had no material internal control defects and monitoring failure, and had effective procedures in relation to financial reporting and compliance with requirements of the Listing Rules.

The Board has conducted one review of the effectiveness of risk management and the internal control system of the Company and its subsidiaries during the year and considered that the risk management and internal control systems are effective and adequate to allow the continuing protection and improvement of the Company's internal control activities and ensure the Company's ability to meet the internal business requirements and external environment changes from financial, operational, compliance, overseas operation and risk control perspectives, so as to safeguard the Company's asset and interests of Shareholders.

In addition, the Board has adopted the Information Disclosure Policy (the "Policy") in September 2017, in line with the disclosure requirements (including the inside information disclosure) in accordance with the relevant laws and regulations, including the SFO and the Listing Rules. The Policy governs the principle, circumstances, content and management of inside information disclosure of the Company. According to the Policy, the Directors, supervisors, senior management officers and different departments each shall promptly identify, assess and disseminate inside information to the public in equal and timely manner, as well as take reasonable precautions in preserving the confidentiality of inside information before publication.

XIV. SHAREHOLDERS' RIGHTS

1. Convening extraordinary general meetings

In accordance with the Articles and the rules of procedures of general meetings, Shareholder(s) individually or jointly holding 10% or more of the Company's issued shares carrying voting rights may request to convene an extraordinary general meeting in writing and set out the proposals of the meeting. Such meeting shall be held within two months after the deposit of such requisition. If within 30 days after the Board has received such written requisition, the Board fails to give a notice to convene such meeting, such Shareholder(s) himself/herself (themselves) may do so within four months from the date the Board has received such requisition.

2. Enquiries to the Board

To ensure effective communication between the Board and the Shareholders, the Company adopted a Shareholders' communication policy (the "Policy") on 29 March 2012. Under the Policy, the Company's information shall be communicated to the Shareholders mainly through general meetings (including annual general meetings), the Company's financial reports (interim reports and annual reports), and its corporate communications posted on the Company's website and the Stock Exchange's HKExnews website.

Shareholders may at any time make a request for the Company's information which is publicly available. Any relevant enquiries shall be first directed to the company secretary at the Company's principal place of business in Hong Kong at 1106, 11/F, Jubilee Centre, 18 Fenwick Street, Wanchai, 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.

Corporate Governance Report

XIV. SHAREHOLDERS' RIGHTS (continued)

3. Putting proposals to general meetings

Shareholder(s) individually or jointly holding 3% or more of the Company's total shares carrying voting rights is (are) entitled to put forward their proposals to an annual general meeting. Besides, Shareholder(s) may also follow the procedures set out in item 2 above for putting forward proposals at extraordinary general meetings. The Company shall include the proposed matters which are within the scope of authority of the general meetings in the agenda of the meeting.

XV. INVESTOR RELATIONS

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

During the reporting period, the Company has disclosed all necessary information to the Shareholders in compliance with the Listing Rules and the Articles, and has reported to Shareholders and investors through various formal channels, which include (1) publishing quarterly reports, interim reports and annual reports; (2) holding annual general meetings and extraordinary general meetings to provide a platform for Shareholders to express their opinions and to communicate with the Board; (3) holding press conference and investors conferences from time to time; (4) organising the management to conduct overseas roadshows; (5) publishing corporate communications such as announcements and circulars on the Company's website and the Stock Exchange's HKExnews website; and (6) responding to the queries from Shareholders and investors in a timely manner.

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

Directors' Report

The Board is pleased to present the Directors' Report and the audited financial statements of the Group for the year ended 31 December 2019.

THE COMPANY'S BUSINESS ACTIVITIES

The Group is mainly engaged in the research, development, manufacture and sale of locomotive train power converters, control systems, urban railway train electrical systems and other train-borne electrical systems, as well as engaged in the research, development, manufacture and sale of electric components for the railway industry, urban railway industry and non-railway purposes.

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

BUSINESS REVIEW

For discussion and analysis of the Group's results, including a description of the principal risks and uncertainties facing the Group and an indication of the likely future development in the Group's business, please refer to the sections headed "Chairman's Report" and "Management Discussion and Analysis" and the subsections headed "Directors' Report – Post Balance Sheet Events", "Directors' Report – Environmental Policy and Performance", "Directors' Report – Compliance with Laws and Regulations" and "Directors' Report – Relationship with Employees, Customers and Suppliers" in this annual report for details.

BUSINESS MODEL AND KEY STRATEGIES

In line with the strategy of "operating with high quality and high efficiency", the Company has made continuous efforts to develop its core business in railway, urban rail and railway engineering industries to consolidate its industry position, continued to facilitate the development of incremental industries, made innovation and cultivated strategic emerging industries, actively made breakthrough in overseas market, and put great efforts in expanding the maintenance service market. By adhering to the market oriented development principle, the Company improved its quality through refined management and steadily enhanced its efficiency and benefits to create sustainable value for the Shareholders and achieve stable development of the Company.

The revenue of the Company is generated mainly from selling products. The key strategies of the Company are:

1. Consolidating our industry position by developing our core business

The Company will make continuous efforts to develop its core business in railway, urban rail and railway engineering industries, ensure our technological advantages, consolidate the existing market landscape and capture the demand from new business market to consolidate our industry position. The Company will make innovation in core technologies, take advantage of our edge in vertical integration of industry chain and interdisciplinary technology, and facilitate the collaboration and innovative integration of multiple systems. The Company will also strengthen its advantages in technology research and development, market operation and brand services, improve the integration of internal resources such as technology, production and services, and strengthen the collaborative management and control across different regions and markets.

2. Facilitating development by putting efforts in incremental industry

In the field of signal and communication products, the Company will lean forward resources to key market, strive to establish a leading position in urban rail industry, and strength the development of signal system engineering and service ability. For the semiconductor business, the Company will consolidate its fundamentals, focus on three major markets of railway transportation, high voltage transmission and distribution and new energy, and capture the opportunities in IGBT market. The Company will gather business resources to make steady adjustment to the industrial converter business structure, develop the quality sectors in industrial converter business, and cultivate differentiated competitive advantages. For the business of drive for EVs, the Company will adopt innovative development ideas, accelerate the concentration of resources, actively capture cooperation opportunities, increase the market share, and refine and develop electric motor and electric control technologies. The Company will also expand the area of application of the sensor business, adhere to the strategy of "based on rail business and expand beyond rail business", refine and improve the quality by benchmarking, and expand to industrial and vehicle sensor market.

Directors' Report

BUSINESS MODEL AND KEY STRATEGIES (continued)

3. Developing strategic industry and expanding two markets

The Company will make strategic development for the marine engineering equipment business by making continuous investment, strengthening the resource collaboration between the PRC and the UK, improving the comprehensive ability, and strengthening domestic market influence.

The Company will fully develop the overseas market and maintenance service market by adhering to the market approaches of "original equipment, turnkey solution and direct export", strengthening the efforts in international brand promotion, and making development in the markets of emerging economies to facilitate globalization. By implementing the idea of "product + service", the Company will put great efforts in facilitating the expansion in maintenance service market and utilize its advantages in data and intelligent technology to capture share in maintenance service market.

RESULTS AND DIVIDENDS

Results of the Group for the year ended 31 December 2019, prepared in accordance with the PRC Accounting Standards, are set out on page 65 to page 277 of this annual report.

The Company has profit attributable to Shareholders (before proposed final dividend) of RMB13,746.3 million as at 31 December 2019, the Board proposed the distribution of cash dividend of RMB0.45 per Share (applicable tax inclusive) for the year.

The proposed dividend to be distributed is subject to the approval of the Shareholders at the annual general meeting to be held on 23 June 2020.

In order to determine the entitlements of Shareholders to attend the forthcoming annual general meeting to be held on 23 June 2020, the register of members of the Company will be closed from 24 May 2020 to 23 June 2020 (both days inclusive), during which no transfer of shares will be registered. In order to be entitled to attend and vote at the annual general meeting, all transfer documents together with the relevant share certificates must be lodged, for holders of the H Shares, with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or, for holders of the Domestic Shares, the registered office address of the Company at Times Road, Shifeng District, Zhuzhou, Hunan Province, 412001, the PRC, not later than 4:30 p.m. on 22 May 2020.

In order to determine the entitlements of the Shareholders to receive the final dividend, the register of members of the Company will be closed from 2 July 2020 to 6 July 2020 (both days inclusive), during which no transfer of shares will be registered. In order to be entitled to the final dividend, all transfer documents together with the relevant share certificates must be lodged, for holders of the H shares, with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or, for holders of the domestic shares, the registered office address of the Company at Times Road, Shifeng District, Zhuzhou, Hunan Province, 412001, the PRC, not later than 4:30 p.m. on 30 June 2020.

In respect of the distribution of dividends, dividends for domestic shares will be distributed and paid in Renminbi, while dividends for H shares will be declared in Renminbi and paid in Hong Kong Dollars (the Hong Kong Dollars equivalent shall be calculated at the average midpoint exchange rate of Renminbi to Hong Kong Dollars announced by the People's Bank of China for the five working days prior to the declaration of dividend at the 2019 annual general meeting to be held on 23 June 2020). If approved, the final dividends are expected to be distributed on or about 7 August 2020 to Shareholders whose names are registered on the register of members on 6 July 2020.

Directors' Report

RESULTS AND DIVIDENDS (continued)

For the investors of the Shanghai Stock Exchange and Shenzhen Stock Exchange (including enterprises and individuals) investing in the H shares of the Company listed on the Stock Exchange (the "Southbound Trading"), the Company has entered into the Agreement on Distribution of Cash Dividends of H shares for Southbound Trading (港股通H股股票現金紅利派發協議) with the China Securities Depository and Clearing Corporation Limited, pursuant to which, the China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H shares of Southbound Trading through its depository and clearing system.

The record date and the date of distribution of dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of the H shares of the Company.

FINANCIAL HIGHLIGHTS

Fixed assets

Details of the changes in the fixed assets of the Group during the year are set out in Note V.12 to the financial statements.

Short-term borrowings

Details of the Group's short-term borrowings as at 31 December 2019 are set out in Note V.21 to the financial statements.

Long-term borrowings

Details of the Group's long-term borrowings as at 31 December 2019 are set out in Note V.30 to the financial statements.

Share capital

During the reporting period, the number of issued shares of the Company was 1,175,476,637 shares.

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements as appropriate, is set out on page 2 of this annual report. This summary does not form part of the audited consolidated financial statements.

SHARE APPRECIATION RIGHTS SCHEME

As announced by the Company in its announcement dated 28 March 2013 and the circular dated 23 April 2013 (the "Circular"), the H Share appreciation rights scheme of the Company (the "Scheme") was approved by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC ("SASAC") in February 2013. The Scheme was considered and approved by the Shareholders at the annual general meeting held on 10 June 2013 (the "2012 AGM"), which came into effect on 10 June 2013. The Scheme shall be automatically terminated after seven years from the date on which the Scheme was approved by the Shareholders in the 2012 AGM.

The purpose of the Scheme is to establish a long-term incentive mechanism that links the remuneration of the Eligible Participants (as defined below) with the Company's business results in order to promote the Company's long-term development and to maximize the Shareholders' value. Pursuant to the Scheme, share appreciation rights ("SARs") will be granted to the Directors (excluding independent non-executive Directors and external Directors), senior management, core technical staff and key management staff (the "Eligible Participants") who contribute substantially to the realization of the Company's strategic missions.

Directors' Report

SHARE APPRECIATION RIGHTS SCHEME (continued)

The Eligible Participants who are granted with such incentive do not actually hold the shares, and do not have any rights as Shareholders such as voting rights or rights to dividends. Under the Scheme, each SAR is linked with one H share of the Company and the SAR is to be settled by way of cash. Therefore, this does not affect the total number of H Shares outstanding and will not have any dilution effect on the shares of the Company. The SARs granted pursuant to the Scheme is valid for seven years from the date of grant. Upon expiry of the valid term, all unexercised SARs shall automatically lapse. After two years from the date of grant, if the Company and each Eligible Participant fulfil the conditions as set out in the Scheme, the SARs shall become effective and exercisable in batches as described in the Scheme.

Under the Scheme, the exercise price of the SARs shall be determined by the Board which, in principle, shall be the highest of the following three prices:

- (1) the closing price of the H shares of the Company on the Stock Exchange on the date of grant;
- (2) the average closing price of the H shares of the Company on the Stock Exchange for five consecutive trading days prior to the date of grant; and
- (3) the nominal value of the H shares of the Company.

Pursuant to the terms of the Scheme, upon exercise of the SARs, the Company shall calculate the cash gains from the exercise of the SARs and pay to the Eligible Participants in the manner as set out in the Scheme.

The proposed grant of an aggregate of approximately 9,868,000 units of SARs to a total of not more than 262 Eligible Participants, subject to the satisfaction of the conditions of grant, has already been approved by the Shareholders of the Company at the 2012 AGM. For details of the Scheme, please refer to the Circular.

During the reporting period, no SARs were granted by the Company to the Eligible Participants under the Scheme. As at the date 31 December 2019, no SARs granted under the Scheme have been exercised.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

SHAREHOLDERS' EQUITY

Details of the changes in the Shareholders' equity of the Company and the Group during the year are set out in the statement of changes in equity and the consolidated statement of changes in equity respectively.

Directors' Report

PROFIT DISTRIBUTABLE TO THE SHAREHOLDERS

As at 31 December 2019, the Company's profit distributable to the Shareholders calculated in accordance with relevant regulations amounted to approximately RMB13,746.3 million, of which RMB529.0 million has been proposed to be paid as final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of revenue for sales of goods attributable to the Group's five largest customers during the year was approximately 38.7% of the Group's total revenue for the year.

CRRC Sifang is the largest customer of the Group. The percentage of the Group's revenue for sale to CRRC Sifang was approximately 20.0% of the Group's total revenue during the year. CRRC owned 97.81% interest in CRRC Sifang.

CRRC Zhuzhou is one of the Group's five largest customers. CRRC owned 100% interest in CRRC Zhuzhou.

Saved as disclosed above, none of the Directors, their close associates or any 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 Group's five largest customers during the year.

The percentage of purchases attributable to the Group's five largest suppliers was 21.2% of the Group's total purchases during the year.

CRRC Zhuzhou Electric Co., Ltd. is the largest supplier of the Group, and the percentage of the purchase attributable to purchase from CRRC Zhuzhou Electric Co., Ltd. was approximately 5.0% of the Group's total purchases during the year. CRRC owned 100% interest in CRRC Zhuzhou Electric Co., Ltd..

Zhuzhou CRRC Electromechanical Co., Ltd. is one of the five largest suppliers of the Group. Xiangyang CRRC Electric Machinery Co., Ltd. owned 100% interest in Zhuzhou CRRC Electromechanical Co., Ltd., and CRRC ZELRI owned 97.59% interest in Xiangyang CRRC Electric Machinery Co., Ltd..

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 Group's five largest suppliers during the year.

Directors' Report

DIRECTORS AND SUPERVISORS

The Directors and the supervisors of the Company during the year and up to the date of this report were:

Executive Directors

- Li Donglin – Chairman of the Board
- Yang Shouyi – Vice Chairman of the Board
- Liu Ke'an
- Yan Wu

Non-executive Director

Zhang Xinning

Independent Non-executive Directors

Chan Kam Wing, Clement
Pao Ping Wing
Liu Chunru
Chen Xiaoming
Gao Feng

Supervisors

- Li Lue – appointed as a supervisor and the Chairman of the Supervisory Committee on 20 June 2019
- Pang Yiming – employee representative supervisor
- Zhou Guifa – employee representative supervisor
- Geng Jianxin – independent supervisor
- Xiong Ruihua – resigned from the Chairman of the Supervisory Committee and a supervisor of the Company on 20 June 2019

Composition of the Supervisory Committee

According to the Articles, the Supervisory Committee shall comprise five supervisors, of which three supervisors are representatives of the Shareholders and two supervisors are representatives of employees.

As at the date of this report, the Supervisory Committee comprises four supervisors, of which Mr. Xiong Ruihua was the Chairman of the Supervisory Committee upon his resignation on 20 June 2019, and Mr. Li Lue is the Chairman of the Supervisory Committee upon his appointment on 20 June 2019, Messrs. Pang Yiming and Zhou Guifa are the employee representative supervisors, and Mr. Geng Jianxin is an independent supervisor. The number of members of the Supervisory Committee is one less than the number required by the Articles for the time being. The Company hopes to search for a suitable person to fill the vacancy as soon as possible.

BIOGRAPHIES OF DIRECTORS AND SUPERVISORS

Details of the biographies of the Directors and the supervisors of the Company are set out on page 12 to page 17 of this annual report.

Directors' Report

DISCLOSURE ON CHANGES IN THE INFORMATION OF DIRECTORS IN ACCORDANCE WITH RULE 13.51(B)(1) OF THE LISTING RULES

Mr. Xiong Ruihua resigned as the Chairman of the Supervisory Committee and the Supervisor.

Mr. Li Lüe was appointed as the Chairman of the Supervisory Committee and the Supervisor.

POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of positions held by Directors, supervisors and senior management of the Company in entities of the substantial Shareholders and other entities are set out in page 12 to page 22 of this annual report.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

The Company has entered into service contracts with all Directors and supervisors which set out, among other things, their terms of office and remuneration. Each session of the Board has a term of three years. Directors elected as the members of any new session of the Board will have a term of office commencing from the date on which he/she is elected up to the date on which members of the next session of the Board are elected or for a shorter period as may be decided upon at the general meeting. Directors appointed to fill casual vacancy will have a term of office commencing from the date of his/her appointment up to the next general meeting or for a shorter period as may be decided upon at the general meeting. Similarly, each session of the Supervisory Committee of the Company has a term of three years and the term of office of the supervisors are determined similarly as the Directors except that references to general meeting should be replaced by the meeting of the representatives of the employees in respect of the employee representative supervisor. The period of notice of termination of the service contracts given by either party shall not be less than three months.

None of the Directors nor supervisors (including but not limited to those Directors proposed for re-election at the forthcoming general meeting of the Company and those supervisors proposed for re-election at the forthcoming general meeting or meeting of the representatives of the employees) has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year and as at 31 December 2019, none of the Directors or supervisors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group 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 interests in any business which competes or may compete with the business of the Company and/or its subsidiaries.

Directors' Report

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND THE 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 of the Company 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 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 in the shares 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.

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 of age, 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 Group's remuneration policy for its employees takes into account the individuals' post value, work performance and competence. The Group rewards the employees having outstanding performance with salary increments and bonuses. The bonus plan is discretionary and is determined by the Directors with reference to the performance of the staff and the Group's operation results. The Group places great emphasis on the provision of on-the-job-training and development to its employees. Each staff member is required to participate in trainings organised by the Group 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 Group. 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 Group had 8,187 full-time employees (including overseas subsidiaries and employees under labor contract), and the total amount of remuneration (including salaries and allowances) for employees in 2019 was approximately RMB2199.6 million (provision amount).

During the reporting period, based on the requirements of business development, the Group planned and organized trainings for core talents including back-up management talents, internationalization talents, marketing talents and fundamental backbone staff. Through establishing talent profiles in different aspects, the Group set the standards and objectives for talent cultivation and linked the trainings with actual business operation. During the year, the Group cultivated 816 core talents, compiled 201 management cases, and held 84 management courses, which significantly improved the abilities of participants. It also carried out "Good Lecturer Competition (好講師大賽)" and elite course development project, explored and activated internal training resources, and launched over 30 elite courses. The Group also continued to innovate the internal training brands, namely Happy Learning Class (樂學講堂) and Expert Forum (專家講壇), planned internal training programs including professional skills training, quality management training and lean management training.

Directors' Report

EMPLOYEES AND REMUNERATION POLICY (continued)

The remuneration of Directors and supervisors is proposed by the Board and subject to approval by Shareholders of the Company at the general meetings, taking into consideration their respective experience, level of responsibilities within the Group, performance of the Company as well as remuneration benchmark in the industry and the market situation. Details of the remunerations of Directors and supervisors are set out in Note XIII.3(3) to the financial statements.

The Company approved the share appreciation rights scheme at the annual general meeting of 2012. Details of the scheme are set out in the subsection headed "Directors' Report – Share appreciation rights scheme" above.

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	
		Number of shares	Approximate % of issued share capital
CRRC ZELRI	Domestic share	589,585,699	50.16%
CRRC Investment & Leasing	Domestic share	9,380,769	0.80%
CRRC Zhuzhou	Domestic share	10,000,000	0.85%
CRCCE	Domestic share	9,800,000	0.83%
Beijing Maohuan Rail Transit Industry Investment Management Partnership (Limited Partnership)	Domestic share	9,380,769	0.80%
Shares in public circulation (Note)	H Share	547,329,400	46.56%
Total		<u>1,175,476,637</u>	<u>100%</u>

Note: 16,200,000 H shares of which is held by CRRC's wholly-owned subsidiary, CRRC Hong Kong Capital Management Co., Limited.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

Interests or short positions in the shares and underlying shares of the Company pursuant to the disclosure requirements in Divisions 2 and 3 of Part XV of the SFO as at 31 December 2019 are as follows:

Name of substantial shareholder	Number of shares held	Capacity	Approximate % of Domestic Share share capital	Approximate % of H Share share capital	Approximate % of issued share capital
CRRC ZELRI	589,585,699 (Long position)	Beneficial owner	93.86%	–	50.16%
CRRC (Note 1)	608,966,468 (Long position)	Interest in controlled entity	96.95%	–	51.81%
	16,200,000 (Long position)	Interest in controlled entity	–	2.96%	1.38%
CRRC Group (Note 2)	608,966,468 (Long position)	Interest in controlled entity	96.95%	–	51.81%
	16,200,000 (Long position)	Interest in controlled entity	–	2.96%	1.38%
Schroders Plc	49,256,573 (Long position)	Investment manager	–	8.99%	4.19%
Pandanus Associates Inc. (Note 3)	43,481,769 (Long position)	Interest in controlled entity	–	7.94%	3.70%
Pandanus Partners L.P. (Note 3)	43,481,769 (Long position)	Interest in controlled entity	–	7.94%	3.70%
FIL Limited (Note 3)	43,481,769 (Long position)	Interest in controlled entity	–	7.94%	3.70%
Citigroup Inc.	292,100 (Long position)	Person having a security interest in Shares	–	0.05%	0.02%
	603,493 (Long position)	Interest in controlled entity	–	0.11%	0.05%
	143,700 (Short position)	Interest in controlled entity	–	0.03%	0.01%
	38,315,088 (Lending pool shares – Long position)	Approved lending agent	–	7.00%	3.26%
BlackRock, Inc.	32,874,515 (Long position)	Interest in controlled entity	–	6.01%	2.80%
	875,600 (Short position)	Interest in controlled entity	–	0.16%	0.07%
Impax Asset Management Group plc	27,387,383 (Long position)	Interest in controlled entity	–	5.00%	2.33%

Notes:

- (1) CRRC is interested in 100% of the registered capital of CRRC ZELRI, CRRC Zhuzhou and CRRC Investment & Leasing. Accordingly, CRRC is deemed under the SFO to be interested in the shares held by each of CRRC ZELRI, CRRC Zhuzhou and CRRC Investment & Leasing. CRRC is interested in 16,200,000 H shares through CRRC Hong Kong Capital Management Co., Limited, a wholly-owned subsidiary of CRRC.
- (2) CRRC Group is directly and indirectly interested in 50.73% of the shares of CRRC. Accordingly, CRRC Group is deemed under the SFO to be interested in the shares held by CRRC.
- (3)
 - (a) The corporate substantial Shareholder notice filed by Pandanus Associates Inc. indicated that it is deemed under the SFO to be interested in 43,481,769 shares held through Pandanus Partners L.P., a direct wholly-owned subsidiary.
 - (b) The corporate substantial Shareholder notice filed by Pandanus Partners L.P. indicated that Pandanus Partners L.P. is interested in 37.51% of the issued share capital of FIL Limited. Under the SFO, Pandanus Partners L.P. is deemed to be interested in 43,481,769 shares held through FIL Limited.
 - (c) The corporate substantial Shareholder notice filed by FIL Limited indicated that FIL Limited is interested in 43,481,769 shares held through its subsidiaries.

Directors' Report

CONTINUING CONNECTED TRANSACTIONS

Transactions conducted between the Group and the following parties (among which, CRRC Group, CRRC and CRRC ZELRI are the controlling Shareholders of the Company, CRRC Finance is the subsidiary of CRRC) constitute continuing connected transactions of the Company 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 and independent Shareholders' approval requirements under the Listing Rules.

Mutual Supply Agreement with CRRC Group

On 28 March 2016, the Company and CRRC Group (together with its subsidiaries and their respective associates but excluding the Group, collectively, the "CRRC Group of Companies") entered into the 2017-19 CRRC Group Mutual Supply Agreement, pursuant to which the Company and CRRC Group agreed on mutual supply of certain products, parts and components, technical services, after-sales services, management services and other related services, and related facilities for research and development, production and testing purposes between the Group and the CRRC Group of Companies for a term of three years commencing on 1 January 2017 and ending on 31 December 2019. Please refer to the Company's announcement dated 31 March 2016 and circular dated 22 April 2016 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement. The Company obtained the approval from relevant independent Shareholders at the annual general meeting held on 23 June 2016.

For the year ended 31 December 2019, the amount payable by the Group to the CRRC Group of Companies for the products and services supplied by the CRRC Group of Companies under the 2017-19 CRRC Group Mutual Supply Agreement was RMB2,464.4 million, and the amount payable by the CRRC Group of Companies to the Group for the products and services supplied by the Group under the 2017-19 CRRC Group Mutual Supply Agreement was RMB7,966.3 million, and both were within the aggregate annual caps of continuing connected transactions for the financial year ended 31 December 2019 approved by independent Shareholders at the annual general meeting held on 23 June 2016.

In view of the expiry of the 2017-2019 CRRC Group Mutual Supply Agreement on 31 December 2019, on 26 March 2019, the Company entered into the 2020-2022 CRRC Group Mutual Supply Agreement with CRRC Group for a term of three years commencing on 1 January 2020 and ending on 31 December 2022. The 2020-2022 CRRC Group Mutual Supply Agreement and the new annual caps in respect of the transactions thereunder for the three years commencing from 1 January 2020 to 31 December 2022 have been approved by the independent Shareholders at the annual general meeting held on 20 June 2019.

The Financial Services Framework Agreement with CRRC Finance

On 28 December 2018, the Company and CRRC Finance entered into the 2018-19 CRRC Financial Services Framework Agreement, pursuant to which, CRRC Finance agreed to provide the Group with deposits services, loan services and other financial services subject to the terms and conditions provided therein for a term commencing from 31 December 2018 to 30 December 2019. Please refer to the Company's announcement dated 28 December 2018 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement.

Directors' Report

CONTINUING CONNECTED TRANSACTIONS (continued)

The 2018-19 CRRC Financial Services Framework Agreement expired on 30 December 2019. On 25 October 2019, the Company and CRRC Finance entered into the 2019-20 CRRC Financial Services Framework Agreement (together with the 2018-19 CRRC Financial Services Framework Agreement, collectively, the "Financial Services Framework Agreements"), pursuant to which, CRRC Finance agreed to provide the Group with deposits services, loan services and other financial services subject to the terms and conditions provided therein for a term commencing from 31 December 2019 to 30 December 2020. Please refer to the Company's announcement dated 25 October 2019 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement.

For the year ended 31 December 2019, the maximum daily amount of the Group's deposits with CRRC Finance under the Financial Services Framework Agreements was RMB688.0 million, which was within the respective maximum daily caps of continuing connected transaction for the financial year ended 31 December 2019 provided for by the Financial Services Framework Agreements. For the year ended 31 December 2019, the Group did not receive the loan services and other financial services which may be provided by CRRC Finance to the Group under the Financial Services Framework Agreements.

Mutual Supply Agreement with Qingdao Electric

On 22 December 2016, the Company entered into the 2017-19 Qingdao Mutual Supply Agreement with Qingdao Electric (together with its subsidiaries and their respective associates, collectively, the "Qingdao Electric Group"), pursuant to which the Company and Qingdao Electric agreed to provide mutual supply of certain products, parts and components, technical services, after-sales services, management services and other related services, and related facilities for research and development, production and testing purposes between the Group (excluding the Qingdao Electric Group) and the Qingdao Electric Group, for a term of three years commencing on 1 January 2017 and ending on 31 December 2019. Please refer to the Company's announcement dated 22 December 2016 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement.

As at the year ended 31 December 2019, the amount payable by the Group to the Qingdao Electric Group for the products and/or services supplied by the Qingdao Electric Group under the 2017-19 Qingdao Mutual Supply Agreement was RMB0.2 million, and the amount payable by the Qingdao Electric Group to the Group for the products and/or services supplied by the Group under the 2017-19 Qingdao Mutual Supply Agreement was RMB9.3 million, and both were within the relevant aggregate annual caps of continuing connected transactions for the financial year ended 31 December 2019 provided for in the 2017-19 Qingdao Mutual Supply Agreement.

Mutual Supply Agreement with China Railway

As at the date of the 2017-19 China Railway Mutual Supply Agreement (i.e. 12 January 2017), the Company owned 85.8% equity interest in Baoji Times, and China Railway Baoji Machinery Co., Ltd. (中鐵寶工有限責任公司) ("China Railway Baoji Machinery", an indirect wholly-owned subsidiary of China Railway Group Limited (中國中鐵股份有限公司), "China Railway" (together with its subsidiaries and their respective associates, collectively, the "China Railway Group")) owned 14.2% equity interest in Baoji Times. As China Railway Baoji Machinery was a substantial shareholder of Baoji Times, which is a subsidiary of the Company, China Railway Baoji Machinery and its associates (including China Railway) were connected persons of the Company at the subsidiary level under the Listing Rules.

Directors' Report

CONTINUING CONNECTED TRANSACTIONS (continued)

On 12 January 2017, the Company entered into the conditional 2017-19 China Railway Mutual Supply Agreement with China Railway, pursuant to which the Company and China Railway agreed to provide mutual supply of certain products, parts and components, technical services, after-sales services, management services and other related services, and related facilities for research and development, production and testing purposes between the Group and the China Railway Group for a term commencing from the time upon the 2017-19 China Railway Mutual Supply Agreement become effective (i.e. 26 March 2018) to 31 December 2019 or the time when China Railway or its subsidiaries ceases to be a substantial shareholder of Baoji Times (whichever is earlier). The coming into force of the 2017-19 China Railway Mutual Supply Agreement is conditional upon, among others, the insignificant subsidiary exception under Rule 14A.09 of the Listing Rules in respect of Baoji Times being no longer applicable. Upon the fulfilment of all conditions, the 2017-19 China Railway Mutual Supply Agreement became effective on 26 March 2018. Please refer to the Company's announcement dated 26 March 2018 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement.

Upon capital increase on 30 December 2019 and as at 31 December 2019, the Company owns 90.15% equity interest in Baoji Times, and China Railway Baoji Machinery owns 9.85% equity interest in Baoji Times. As China Railway Baoji Machinery is no longer a substantial shareholder of Baoji Times, which was a subsidiary of the Company, China Railway Baoji Machinery and its associates (including China Railway) are not connected persons of the Company at the subsidiary level under the Listing Rules.

For the year ended 31 December 2019, the amount payable by the Group to the China Railway Group for the products and/or services supplied by the China Railway Group under the 2017-19 China Railway Mutual Supply Agreement was RMB8.3 million, and the amount payable by the China Railway Group to the Group for products and/or services supplied by the Group under the 2017-19 China Railway Mutual Supply Agreement was RMB103.8 million, which did not exceed the relevant annual aggregate caps for the continuing connected transactions for the financial year ended 31 December 2019 as agreed in the 2017-19 China Railway Mutual Supply Agreement.

Property Leasing Framework Agreement with CRRC

On 17 August 2018, the Company and CRRC (together with its subsidiaries (excluding the Group) and their respective associates, collectively, the "CRRC Corporation Group") entered into the Property Leasing Framework Agreement, pursuant to which, the Company and CRRC agreed to lease and procure their respective group members to lease to the other their lawfully owned properties and/or supporting equipment and facilities for a term of ten years commencing from 1 January 2018 and ending on 31 December 2027. Please refer to the announcement of the Company dated 17 August 2018 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement.

For the year ended 31 December 2019, the rent and related fees paid by the CRRC Corporation Group to the Group under the Property Leasing Framework Agreement was RMB9.3 million and the rent and related fees paid by the Group to the CRRC Corporation Group under the Property Leasing Framework Agreement was RMB9.7 million (and the balance of the right-of-use asset recognised according to Accounting Standards for Business Enterprises No. 21 – Leases was RMB21.3 million), which did not exceed the relevant annual aggregate caps for the continuing connected transactions for the financial year ended 31 December 2019 as agreed in the Property Leasing Framework Agreement.

Directors' Report

CONTINUING CONNECTED TRANSACTIONS (continued)

Mutual Supply Agreement with Taiyuan Times

On 28 December 2018, the Company entered into the 2019-21 Taiyuan Times Mutual Supply Agreement with Taiyuan Times (together with its subsidiaries and their respective associates, collectively, the "Taiyuan Times Group"), pursuant to which, the Company and Taiyuan Times agreed to provide mutual supply of other certain products, parts and components, technical services, after-sales services, management services and other related services, and related facilities for research and development, production and testing purposes between the Group and the Taiyuan Times Group for a term of three years commencing from 1 January 2019 and ending on 31 December 2021. Please refer to the announcement of the Company dated 28 December 2018 for details, which included information on the connected relationship between the Company and the counterparty to the aforesaid agreement.

For the year ended 31 December 2019, the amount payable by the Group to Taiyuan Times Group for the products and/or services provided by Taiyuan Times Group under the 2019-21 Taiyuan Times Mutual Supply Agreement was RMB33.2 million, and the amount payable by Taiyuan Times Group to the Group for the products and/or services provided by the Group under the 2019-21 Taiyuan Times Mutual Supply Agreement was RMB0.8 million, which did not exceed the relevant annual aggregate caps for the continuing connected transactions for the financial year ended 31 December 2019 as agreed in the 2019-21 Taiyuan Times Mutual Supply Agreement.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The Board has engaged the auditor of the Company to perform certain procedures in respect of the continuing connected transactions of the Group. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions to the Board in accordance with the Rule 14A.56 of the Listing Rules. The Company provided a copy of the said letter to the Stock Exchange. The Directors (including independent non-executive Directors) have reviewed and confirmed that the continuing connected transactions of the Group comply with the agreed procedures and principles and the Group's continuing connected transactions above:

- were entered into in the ordinary and usual course of business of the Group;
- were entered into on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available to or from (as the case may be) independent third parties;
- were conducted in accordance with the agreements governing such transactions, and the terms are fair, reasonable and in the interests of the Company and the Shareholders as a whole; and
- did not exceed the caps of continuing connected transactions for the financial year ended 31 December 2019 provided for by the continuing connected transactions agreements above.

RELATED-PARTY TRANSACTIONS

Details of the related-party transactions undertaken by the Group during the year are set out in Note X to the financial statements. The Company has complied with the applicable requirements under the Listing Rules for those related party transactions which constituted non-exempt connected transactions/continuing connected transactions under the Listing Rules. Other related-party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent Shareholders' approval requirements under the Listing Rules.

Directors' Report

CONNECTED TRANSACTIONS

Reference is made to the voluntary announcement of the Company dated 30 October 2019, in which the Board announced that the Company, together with CRRCG, Construction and Investment Company, Investment Fund Management Company, CRRC C&E and Suzhou CRRC C&E, formed a consortium to jointly submit a bid for the public-private partnership (PPP) project in relation to the transit engineering of the Wuxi-Jiangyin inter-city rail, and received the letter of award for the bid on 8 October 2019.

On 19 December 2019, the Company, CRRCG, Construction and Investment Company, Investment Fund Management Company, CRRC C&E and Suzhou CRRC C&E together as a consortium, entered into the investment agreement with government implementing authorities as well as the shareholders' agreement with government investment representatives in respect of PPP Project, pursuant to which, the consortium and government investment representatives shall establish a project company by way of joint contribution in order to invest in the PPP Project. The project company, once established, will be held as to 4%, 0.1%, 2.4%, 67.02%, 5.48% and 1% by the Company, CRRCG, Construction and Investment Company, Investment Fund Management Company, CRRC C&E and Suzhou CRRC C&E, respectively. The project company will not become a subsidiary of the Company. For details, please refer to the announcement of the Company dated 19 December 2019.

MECHANISM FOR PROTECTING NON-CONTROLLING INTERESTS

To protect non-controlling interests, the Company has established and implemented certain governance measures, which include:

- (1) Interested directors should declare their respective interests, and would not attend and vote at the Board meeting in respect of the connected transactions in which they are interested. Accordingly, Mr. Li Donglin, Mr. Yang Shouyi and Mr. Zhang Xinning did not attend and vote at the Board meeting in respect of the connected transactions between the Group and the CRRC Group of Companies.
- (2) An independent professional management team of the Group responsible for negotiating and reviewing the terms of transactions with the suppliers and customers (including the CRRC Group of Companies) has been established. The members of the management team include the staff of the Group with relevant techniques and sales expertise, and the terms of duties of the management team allow it to make independent business judgments. The management team reports to the Board, while the Board is accountable to the Shareholders of the Company as a whole.
- (3) The Company's auditor has provided quarterly reports to the independent non-executive Directors on all transactions conducted between the Group and the CRRC Group of Companies.
- (4) When making purchases, the Group has endeavoured to obtain tenders or quotations from a number of independent suppliers, and select successful bidders (where applicable) based on objective standards such as the price and quality of products, delivery schedule and services.
- (5) Subject to (1) above, all independent non-executive Directors have attended the Board meetings for deciding whether the Group should conduct special transactions with the CRRC Group of Companies.
- (6) The terms for the supply and purchase arrangements entered into between the Group and the CRRC Group of Companies are subject to quarterly review by the independent non-executive Directors, and opinions regarding such transactions are disclosed by the Company to Shareholders by way of announcements. Independent non-executive Directors may request an independent party having at least 10 years' experience in the locomotive and rolling stock manufacturing industry to participate in assessing the terms of the sales and purchases agreements, and to provide their findings to the independent non-executive Directors.

Directors' Report

NON-COMPETITION AND INDEMNITY DEEDS

The Company entered into a non-competition and indemnity deed with the Parent Company and CRRC Group on 30 November 2006 (collectively the "Non-Competition and Indemnity Deeds"), respectively, pursuant to which the Parent Group and the CRRC Group of Companies (excluding the Parent Group) respectively undertook not to carry on businesses that are in competition with the Company's businesses.

In 2015, CSR merged with CNR and formed CRRC; China Northern Locomotive & Rolling Stock Industry (Group) Corporation merged with CSR Group and formed CRRC Group. As certain businesses of the subsidiaries of CNR overlap with those of the Group, there are certain business overlaps between CRRC Group and the Group. Accordingly, CRRC Corporation Limited issued an undertaking letter regarding the avoidance of competition with the Company (the "Undertaking Letter") to the Company on 5 August 2015, in which it provided non-competition undertakings as follows:

- CRRC will grant the Company a call option, pursuant to which, the Company will be entitled to elect, at its own discretion, when to request CRRC to sell the competing businesses of CRRC to Company;
- CRRC further granted the Company a pre-emptive right, pursuant to which, if CRRC proposes to sell the competing business to an independent third party, CRRC shall offer to the Company the competing business first on the same conditions, and the sale to the third party may only be effected after the Company declined to purchase the competing business;
- the decision of the Company to exercise the aforesaid option and the pre-emptive right to purchase shall be made by the independent non-executive Directors of the Company;
- the exercise of the aforesaid option and the pre-emptive right to purchase will be subject to the applicable regulatory and disclosure requirements and Shareholders' approval at the general meeting in the places of listing of CRRC and the Company respectively;
- the aforesaid non-competition undertaking will be effective from the date of issuance to the time when the Company is de-listed or CRRC ceases to be an indirect controlling Shareholder of the Company.

The independent non-executive Directors have reviewed the compliance issue of the Non-Competition and Indemnity Deeds with the Parent Group and the CRRC Group of Companies (excluding the Parent Group) for the year ended 31 December 2019, and reviewed relevant information provided by the Parent Group and the CRRC Group of Companies (excluding the Parent Group). The independent non-executive Directors were of the opinion that: (1) the Parent Group complied with the relevant terms of the Non-Competition and Indemnity Deeds in 2019. The Parent Group carried on its businesses independent of the Group's businesses, having different technology applications and different customers, which would not be in competition with that of the Group; (2) in 2019, CRRC Group continued to procure CRRC to perform its undertakings to the Company and continued to promote the resolution of the business competition with the Group arising from the merger of CSR and CNR; and (3) the Board operated and managed the Company's businesses independently in the interests of the Company and the Shareholders as a whole.

SUFFICIENCY OF PUBLIC FLOAT

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

Directors' Report

POST BALANCE SHEET EVENTS

On 27 March 2020, the 12th meeting of the fifth session of the Board of the Company approved the profit distribution plan for 2019 to distribute cash dividends of RMB528,964,487 in total to all Shareholders, equivalent to the distribution of RMB0.45 per share (tax inclusive) based on the total number of 1,175,476,637 shares of the Company.

The outbreak of COVID-19 has spread to over 100 countries and regions in the world since January 2020. In February 2020, the Group resumed operation and production in an orderly manner according to the requirements of relevant local government to ensure the delivery of important orders as scheduled. As the Outbreak continues to evolve, the Group will continue to assess the impact of the Outbreak on the Group in the future.

TAXATION

Pursuant to the provisions of the Corporate Income Tax Law of the People's Republic of China and the Implementing Regulations of the Corporate Income Tax Law of the People's Republic of China, effective from 1 January 2008, any PRC domestic enterprise shall withhold the corporate income tax upon the distribution of dividends payable to the Shareholders being non-resident enterprises (legal persons) for accounting periods starting from 1 January 2008, and the payer shall serve as the withholding agent. The Company will strictly abide by the law and identify all Shareholders who are subject to the withholding and payment of corporate income tax, whose names appear in the Company's register of members as holders of H shares on the record date and who are not individuals (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or organisations which are all considered as non-resident enterprise Shareholders, but excluding any H shares of the Company registered in the name of HKSCC Nominees Limited which are held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder on behalf of investors who invest in the H shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect), the Company will distribute the relevant dividends after deducting corporate income tax of 10%.

Pursuant to the requirements of Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Cai Shui Zi [1994] 020) (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)), individual foreigners are exempt from individual income tax on dividend and bonus 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 appear in the H-share registrar are not required to pay the individual income tax of the PRC.

Pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2019] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》)(財稅[2019]81號), for dividends received by domestic investors from investing in H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, the H shares companies shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The H shares companies will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

Pursuant to the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》)(財稅[2016]127號), for dividends received by domestic investors from investing in H shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect, the H shares companies shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in H shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The H shares companies will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

Directors' Report

TAXATION (continued)

The proposed dividend to be distributed is subject to the approval of the shareholders at the annual general meeting to be held on 23 June 2020. The time arrangement such as record date and the cash payment date for the investors of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are the same as the holders of the H shares of the Company.

Save as disclosed above, for the year ended 31 December 2019, no foreign shareholder who is non-PRC resident is liable to individual or corporate income tax, capital gains tax, stamp duty or estate duty of the PRC in relation to their holding of H shares of the Company. Shareholders are urged to consult their tax advisers regarding the applicable PRC and Hong Kong tax laws and other tax consequences of the owning and disposing of the H shares of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Group or existed during the reporting period.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Company adheres to its safety and environmental protection principles of "People-oriented, Continuous Improvement, Environmental Friendly and Health and Safety". In addition to strict compliance with the national laws and regulations in relation to environmental protection and principles and policies of energy saving and emission reduction, the Company continuously promotes the use of environmentally-friendly materials and application of environmental-friendly crafts. Through continuous implementation and optimization of environmental protection management, the Company ensures that its production and business activities always comply with the requirements of ISO14001 environmental management system. As a green factory and green enterprise and one of the Credit Enterprises of Environmental Protection in Hunan Province, the Company plays an active role in fulfilling its social responsibility and obligations and upholding a good social image. For further information about the Company's environmental performance during the year, please refer to the Social Responsibility Report to be published separately on or before 30 May 2020 by the Company, which will be available on the Company's website and the Stock Exchange's HKExnews website in due course.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has formulated the compliance procedures to ensure compliance with the applicable laws, rules and regulations that have a significant impact on it. The securities and legal affairs department and other relevant departments of the Company are responsible for supervising the policies and practices for compliance with laws and supervision by reviewing the same regularly. The relevant employees and subsidiaries will be notified from time to time of any material change in the applicable laws, rules and regulations.

The Group has complied with relevant applicable laws, rules and regulations of the jurisdictions in which the Group operates in all material aspects and has obtained relevant qualifications required for the provision of products and/or services. During the year and as far as the Company is aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on its business and operations.

Directors' Report

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group provides a harmonious and professional working environment to employees and ensures that all of them are reasonably remunerated. The Company regularly optimises and updates its policies on remuneration and benefits, training as well as occupational health and safety in accordance with laws and policy requirements at all levels. Details of the employees of the Company are set out in the subsection headed "Directors' Report – Employees and remuneration policy" above.

During the reporting period, there were no material disputes between the Group and its employees.

The Group recognises the importance of maintaining good cooperative relationship with its business partners such as customers and suppliers to achieve mutual promotion and long-term development. It has always strived to cooperate with its business partners to create and share value to achieve mutual development and co-win results. In the course of business operation, the Company pays close attention to the benefits of various stakeholders such as the customers and suppliers and communicates with them smoothly through dedicated account managers, green service centers, customer satisfaction and compatibility survey, business and technology exchange and business activities in various areas, with a view to fully understanding, collecting and analysing their concerns and making responses positively based on the actual circumstances, so as to continuously improve its own operation ability and the ability to serve its business partners. During the reporting period, there were no material disputes between the Group and stakeholders such as its customers and suppliers.

SOCIAL RESPONSIBILITY REPORT

The social responsibility report containing information on the Company's performance of its responsibilities on the environment and the society in 2019 will be published and will also be posted on the website of the Company and the Stock Exchange's HKExnews website on or before 30 May 2020.

AUDITOR

The financial statements for the year have been audited by Deloitte Touche Tohmatsu, which will be reappointed as the auditor of the Company by proposing a resolution at the forthcoming annual general meeting.

By order of the Board

Li Donglin
Chairman of the Board

Zhuzhou, Hunan, PRC
27 March 2020

Supervisory Committee's Report

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

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE REPORTING PERIOD

1. During the year, the Company held four 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. Contents of review mainly included the 2018 working report of the Supervisory Committee, the 2018 financial report, the 2018 annual report, the 2019 interim report and connected transactions etc.
2. During the year, members of the Supervisory Committee attended all the general meetings and the Board meetings of the Company in person or by way of telecommunication.

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE

1. The Company carried on its operations lawfully

In 2019, in accordance with the applicable laws and regulations, the Supervisory Committee reviewed the procedures adopted in the convening, passing of resolutions, decision-making procedures, results of voting of the Company's general meetings and the Board meetings, implementation of resolutions of general meetings by the Board, the performance of duties of senior management and the management system of the Company. The Supervisory Committee is of the opinion that the Directors and senior management of the Company had diligently performed their responsibilities and were in compliance with the applicable laws and regulations. During the reporting period, no breaches of laws or regulations which were materially prejudicial to the Company or the interests of Shareholders were found.

2. Financial reports give a true and accurate view

The Supervisory Committee seriously and thoroughly reviewed the Group's financial system and financial position. The Supervisory Committee considers that the Group's 2019 financial report is true and accurate and presents the financial position and operating results fairly, and Deloitte Touche Tohmatsu has issued a standard and unqualified audit opinion.

3. Connected transactions

The Supervisory Committee considers that the connected transactions between the Group and the CRRC Group of Companies during the year were entered into in the ordinary and usual course of our business. The terms of transactions were fair and reasonable which were in the interests of the Group and the Shareholders as a whole. After its review, the Supervisory Committee considers that the Group's 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's and Shareholders' interest by means of connected transactions, and the total value of the continuing connected transactions was within the 2019 aggregate annual caps approved by the independent Shareholders at the extraordinary general meeting held on 23 June 2016.

Supervisory Committee's Report

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE (continued)

4. The implementation of non-competition and indemnity deeds

The Supervisory Committee is of the opinion that (1) the Parent Group complied with the relevant terms of the Non-Competition and Indemnity Deeds in 2019. The Parent Group carried on its businesses independent of the Group's businesses, having different technology applications and different customers, which would not be in competition with that of the Group; (2) in 2019, CRRC Group continued to procure CRRC to perform its undertakings to the Company and continued to promote the resolution of the business competition with the Group arising from the merger of CSR and CNR; and (3) the Board operated and managed the Company's businesses independently in the interests of the Company and the Shareholders as a whole.

5. The implementation of the resolutions of the general meeting

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

Li Lüe

Chairman of the Supervisory Committee

Zhuzhou, Hunan, PRC
27 March 2020

Auditors' Report

Deloitte.

De Shi Bao (Shen) Zi (20) No. P00831

TO ALL SHAREHOLDERS OF ZHUZHOU CRRC TIMES ELECTRIC CO., LTD.

1. OPINION

We have audited the financial statements of Zhuzhou CRRC Times Electric Co., Ltd. ("CRRC Times Electric") which comprise the consolidated and Company's statement of financial position as at 31 December 2019, the consolidated and Company's statement of profit or loss and other comprehensive income, the consolidated and Company's statement of cash flows and the consolidated and Company's statement of changes in equity for the year then ended, and the notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and Company's financial position of CRRC Times Electric as at 31 December 2019 and the consolidated and Company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standard on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the code of ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We determine the followings are key audit matters in need of communication in our report.

Auditors' Report

3. KEY AUDIT MATTERS (Continued)

(I) Measurement of Expected Credit Losses of Trade Receivables and Contract Assets

Description of Matter

As disclosed in Note V.4 and Note V.9 to the financial statements, as at 31 December 2019, the gross carrying amounts of trade receivables and contract assets of CRRC Times Electric were RMB7,856,988,860 and RMB546,145,090, respectively; the provisions for expected credit losses of trade receivable and contract assets were RMB443,024,138 and RMB11,683,162, respectively. As disclosed in Note III 9.2 to the financial statements, CRRC Times Electric adopts the expected credit losses model to recognize provisions for expected credit losses, and measures the provisions for losses of all the trade receivable and contract assets at the full lifetime amounts of expected credit losses. The measurement of expected credit losses involves significant judgements and assumptions by the management, including the estimation on expected credit risk and expected lifetime expected credit losses rate on a basis of portfolios grouped as per credit risk characteristics. In the meantime, due to credit risk exposures of trade receivables and contract assets and significant amounts of provisions for the losses, we consider it as a key audit matter.

Audit Responses

1. Test and evaluate the effectiveness of the design, implementation and operation of the internal control related to the provision for expected credit losses;
2. Understanding how the management determines the expected credit loss ("ECL") and assessing the reasonableness, testing the basic data on which the calculation of ECL is based, including classification of the customer type, historical credit loss, current involvement in litigations, aging and overdue status of accounts receivable, etc.;
3. Review the reasonableness and consistency of the expected credit losses model and major parameters adopted by the management of CRRC Times Electric to determine the expected credit losses;
4. Select samples to review whether the management of CRRC Times Electric has estimated the future cash flows of trade receivables or contract assets based on the different credit risks and judge its reasonableness;
5. In regard of accounts receivable for which ECLs are individually assessed, obtaining relevant support documents from management of CRRC Times Electric, understanding the specific considerations of the management on the individual assessment of ECL, and evaluating the reasonableness and accuracy of ECL assessed individually.

(II) Impairment of Goodwill

Description of Matter

As disclosed in Note V.17 to the financial statements, as at 31 December 2019, the net goodwill of CRRC Times Electric was RMB417,097,375. The CRRC Times Electric acquired Specialist Machine Developments (SMD) Limited ("SMD") with its subsidiaries, through CRRC Times Electric (Hong Kong) Co., Limited on 9 April 2015. The acquisition brought a goodwill of RMB536 million, and the provision on impairment of goodwill was RMB203 million as at 31 December 2019. As disclosed in Note III. 4.2 and Note III. 19 to the financial statements, CRRC Times Electric measures the goodwill acquired in the business combination according to the amount of the cost less the accumulated impairment loss after the initial recognition, and tests for impairment at least at the end of each year. Since the closing balance of the foresaid goodwill is significant at the end of year and the goodwill impairment test involves a large number of assumptions and judgments, including estimation of future cash flow generated from asset groups or asset group portfolios, and selection of discount rate which properly reflects the currency time value of present market and particular risk of assets, and therefore, we consider this matter to be a key audit matter.

Auditors' Report

3. KEY AUDIT MATTERS (Continued)

(II) Impairment of Goodwill (Continued)

Audit Responses

1. Test and evaluate the effectiveness of the design, implementation and operation of the internal control related to the impairment of goodwill;
2. Review and evaluate the reasonableness and consistency of the management's estimation method of recoverable amount based on the discount model of free cash flow generated from asset group portfolio;
3. Involve internal experts, and assess the reasonableness of the impairment test model and key parameters used by the management of CRRC Times Electric including future cash flow forecast and applicable discount rate;
4. Perform sensitivity test on possible changes related to key assumptions in the impairment test model;
5. Verify the computing accuracy of the impairment test model of goodwill.

4. OTHER INFORMATION

Management of CRRC Times Electric is responsible for the other information which includes the information contained in the annual report but excludes the financial statements and our auditors' report.

Our audit opinion on the financial statements is not applicable to other information, and we neither express assurance conclusion whatsoever and howsoever on the other information.

In accordance with our audit on the financial statements, our responsibility is to read the other information and to consider whether it is significantly different from the financial statements or our knowledge in the audit process or whether a material misstatement appears to exist.

If we identify a material misstatement in other information based on our work, we should report the fact. In this regard, we have nothing to report.

5. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management of CRRC Times Electric is responsible for the preparation and fair presentation of the financial statements in accordance with ASBE, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of CRRC Times Electric to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate CRRC Times Electric or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of CRRC Times Electric.

Auditors' Report

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing 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 financial statements.

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

- (1) Identify and assess the risks of material misstatement of the 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.
- (2) 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 internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's 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 ability of CRRC Times Electric to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause CRRC Times Electric to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within CRRC Times Electric to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditors' Report

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

(Continued)

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 financial statements of 2019 and are therefore the key audit matters. We describe these matters in our auditors' 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.

Deloitte Touche Tohmatsu Certified
Public Accountants LLP

Chinese Certified Public Accountant: Jiang Jian
(Engagement partner)

Shanghai, China

Chinese Certified Public Accountant: Ma Renjie

27 March 2020

The auditors' report and the accompanying financial statements are English translations of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

Consolidated Statement of Financial Position

AT 31 DECEMBER 2019
Renminbi Yuan

ASSETS	Note V	31 December 2019	31 December 2018
CURRENT ASSETS			
Cash and bank balances	1	4,302,487,192	4,394,379,150
Held-for-trading financial assets	2	4,905,776,761	1,603,855,068
Bills receivable	3	2,726,110,422	3,508,440,870
Trade receivables	4	7,413,964,722	6,485,964,593
Trade receivables financing	5	2,554,953,370	1,030,920,086
Prepayments	6	325,425,161	416,359,549
Other receivables	7	106,498,054	106,146,467
Inventories	8	3,768,038,771	3,114,014,551
Contract assets	9	185,348,674	193,098,466
Other current assets	10	486,019,130	2,729,327,503
Total current assets		26,774,622,257	23,582,506,303
NON-CURRENT ASSETS			
Long-term equity investments	11	527,041,129	464,017,479
Other equity instrument investment		2,400,000	900,000
Fixed assets	12	2,982,555,754	2,741,545,604
Construction in progress	13	92,209,800	275,081,681
Right-of-use assets	14	106,551,628	N/A
Intangible assets	15	746,172,701	675,608,905
Development expenditure	16	205,708,046	188,436,535
Goodwill	17	417,097,375	475,530,053
Long-term prepaid expenses	18	34,744,515	31,924,398
Deferred tax assets	19	431,128,139	397,748,652
Other non-current assets	20	665,384,012	201,222,966
Total non-current assets		6,210,993,099	5,452,016,273
TOTAL ASSETS		32,985,615,356	29,034,522,576

Notes to Financial Statements are components of these financial statements.

Consolidated Statement of Financial Position

AT 31 DECEMBER 2019
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2019	31 December 2018
CURRENT LIABILITIES			
Short-term borrowings	21	146,596,015	168,246,814
Bills payable	22	2,282,345,169	2,349,473,616
Trade payables	23	4,391,411,209	3,185,104,692
Advances from customers		–	6,736,890
Contract liabilities	24	896,368,688	649,337,643
Employee benefits payable	25	150,388,408	135,840,963
Taxes payable	26	153,056,373	257,189,215
Other payables	27	857,451,744	669,071,995
Non-current liabilities due within one year	28	391,687,113	302,750,776
Other current liabilities	29	112,563,399	–
Total current liabilities		9,381,868,118	7,723,752,604
NON-CURRENT LIABILITIES			
Long-term borrowings	30	230,535,828	232,329,655
Lease liabilities	31	71,511,895	N/A
Long-term payables	32	16,517,630	41,525,173
Provisions	33	450,100,880	373,890,995
Deferred income	34	565,440,683	461,200,893
Deferred tax liabilities	19	49,592,228	54,475,133
Other non-current liabilities		23,768,937	23,833,959
Total non-current liabilities		1,407,468,081	1,187,255,808
Total liabilities		10,789,336,199	8,911,008,412
SHAREHOLDERS' EQUITY			
Share capital	35	1,175,476,637	1,175,476,637
Capital reserve	36	3,321,880,949	3,369,786,541
Other comprehensive income	37	(140,316,129)	(138,081,853)
Special reserve	38	17,509,972	12,070,105
Surplus reserve	39	2,072,158,058	1,801,776,624
Retained earnings	40	15,463,553,872	13,603,735,926
Total equity attributable to shareholders of the Parent		21,910,263,359	19,824,763,980
Non-controlling interests		286,015,798	298,750,184
Total shareholders' equity		22,196,279,157	20,123,514,164
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		32,985,615,356	29,034,522,576

Notes to Financial Statements are components of these financial statements.

The financial statements on pages 65 to 79 were signed by the following:

Legal Representative
Li Donglin

Chief Financial Officer
Zhang Hua

Head of Accounting Department
Zang Yingjing

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Note V	2019	2018
Revenue	41	16,304,206,791	15,657,900,734
Less: Cost of sales	41	9,965,727,450	9,790,246,866
Tax and surcharges	42	150,692,177	131,432,864
Selling expenses		1,121,102,310	1,152,534,673
Administrative expenses	43	849,892,120	780,580,804
Research and development expenses		1,606,529,489	1,442,970,390
Finance expenses	44	4,435,925	(24,595,640)
Including: Interest expenses	44	25,539,769	7,582,970
Interest income	44	28,727,953	40,238,077
Add: Other income	45	450,494,528	378,292,979
Investment income	46	94,980,320	79,646,243
Including: Share of losses of associates and joint ventures	46	(11,958,641)	(5,211,103)
Gains on fair value changes	47	5,776,761	–
Credit impairment losses	48	(169,814,348)	(5,210,008)
Asset impairment losses	49	(85,706,513)	104,020,818
(Losses) gains on disposals of assets	50	(272,649)	1,412,378
Operating profit		2,901,285,419	2,942,893,187
Add: Non-operating income	51	33,452,306	26,314,703
Less: Non-operating expenses	52	2,124,938	2,076,961
Total profit		2,932,612,787	2,967,130,929
Less: Income tax expenses	54	275,053,426	316,595,714
Net profit		<u>2,657,559,361</u>	<u>2,650,535,215</u>
(i) Net profit classified by business continuity:			
1. Net profit from continuing operations		2,657,559,361	2,650,535,215
2. Net profit from discontinued operations		–	–
(ii) Net profit classified by ownership:			
1. Net profit attributable to non-controlling interests		(1,604,506)	38,047,466
2. Net profit attributable to shareholders of the Parent		2,659,163,867	2,612,487,749

Notes to Financial Statements are components of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Note V	2019	2018
Other comprehensive income, net of tax	37		
Other comprehensive income attributable to shareholders of the Parent, net of tax			
(i) Items that will not be reclassified to profit or loss		—	—
(ii) Items that may be reclassified to profit or loss			
1. Fair value gains or losses on financial assets at fair value through other comprehensive income		(34,520,711)	(6,557,139)
2. Foreign currencies exchange fluctuation reserve		32,286,435	(1,672,879)
Other comprehensive income attributable to non-controlling interests, net of tax		(548,070)	(568,776)
Total comprehensive income		<u>2,654,777,015</u>	<u>2,641,736,421</u>
Including:			
Total comprehensive income attributable to shareholders of the Parent		<u>2,656,929,591</u>	<u>2,604,257,731</u>
Total comprehensive income attributable to non-controlling interests		<u>(2,152,576)</u>	<u>37,478,690</u>
Earnings per share (Yuan/Share)			
Basic earnings per share	55	<u>2.26</u>	<u>2.22</u>
Diluted earnings per share		<u>N/A</u>	<u>N/A</u>

Notes to Financial Statements are components of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Attributable to shareholders of the Parent							Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Sub-total		
I. At 31 December 2018	1,175,476,637	3,369,786,541	(138,081,853)	12,070,105	1,801,776,624	13,603,735,926	19,824,763,980	298,750,184	20,123,514,164
Add: Changes in accounting policy (Note III, 30)	-	-	-	-	-	-	-	-	-
II. At 1 January 2019	1,175,476,637	3,369,786,541	(138,081,853)	12,070,105	1,801,776,624	13,603,735,926	19,824,763,980	298,750,184	20,123,514,164
III. Movements during the year									
(i) Total comprehensive income	-	-	(2,234,276)	-	-	2,659,163,867	2,656,929,591	(2,152,576)	2,654,777,015
(ii) Capital contribution and withdrawal by shareholders									
1. Purchase of non-controlling interests (Note VII, 2)	-	(47,905,592)	-	-	-	-	(47,905,592)	(18,032,900)	(65,938,492)
2. Capital contribution by shareholders (Note VII, 1)	-	-	-	-	-	-	-	22,500,000	22,500,000
(iii) Profit appropriation									
1. Transfer to surplus reserve	-	-	-	-	270,381,434	(270,381,434)	-	-	-
2. Dividends distribution	-	-	-	-	-	(528,964,487)	(528,964,487)	(16,931,761)	(545,896,248)
(iv) Special reserve									
1. Accrued during the year	-	-	-	42,480,748	-	-	42,480,748	3,047,961	45,528,709
2. Utilized during the year	-	-	-	(37,040,881)	-	-	(37,040,881)	(1,165,110)	(38,205,991)
IV. At 31 December 2019	<u>1,175,476,637</u>	<u>3,321,880,949</u>	<u>(140,316,129)</u>	<u>17,509,972</u>	<u>2,072,158,058</u>	<u>15,463,553,872</u>	<u>21,910,263,359</u>	<u>286,015,798</u>	<u>22,196,279,157</u>

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Attributable to shareholders of the Parent							Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Sub-total		
I. At 31 December 2017	1,175,476,637	3,369,786,541	(116,467,835)	13,569,337	1,598,210,193	11,723,779,095	17,764,353,968	292,211,792	18,056,565,760
Add: Changes in accounting policy (Note)	-	-	(13,384,000)	-	-	-	(13,384,000)	(133,000)	(13,517,000)
II. At 1 January 2018	1,175,476,637	3,369,786,541	(129,851,835)	13,569,337	1,598,210,193	11,723,779,095	17,750,969,968	292,078,792	18,043,048,760
III. Movements during the year									
(i) Total comprehensive income	-	-	(8,230,018)	-	-	2,612,487,749	2,604,257,731	37,478,690	2,641,736,421
(ii) Capital contribution and withdrawal by shareholders									
1. Business combination involving enterprises under common control	-	-	-	-	9,347,986	(9,347,986)	-	-	-
2. Loss of control of a subsidiary due to capital increase by non-controlling shareholders	-	-	-	-	29,207	(29,207)	-	(15,058,724)	(15,058,724)
(iii) Profit appropriation									
1. Transfer to surplus reserve	-	-	-	-	194,189,238	(194,189,238)	-	-	-
2. Dividends distribution	-	-	-	-	-	(528,964,487)	(528,964,487)	(16,060,000)	(545,024,487)
(iv) Special reserve									
1. Accrued during the year	-	-	-	30,613,239	-	-	30,613,239	1,092,549	31,705,788
2. Utilized during the year	-	-	-	(32,112,471)	-	-	(32,112,471)	(781,123)	(32,893,594)
IV. At 31 December 2018	<u>1,175,476,637</u>	<u>3,369,786,541</u>	<u>(138,081,853)</u>	<u>12,070,105</u>	<u>1,801,776,624</u>	<u>13,603,735,926</u>	<u>19,824,763,980</u>	<u>298,750,184</u>	<u>20,123,514,164</u>

Note: Refer to effect arising from the adoption of the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets, Accounting Standards for Business Enterprises No. 24 – Hedge Accounting and Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments, which were revised by the Ministry of Finance in 2017 and have been applied since 1 January 2018.

Notes to Financial Statements are components of these financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Note	2019	2018
I. Cash Flows from Operating Activities:			
Cash received from the sales of goods and rendering of services		16,119,318,711	16,223,603,972
Refunds of taxes		229,380,404	416,864,094
Cash received relating to other operating activities		667,200,089	452,038,791
Sub-total of cash inflows from operating activities		17,015,899,204	17,092,506,857
Cash paid for goods and services		9,447,377,873	8,373,569,524
Cash paid to and on behalf of employees		2,185,584,157	1,902,947,836
Cash paid for all types of taxes		1,514,223,627	1,168,922,927
Cash paid relating to other operating activities		2,030,764,012	1,888,503,368
Sub-total of cash outflows from operating activities		15,177,949,669	13,333,943,655
Net Cash Flow from Operating Activities	V, 56	1,837,949,535	3,758,563,202
II. Cash Flows from Investing Activities:			
Cash received from disposal or recovery of investments		12,730,900,000	10,700,000,000
Cash received from returns on investments		115,629,577	83,406,115
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,914,691	27,156,675
Sub-total of cash inflows from investing activities		12,849,444,268	10,810,562,790
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		750,506,102	671,420,301
Cash paid for acquisition of investments		13,574,400,000	12,458,801,622
Net cash paid for the disposal of a subsidiary		—	30,699,682
Sub-total of cash outflows from investing activities		14,324,906,102	13,160,921,605
Net Cash Flow from Investing Activities		(1,475,461,834)	(2,350,358,815)

Notes to Financial Statements are components of these financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Note	2019	2018
III. Cash Flows from Financing Activities:			
Cash received from capital contributions		22,500,000	–
Including: cash received from capital contributions from non-controlling interests by a subsidiary		22,500,000	–
Cash received from borrowings		234,086,087	223,768,384
Cash received relating to other financing activities		292,000,000	–
Sub-total of cash inflows from financing activities		548,586,087	223,768,384
Cash repayments of borrowings		267,134,471	121,970,154
Cash paid for distribution of dividends or profits and settlement for interest expenses		570,162,686	553,430,174
Including: Dividends or profits paid to non-controlling interests by a subsidiary		19,791,761	–
Cash paid relating to other financing activities		218,616,166	–
Sub-total of cash outflows from financing activities		1,055,913,323	675,400,328
Net Cash Flow from Financing Activities		(507,327,236)	(451,631,944)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		7,907,395	2,245,833
V. Net (Decrease) Increase in Cash and Cash Equivalents		(136,932,140)	958,818,276
Add: Cash and cash equivalents at beginning of year		4,381,012,798	3,422,194,522
VI. Cash and cash equivalents at end of year	V, 56	4,244,080,658	4,381,012,798

Notes to Financial Statements are components of these financial statements.

Company's Statement of Financial Position

AT 31 DECEMBER 2019
Renminbi Yuan

ASSETS	Note XIV	31 December 2019	31 December 2018
CURRENT ASSETS			
Cash and bank balances	1	2,465,395,739	2,936,730,165
Held-for-trading financial assets		4,905,776,761	1,603,855,068
Bills receivable	2	2,567,140,197	3,240,144,076
Trade receivables	3	5,603,550,516	4,959,021,975
Trade receivables financing	4	2,076,951,571	701,851,222
Prepayments	5	230,806,361	282,958,818
Other receivables	6	633,649,288	751,166,080
Inventories	7	2,494,280,044	2,510,499,939
Contract assets	8	62,030,876	45,175,377
Other current assets	9	434,857,889	2,692,245,151
Total current assets		21,474,439,242	19,723,647,871
NON-CURRENT ASSETS			
Long-term receivables		585,853,200	525,720,000
Long-term equity investments	10	5,216,549,510	2,563,803,259
Other equity instrument investment		2,400,000	900,000
Fixed assets	11	877,405,258	2,120,859,247
Construction in progress	12	83,843,317	226,499,333
Right-of-use assets		31,335,518	N/A
Intangible assets	13	365,097,018	352,739,525
Development expenditure		94,296,144	129,125,712
Deferred tax assets	14	242,152,108	235,464,180
Other non-current assets		638,983,709	183,669,244
Total non-current assets		8,137,915,782	6,338,780,500
TOTAL ASSETS		29,612,355,024	26,062,428,371

Notes to Financial Statements are components of these financial statements

Company's Statement of Financial Position

AT 31 DECEMBER 2019
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note XIV	31 December 2019	31 December 2018
CURRENT LIABILITIES			
Short-term borrowings		–	26,028,600
Bills payable	15	1,229,996,571	1,344,764,455
Trade payables	16	5,206,700,509	4,074,069,053
Advances from customers		–	6,725,990
Contract liabilities	17	746,023,383	501,793,016
Employee benefits payable		104,121,169	109,277,398
Taxes payable	18	15,139,793	92,293,294
Other payables	19	687,538,734	555,091,881
Non-current liabilities due within one year	20, 21, 22	285,796,402	237,621,056
Other current liabilities		100,414,635	–
Total current liabilities		8,375,731,196	6,947,664,743
NON-CURRENT LIABILITIES			
Long-term borrowings	20	87,688,000	92,688,000
Lease liabilities	21	26,999,497	N/A
Long-term payables		16,517,630	41,525,173
Provisions	22	410,793,211	347,943,046
Deferred income	23	343,133,904	428,756,137
Other non-current liabilities		23,768,937	23,833,959
Total non-current liabilities		908,901,179	934,746,315
Total liabilities		9,284,632,375	7,882,411,058
SHAREHOLDERS' EQUITY			
Share capital		1,175,476,637	1,175,476,637
Capital reserve		3,371,446,430	3,371,446,430
Other comprehensive income		(41,975,605)	(14,428,445)
Special reserve		4,296,322	3,893,678
Surplus reserve		2,072,158,058	1,801,776,624
Retained earnings		13,746,320,807	11,841,852,389
Total shareholders' equity		20,327,722,649	18,180,017,313
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		29,612,355,024	26,062,428,371

Notes to Financial Statements are components of these financial statements

Company's Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Note XIV	2019	2018
Revenue	24	12,325,318,697	11,028,921,673
Less: Cost of sales	24	8,977,784,356	8,282,802,518
Tax and surcharges	25	90,519,545	59,056,668
Selling expenses		775,429,520	819,929,473
Administrative expenses		420,145,091	432,679,696
Research and development expenses		1,029,961,663	874,261,275
Finance expenses	26	(43,422,951)	(60,009,429)
Including: Interest expenses	26	11,378,778	1,734,347
Interest income	26	51,130,046	42,312,068
Add: Other income	27	152,012,816	88,615,631
Investment income	28	1,658,423,573	1,210,659,257
Including: Share of profits of associates and joint ventures	28	1,896,265	6,119,008
Gains on fair value changes		5,776,761	–
Credit impairment losses	29	(44,316,922)	(12,644,393)
Asset impairment losses	30	(74,585,395)	110,057,149
(Losses) gains on disposals of assets		(18,140)	1,797,647
Operating profit		2,772,194,166	2,018,686,763
Add: Non-operating income	31	9,106,373	3,528,671
Less: Non-operating expenses	32	140,393	27,871
Total profit		2,781,160,146	2,022,187,563
Less: Income tax expenses	33	77,345,807	80,295,183
Net profit		<u>2,703,814,339</u>	<u>1,941,892,380</u>
(i) Net profit classified by business continuity:			
1. Net profit from continuing operations		2,703,814,339	1,941,892,380
2. Net profit from discontinued operations		–	–
Other comprehensive income, net of tax			
(i) Items that will not be reclassified to profit or loss		–	–
(ii) Items that may be reclassified to profit or loss			
1. Fair value gains or losses on financial assets at fair value through other comprehensive income		(27,747,491)	(6,500,524)
2. Foreign currencies exchange fluctuation reserve		200,331	(56,921)
Other comprehensive income, net of tax		<u>(27,547,160)</u>	<u>(6,557,445)</u>
Total comprehensive income		<u>2,676,267,179</u>	<u>1,935,334,935</u>

Notes to Financial Statements are components of these financial statements.

Company's Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
I. At 31 December 2018	1,175,476,637	3,371,446,430	(14,428,445)	3,893,678	1,801,776,624	11,841,852,389	18,180,017,313
Add: Changes in accounting policy (Note III, 30)	-	-	-	-	-	-	-
II. At 1 January 2019	1,175,476,637	3,371,446,430	(14,428,445)	3,893,678	1,801,776,624	11,841,852,389	18,180,017,313
III. Movements during the year							
(i) Total comprehensive income	-	-	(27,547,160)	-	-	2,703,814,339	2,676,267,179
(ii) Profit appropriation							
1. Transfer to surplus reserve	-	-	-	-	270,381,434	(270,381,434)	-
2. Dividends distribution	-	-	-	-	-	(528,964,487)	(528,964,487)
(iii) Special reserve							
1. Accrued during the year	-	-	-	23,947,064	-	-	23,947,064
2. Utilized during the year	-	-	-	(23,544,420)	-	-	(23,544,420)
IV. At 31 December 2019	1,175,476,637	3,371,446,430	(41,975,605)	4,296,322	2,072,158,058	13,746,320,807	20,327,722,649

Company's Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
I. At 31 December 2017	1,175,476,637	3,370,007,584	-	6,225,988	1,598,210,193	10,568,350,215	16,718,270,617
Add: Changes in accounting policy (Note)	-	-	(7,871,000)	-	-	-	(7,871,000)
II. At 1 January 2018	1,175,476,637	3,370,007,584	(7,871,000)	6,225,988	1,598,210,193	10,568,350,215	16,710,399,617
III. Movements during the year							
(i) Total comprehensive income	-	-	(6,557,445)	-	-	1,941,892,380	1,935,334,935
(ii) Capital contribution and withdrawal by shareholders							
1. Business combination involving enterprises under common control	-	1,438,846	-	-	9,347,986	54,514,330	65,301,162
2. Loss of control of a subsidiary due to capital increase by non-controlling shareholders	-	-	-	-	29,207	249,189	278,396
(iii) Profit appropriation							
1. Transfer to surplus reserve	-	-	-	-	194,189,238	(194,189,238)	-
2. Dividends distribution	-	-	-	-	-	(528,964,487)	(528,964,487)
(iv) Special reserve							
1. Accrued during the year	-	-	-	23,130,015	-	-	23,130,015
2. Utilized during the year	-	-	-	(25,462,325)	-	-	(25,462,325)
IV. At 31 December 2018	<u>1,175,476,637</u>	<u>3,371,446,430</u>	<u>(14,428,445)</u>	<u>3,893,678</u>	<u>1,801,776,624</u>	<u>11,841,852,389</u>	<u>18,180,017,313</u>

Note: Refer to effect arising from the adoption of the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets, Accounting Standards for Business Enterprises No. 24 – Hedge Accounting and Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments, which are revised by the Ministry of Finance in 2017 and have been applied since 1 January 2018.

Notes to Financial Statements are components of these financial statements.

Company's Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Note XIV	2019	2018
I. Cash Flows from Operating Activities:			
Cash received from sales of goods or rendering of services		11,845,808,331	11,830,960,709
Refunds of taxes		25,259,647	92,985,127
Cash received relating to other operating activities		650,476,378	225,880,764
Sub-total of cash inflows from operating activities		12,521,544,356	12,149,826,600
Cash paid for goods and services		8,911,568,172	7,392,022,804
Cash paid to and on behalf of employees		1,116,491,827	986,402,699
Cash paid for all types of taxes		837,483,004	478,472,712
Cash paid relating to other operating activities		1,505,894,834	1,026,981,551
Sub-total of cash outflows from operating activities		12,371,437,837	9,883,879,766
Net Cash Flow from Operating Activities	34	150,106,519	2,265,946,834
II. Cash Flows from Investing Activities:			
Cash received from disposal or recovery of investments		12,730,900,000	10,704,841,877
Cash received from returns on investments		1,583,271,087	1,100,952,715
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,903,551	8,097,719
Cash received relating to other investing activities		220,933,575	414,621,745
Sub-total of cash inflows from investing activities		14,537,008,213	12,228,514,056
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		567,507,529	494,213,707
Cash paid for acquisition of investments		14,093,338,492	12,405,000,000
Cash paid relating to other investing activities		100,000,000	230,000,000
Sub-total of cash outflows from investing activities		14,760,846,021	13,129,213,707
Net Cash Flow from Investing Activities		(223,837,808)	(900,699,651)

Notes to Financial Statements are components of these financial statements.

Company's Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

	Note XIV	2019	2018
III. Cash Flows from Financing Activities:			
Cash received from borrowings		–	26,028,600
Other cash received related to financing activities		292,000,000	–
Sub-total of cash inflows from financing activities		292,000,000	26,028,600
Cash repayments of borrowings		31,028,600	2,500,000
Cash paid for distribution of dividends or profits or settlement of interest expenses		539,183,180	531,432,850
Other cash paid related to financing activities		122,392,592	–
Sub-total of cash outflows from financing activities		692,604,372	533,932,850
Net Cash Flow from financing Activities		(400,604,372)	(507,904,250)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		2,961,053	2,674,027
V. Net (Decrease) Increase in Cash and Cash Equivalents		(471,374,608)	860,016,960
Add: Cash and cash equivalents at beginning year		2,924,163,813	2,064,146,853
VI. Cash and cash equivalents at end of year	34	2,452,789,205	2,924,163,813

Notes to Financial Statements are components of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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I. GENERAL

Zhuzhou CRRR Times Electric Co., Ltd. (the “Company”), (formerly named Zhuzhou CSR Times Electric Co., Ltd.) is a joint stock limited company registered in Hunan Province, the People’s Republic of China (the “PRC”). It was jointly established by CRRR Zhuzhou Institute Co., Ltd. (中車株洲電力機車研究所有限公司) (formerly named CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (南車株洲電力機車研究所有限公司), CRRR Changzhou Industrial Management Co., Ltd. (中車常州實業管理有限公司) (formerly named CRRR Changzhou Qishuyan Locomotive & Rolling Stock Works (中車集團常州戚墅堰機車車輛廠), CRRR Zhuzhou Locomotive Co., Ltd. (中車株洲電力機車有限公司) (formerly named CSR Zhuzhou Electric Locomotive Co., Ltd. (南車株洲電力機車有限公司), CRRR Investment & Leasing Co., Ltd. (中車投資租賃有限公司) (formerly named CSR Investment & Leasing Co., Ltd. (南車投資租賃有限公司) and CRRR High-Tech Equipment Corporation Limited (中國鐵建高新裝備股份有限公司) (formerly named China Railway Large Maintenance Machinery Co., Ltd. Kunming (昆明中鐵大型養路機械集團有限公司) at the date of 26 September 2005. The H shares of the Company were listed on the Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

The registered office of the Company is located at Times Road, Shifeng District, Zhuzhou City, Hunan Province, the PRC. The Company and its subsidiaries (together, the “Group”) are principally engaged in the sale and manufacture of train-borne electrical systems and electrical components.

In December 2006, the Company issued 414,644,000 H Shares (including H shares issued via the exercise of the over-allotment option) with a nominal value of RMB1 each through the Hong Kong Stock Exchange. The issue price was HKD5.3 per share. The total proceeds before deducting issuing expenses amounted to HKD2,197,613,000 (equivalent to approximately RMB2,209,968,000). These H shares were listed and traded on the Main Board of the Hong Kong Stock Exchange in December 2006.

In October 2013, the Company issued 91,221,000 H Shares with a nominal value of RMB1 each through the Hong Kong Stock Exchange. The issue price was HKD25 per share. The total proceeds before deducting issuing expenses amounted to HKD2,280,525,000 (equivalent to approximately RMB1,803,872,470). These H shares were listed and traded on the Main Board of the Hong Kong Stock Exchange in October 2013. Consequently upon the issue of the H Shares, the registered capital and paid-in capital of the Company was increased to RMB1,175,476,637.

As at 31 December 2019, the Company had issued an aggregate of 1,175,476,637 shares as share capital. Further details were disclosed in Note V.35.

As at 31 December 2019 and 2018, the Group’s controlling parent company and ultimate holding company are CRRR Zhuzhou Institute Co., Ltd. (中車株洲電力機車研究所有限公司) and CRRR Group (中國中車集團有限公司), respectively, both established in the PRC.

The consolidation scope of the consolidated financial statements is determined on the basis of control. Amendments for current year are referred to Note VI.

The consolidated and company’s financial statements have been approved by the resolution of the Company’s board meeting held on 27 March 2020. In accordance with the Company’s articles of association, the financial statements will be submitted to the board of shareholders for review.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

II. BASIS OF PREPARATION

Basis of preparation

The financial statements are prepared in accordance with the accounting standards for business enterprises issued by the China Ministry of Finance that have taken effect and other related regulations (Accounting Standards for Business Enterprises, collectively). The Group has adopted the Accounting Standards for Business Enterprises No. 21 – Leases (“New Lease Standards”) as from 1 January 2019. The impact of the changes in relevant accounting policies are referred to in Note III. 30.

Going concern

The Group assessed its ability to continue as a going concern for the 12 months from 31 December 2019 and did not notice any events or circumstances that may cast significant doubt upon its ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

Basis of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

Where the historical cost is adopted as the measurement basis, assets are recorded at the amount of cash and cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds or assets received or the contractual amounts for assuming the present obligation, or, at the amounts of cash and cash equivalents expected to be paid to settle the liabilities in the normal course of business.

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 measurements date, regardless of whether that price is directly observable or estimated using valuation technique. Fair value measurement and/or disclosure in the financial statements are determined according to the above basis.

The Group considers the ability of market participants to put assets into best use for economic benefits or sell the assets to other market participants who are able to put the assets into best use for economic benefits when measuring non-financial assets at fair value.

For financial assets with transaction prices as the fair value upon initial recognition and the valuation technique of unobservable inputs employed in the subsequent measurement at the fair value, the technique is adjusted during the valuation to match the initial recognition results determined with the transaction prices.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

II. BASIS OF PREPARATION (Continued)

Basis of accounting and principle of measurement (Continued)

Fair value measurements are categorized into Level 1, 2 or 3 based on 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 inputs within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of compliance with the Accounting Standards for Business Enterprises (“ASBE”)

The financial statements of the Company have been prepared in accordance with and present truly and completely, the Company’s and consolidated financial position as of 31 December 2019, and the Company’s and consolidated results of operations, changes in shareholders’ equity and cash flows for the year ended.

2. Accounting period

The accounting period of the Group is from 1 January to 31 December of each calendar year.

3. Functional currency

Renminbi (“RMB”) is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The Company’s primary foreign subsidiary chooses GBP as its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements, unless otherwise stated.

4. Business combination

A business combination is a transaction or event that brings together two or more separate entities into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4. Business combination (Continued)

4.1 Business combinations involving enterprises under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. For a business combination involving entities under common control, the party that, on the combination date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. The combination date is the date on which the acquirer effectively obtains control of the acquiree.

Assets and liabilities that are obtained by the acquirer in a business combination involving entities under common control (including the goodwill generated by the ultimate holding party in the acquisition of the acquiree) shall be measured at their carrying amounts at the combination date as recorded by the ultimate holding party. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital surplus. If the capital surplus is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Various direct expenses incurred as a result of business combination are recorded to profit or loss for the current period upon incurrence.

4.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not involving entities under common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall measure the acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination at their fair values on the acquisition date.

Goodwill is initially recognised at cost being the excess of the aggregate fair value of the consideration transferred (or the fair value of the equity securities issued) and any fair value of the acquirer's previously held equity interest in the acquiree over the share of net identifiable assets acquired at the acquisition date. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. In the event that the sum of the fair value of the consolidation consideration paid (or the fair value of the equity securities issued) and the fair value of the equity interests in the acquiree held before the date of acquisition is less than the share of the fair value of the net identifiable assets of the acquiree acquired in the consolidation, the measurement of the fair value of the various identifiable assets, liabilities and contingent liabilities of the acquiree acquired and the fair value of the consolidation consideration paid (or the fair value of the equity securities issued) and the fair value of the equity interests in the acquiree held before the date of acquisition shall first be reviewed. If the sum of this consideration and other items mentioned above is lower than the fair value of the share of net identifiable assets acquired, the difference is, after reassessment, recognised in profit or loss of the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

5. Consolidated financial statements

The scope of the consolidated financial statements is determined on the basis of control. Control is achieved when the investor has power over the investee; which 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.

In preparation of the consolidated financial statements, when the accounting policies of a subsidiary are inconsistent with those of the Company, the Company shall make adjustments to the financial statements of the subsidiary based on its own accounting policies. All intra-group assets, liabilities, equities, revenues, expenses and cash flows resulting from intra-group transactions are eliminated on consolidation in full.

The portion of subsidiaries' equity that is not attributable to the Company is treated as non-controlling interests and presented as "non-controlling interests" in the shareholders' equity in the consolidated balance sheet. The portion of net profits or losses of subsidiaries for the period attributable to non-controlling interests is presented as "profit or loss attributable to non-controlling interests" in the consolidated income statement below the "net profit" line item.

Where the amount of losses of a subsidiary attributable to non-controlling shareholders exceeds the opening balance of owners' equity attributable to non-controlling shareholders of the subsidiary, the excess shall still be allocated against non-controlling interests.

For subsidiaries acquired through business combinations not involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements, from the date on which the Group obtains control, till the Group ceases to have control over it. While preparing the consolidated financial statements, the acquirer shall adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognised on the acquisition date.

For subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements from the beginning of the period in which the combination occurs. While preparing the comparative financial statements, adjustments are made to related items in the financial statements for the prior period as if the reporting entity established through combination had been in existence since the ultimate holding party began to exercise control.

The Group shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of elements of control.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost and meanwhile deducts the goodwill. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Company's interests and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve under owners' equity. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

5. Consolidated financial statements (Continued)

When the Group loses control of a subsidiary in two or more arrangements (transactions), terms and conditions of the arrangements (transactions) and their economic effects are considered. One or more of the following indicate that the Group shall account for the multiple arrangements as a 'package deal': (i) they are entered into at the same time or in contemplation of each other; (ii) they form a complete transaction designed to achieve an overall commercial effect; (iii) the occurrence of one transaction is dependent on the occurrence of at least one other transaction; (iv) one transaction alone is not economically justified, but it is economically justified when considered together with other transactions. Where the transactions of disposal of equity investments in a subsidiary until the loss of control are assessed as a package deal, these transactions are accounted for as one transaction of disposal of a subsidiary with loss of control. Before losing control, the difference of consideration received on disposal and the share of net assets of the subsidiary continuously calculated from acquisition date is recognised as other comprehensive income. When losing control, the cumulated other comprehensive income is transferred to profit or loss of the period of losing control. If the transactions of disposal of equity investments in a subsidiary are not assessed as a package deal, these transactions are accounted for as unrelated transactions.

6. Joint arrangements classification and joint operations

Joint arrangement is classified as joint operation and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

The Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

7. Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term highly liquid investments held by the Group that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

8. Foreign currency transactions and translation of financial statements denominated in foreign currencies

The Group translates the amounts of foreign currency transactions occurred into its functional currency.

Foreign currency transactions are initially recorded using the functional currency rates prevailing at the transaction dates. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. All the resulting exchange differences are taken to profit or loss, except for those relating to foreign currency borrowings specifically for the construction and acquisition of qualifying assets, which are capitalized in accordance with the principle of capitalization of borrowing costs. Non-monetary foreign currency items measured at historical cost shall still be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency is not changed. Non-monetary foreign currency items measured at fair value are translated at the spot exchange rate prevailing at the date on which the fair values are determined. The exchange difference thus resulted are recognised in profit or loss or as other comprehensive income of the current period.

For foreign operations, the Group translates their functional currency amounts into RMB in preparing the financial statements as follows: all the asset and liability items in the balance sheet are translated using the spot exchange rates at the balance sheet date, and shareholders' equity items are translated using the spot exchange rates at the dates of transactions; all the items in the income statement and the items other than "Retained earnings" reflecting the profit distribution are translated using the average exchange rate for the year during which the transactions occur. The resulted exchange of differences of total asset items and liability items as well as the shareholders' equity items are recognised in other comprehensive income and included in shareholders' equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation recognised is profit or loss of the current period. If the disposal only involves a portion of a particular foreign operation, the component of other comprehensive income relating to that particular foreign operation recognised is profit or loss of the current period on a pro-rata basis.

In the circumstances that the Group has the foreign currency monetary item of net investment in substance to subsidiary (foreign operation), offsetting entry should be made when preparing consolidated financial statements in two ways as follows:

- (1) In substance the foreign currency monetary item of net investment to subsidiary was created and disclosed by the functional currency of parent company or subsidiary, the exchange difference arising from foreign currency monetary item should be recognised in "Other comprehensive income."
- (2) In substance the foreign currency monetary item of net investment to subsidiary was created and disclosed by other currency of parent company and subsidiary except functional currency, the offsetting balance arising from foreign currency monetary item exchange of the parent and subsidiary should be recognised in "Other comprehensive income."

If the foreign currency monetary item of net investment in substance constitutes a net investment to another subsidiary (foreign operation) between subsidiaries in consolidated financial statement, the principles above should be referred to when preparing consolidated financial statements.

Foreign currency cash flows and the cash flows of foreign subsidiaries are translated using the average exchange rate for the year during which the cash flows occur. The effect of exchange rate changes on cash and cash equivalents is separately presented as an adjustment item in the statement of cash flows as "Effect of foreign exchange rate changes on cash and cash equivalents".

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. For financial assets purchased or sold in regular ways, assets to be received and liabilities to be assumed are recognised on the transaction date or assets sold are derecognised on that date. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognised in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognised amounts. For trade receivables initially recognised based on *Accounting Standard for Business Enterprises No. 14 – Revenue* (“Standards for Revenue”), trade receivables shall be measured at transaction price defined based on the Standard – Revenue on initial recognition initially.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over each accounting period.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability to the net carrying amount of the financial asset or the amortized cost of financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability including earlier repayment, extension, call option or other similar options etc. without considering future credit losses.

The amortized cost of a financial asset or a financial liability is the amount of a financial asset or a financial liability initially recognised net of principal repaid, plus or less the cumulative amortized amount arising from amortization of the difference between the amount initially recognised and the amount at the maturity date using the effective interest method, net of cumulative loss allowance (only applicable to financial assets).

9.1 Classification and measurement of financial assets

Subsequent to initial recognition, the Group’s financial assets of various categories are subsequently measured at amortized cost, fair value through other comprehensive income (“FVTOCI”) or fair value through profit or loss (“FVTPL”).

If contractual terms of the financial asset give rights on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, such asset is classified into financial asset measured at amortized cost. Such type of financial assets mainly comprise cash and bank balances, bills receivable and trade receivables, other receivables, equity investment, long-term receivables, etc.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.1 Classification and measurement of financial assets (Continued)

The contract clauses of financial assets stipulate that cash flows generated on a specified date are only payments of principal and interest based on the amount of outstanding principal and the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. The financial assets that meet the above conditions are classified as at FVTOCI. Such type of financial assets with a period of over one year since obtaining are presented as other equity investments and financial assets due within one year (inclusive) since the balance sheet date are presented as non-current assets due within one year; trade receivables and bills receivable at FVTOCI are presented as trade receivables financing, and other financial assets with a period within one year (inclusive) upon obtaining are presented as other current assets.

Financial assets at FVTPL including financial assets at FVTPL and those designated as at FVTPL are all presented under held-for-trading financial assets except derivative financial assets. Financial assets due over one year since the balance sheet date (or without a fixed term) and expected to be held for over one year are presented under other non-current financial assets.

- Financial assets that are unqualified for the classification as at amortized cost and at FVTOCI are classified as at FVTPL.
- Upon initial recognition, to eradicate or significantly reduce accounting mismatches, the Group can irrevocably designate financial assets as at FVTPL.

Upon initial recognition, the Group irrevocably designates non-held-for-trading equity instrument investment except contingent considerations recognised in the business combination not under the same control as financial assets at FVTOCI based on individual financial assets. Such type of financial assets are presented as other equity instrument investment.

Financial assets meeting one of the following requirements indicate that the financial assets held by the Group are for trading:

- The obtaining of relevant financial assets is mainly for the purpose of sale in the near future.
- Relevant financial assets are part of the identifiable financial instrument combination under centralized management upon initial recognition and there is objective evidence indicating that recently there exists a short-term profit model.
- Relevant financial assets are derivatives, excluding derivatives following the definition of financial guarantee contracts as well as derivatives designated as effective hedging instruments.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.1 Classification and measurement of financial assets (Continued)

Financial assets at FVTPL consist of financial assets at FVTPL and these designated as at FVTPL:

- Financial assets that are unqualified for the classification as at amortized cost and at FVTOCI are classified as at FVTPL.
- Upon initial recognition, to eradicate or significantly reduce accounting mismatches, the Group can irrevocably designate financial assets as at fair value through profit or loss.

Financial assets at FVTPL are presented as held-for-trading financial assets. Financial assets due over one year (or without a fixed term) and expected to be held over one year as of the balance sheet date are presented as other non-current financial assets.

9.1.1 Financial assets measured at amortized cost

Financial assets at amortized cost are measured subsequently at amortized cost using the effective interest method. Gains or losses arising from impairment or derecognition are recorded to profit or loss for the period.

The Group recognises interest income for financial assets measured at amortized cost using the effective interest method. The Group determines the interest income by multiplying the carrying amount of financial assets by effective rate except the following situations:

- For purchased or original credit-impaired financial assets, the Group recognises their interest income based on amortized cost and credit-adjusted effective interest rate of such financial assets since initial recognition.
- For purchased or original financial assets without credit-impairment but subsequently becoming credit-impaired, the Group subsequently recognises their interest income based on amortized costs and effective interest rate of such financial assets. If there exists no credit impairment due to improvement in credit risk of the financial instruments subsequently and the improvement is relevant to an event incurred subsequent to the application of above provisions, the Group recognises interest income based on applying effective interest rate to carrying amount of the financial assets.

9.1.2 Financial assets classified as at FVTOCI

Except that gains or losses on impairment relating to financial assets at fair value through other comprehensive income, interest income calculated using effective interest rate and exchange gains or losses are recognised in profit or loss for the period, fair value changes in the above financial assets are included in other comprehensive income. The amount of the financial assets included into profit or loss of each period shall be regarded as equal as the amount measured at amortized cost through profit or loss over each period. Upon derecognition of the financial assets, cumulative gains or losses previously recognised in other comprehensive income are transferred and reclassified into profit or loss for the period.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.1 Classification and measurement of financial assets (Continued)

9.1.3 Financial assets designated as at FVTOCI

Subsequent to designation of non-held-for-trading equity investment to FVTOCI, fair value change of such financial asset is recognised in other comprehensive income. Upon derecognition of the financial asset, cumulative gains or losses previously recognised in other comprehensive income are transferred and included in retained earnings. During the period for which the Group holds the investments in the non-held-for-trading equity instruments, dividend income is recognised and included in profit or loss for the period when 1) the Group's right to collect dividend has been established; 2) it is probable that economic benefits associated with dividend will flow to the Group; and 3) the amount of dividend can be reliably measured.

9.1.4 Financial assets classified as at FVTPL

FVTPL is measured subsequently at fair value with gains or losses arising from changes in the fair value and dividend and interest income relevant to the financial assets are recorded to profit or loss for the period.

9.2 Impairment of financial instruments

The Group recognised loss allowance for financial instruments classified as financial assets measured at amortized, at FVOCI, and contract assets based on expected credit losses ("ECL").

The Group measures loss provision based on the amount equal to the lifetime ECL for all the contract assets, notes receivable and trade receivables arising from the transactions under revenue standards.

For other financial instruments, except for purchased or original credit-impaired financial assets, at each balance sheet date, the Group assesses changes in credit risk of relevant financial instruments since initial recognition. If the credit risk of the above financial instruments has increased significantly since initial recognition, the Group measures loss allowance based on the amount of full lifetime; if credit risk of the financial instrument has not increased significantly since initial recognition, the Group recognises loss allowance based on 12-month ECL of the financial instrument. Increase in or reversal of credit loss allowance is included in profit or loss as loss/gain on impairment, except for financial assets classified as at fair value through other comprehensive income. The Group recognises credit loss allowance for financial assets at FVOCI in other comprehensive income and recognises loss/gain on impairment in profit or loss for the period, without reducing the carrying amount of the financial assets presented in the balance sheet.

The Group measured loss allowance at the full lifetime ECL of the financial instruments in the prior accounting period. However, as at the balance sheet date for the current period, for the above financial instruments, due to failure to qualify as significant increase in credit risk since initial recognition, the Group measures loss allowance for the financial instrument at 12-month ECL at the balance sheet date for the current period. Relevant reversal of loss allowance is included in profit or loss as gain on impairment.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.2 Impairment of financial instruments (Continued)

9.2.1 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 based on reasonable and supportable forward-looking information.

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

- (1) Whether internal price indicator resulted from change in credit risk has changed significantly;
- (2) If the existing financial instruments are derived into or issued as new financial instruments at the balance sheet date, whether interest rates or other terms of the above financial instruments have changed significantly (including harsher contractual terms, increase in collaterals or higher yield rate etc.);
- (3) Whether external credit rating of the financial instrument has actually changed significantly or is expected to change significantly;
- (4) Whether expected detrimental changes in business, financial and economic conditions of the borrower which will affect borrower's ability to perform repayment obligation have changed significantly;
- (5) Whether the actual or expected operating results of the borrower have changed significantly;
- (6) Whether credit risk of other financial instruments issued by the same borrower has increased significantly;
- (7) Whether supervisory, economic or technical environment for the borrower has significant detrimental changes;
- (8) Whether the economic motive that will lower the borrower's repayment based on contractual stipulation has changed significantly;
- (9) Whether the borrower's expected performance and repayment activities have changed significantly;
- (10) Whether the contract payment is overdue.

No matter whether the credit risk is increased significantly after above assessment, it indicates that the credit risk of such financial instrument has been increased significantly if it lasts over 30 (inclusive) days after the overdue payment of the financial instrument contract.

At the balance date, the Group assumes that credit risk of the financial instrument has not increased significantly since initial recognition when the Group determines that the financial instrument is only exposed to lower credit risk. The financial instrument is regarded to have relatively low credit risk provided that 1) the financial instrument has low default risk, 2) the borrower has strong ability to perform its contractual cash flow obligation within a short term, and 3) it may not reduce the ability of the borrower to perform its contractual cash obligation even though the economic situation and operating environment are changed adversely within a relatively long term.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.2 Impairment of financial instruments (Continued)

9.2.2 Credit-impaired financial assets

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

- (1) Significant financial difficulty of the issuer or obligor;
- (2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (3) The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganizations;
- (5) Whether the contract payment is overdue significantly.

9.2.3 Recognition of ECL

The Group recognises credit loss of related financial instruments for trade receivables, contract assets, other receivables and bills receivable that are individually significant or credit-impaired on a collectively basis using a provision matrix in addition that the credit loss is recognised on a basis of individual asset/contract. The Group classifies financial instruments into different groups based on shared risk characteristics. Shared credit risk characteristics include type of financial instruments, type of debtors, industry of debtors, initial recognition date, and contract collection term etc. The Group divides the trade receivables and contract assets into portfolios on a basis of the credit risk characteristics, and determines that the portfolios include central state-owned enterprises, local state-owned enterprises, railway corporations and their subsidiaries, and other enterprises.

For the grouped trade receivables and contract assets, the Group takes consideration of the aging analysis, historical loss and other factors, and properly adjusts the lifetime expected credit losses rate in respect of the future economic condition and other factors so as to calculate the expected credit losses by default risk exposures and lifetime expected credit losses rate.

ECL of relevant financial instruments is recognised based on the following methods:

- For a financial asset, credit loss is the present value of difference between the contractual cash flow receivable and the expected cash flows to be received.
- For credit-impaired financial assets other than the purchase or original of credit-impaired financial assets at the balance date, credit loss is difference between the carrying amount of financial assets and the present value of expected future cash flows discounted at original effective interest rate.
- For financial guarantee contract, credit loss is the present value of the remainder between the expected payment made by the Group for the credit loss incurred to the contract holder and the amount that the Group expects to collect from such contract holder, debtor or other parties.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.2 Impairment of financial instruments (Continued)

9.2.3 Recognition of ECL (Continued)

The Group's measurement of ECL of financial instruments reflects factors including unbiased probability weighted average amount recognised by assessing a series of possible results, including time value of money, reasonable and supportable information related to historical events, current condition and forecast of future economic position that is available without undue cost or effort at the balance date.

9.2.4 Reduction in financial assets

The Group directly reduces the carrying amount of financial assets when ceasing to reasonably expect that the contractual cash flow of such financial assets may be fully or partially recoverable. Such reduction constitutes derecognition of relevant financial assets.

9.3 Transfer of financial assets

The Group derecognises a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability. Relevant liabilities are measured using the following methods:

- For transferred financial assets carried at amortized cost, the carrying amount of relevant liabilities is the carrying amount of financial assets transferred with continuing involvement less amortized cost of the Group's retained rights (if the Group retains relevant rights upon transfer of financial assets) with addition of amortized cost of obligations assumed by the Group (if the Group assumes relevant obligations upon transfer of financial assets). Relevant liabilities are not designated as financial liabilities at fair value through profit or loss.
- For financial assets carried at fair value, the carrying amount of relevant financial liabilities is the carrying amount of financial assets transferred with continuing involvement less fair value of the Group's retained rights (if the Group retains relevant rights upon transfer of financial assets) with addition of fair value of obligations assumed by the Group (if the Group assumes relevant obligations upon transfer of financial assets). Accordingly, the fair value of relevant rights and obligations shall be measured on an individual basis.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, regarding financial assets classified as carried at amortized cost and fair value through other comprehensive income (FVTOCI), the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss. While regarding non-trading equity instruments designated as at FVTOCI, cumulative gains or losses previously recognised in other comprehensive income are transferred and included in retained earnings.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.3 Transfer of financial assets (Continued)

If a part of the transferred financial asset qualifies for derecognition, the overall carrying amount of the financial asset prior to transfer is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts at the date of transfer. The difference between (1) the carrying amount allocated to the part derecognised on the date of derecognition; and (2) the sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised in other comprehensive income, is recognised in profit or loss or retained earnings.

For a transfer of a financial asset in its entirety that does not satisfy the derecognition criteria, the Group continues to recognise the transferred financial asset in its entirety. The consideration received from transfer of assets is recognised as a liability upon receipt.

9.4 Classification of financial liabilities and equity instrument

Financial instruments issued by the Group are classified into financial liabilities or equity instruments on the basis of the substance of the contractual arrangements and the economic nature not only its legal form, together with the definition of financial liability and equity instruments.

9.4.1 Classification and measurement of financial liabilities

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

9.4.1.1 Financial liabilities at FVTPL

Financial liabilities at FVTPL consist of financial liabilities held for trading (including derivative instruments of financial liabilities) and those designated as at FVTPL on initial recognition.

It is indicated that the Group undertakes the financial liabilities for a trading objective if the financial liabilities meet one of the following conditions:

- The objective to undertake the relevant financial liabilities is mainly for the repurchase in the near future.
- The relevant financial liabilities are a part of the identifiable financial instrument combination under the concentrated management of the Group upon initial recognition, and there is an objective evidence indicates that a short-term profitability mode exists actually in a short term.
- The relevant financial liabilities are derivatives, excluding the derivatives consistent with the definition of financial guarantee contract and the derivatives designated as effective hedging instruments.

On initial recognition, financial liabilities that meet one of the following conditions are irrevocably designated as financial liabilities at fair value through profit or loss: 1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; 2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; 3) The qualified hybrid financial instrument which combines financial liability with embedded derivatives.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.4 Classification of financial liabilities and equity instrument (Continued)

9.4.1 Classification and measurement of financial liabilities (Continued)

9.4.1.1 Financial liabilities at FVTPL (Continued)

Held-for-trading financial liabilities are subsequently measured at fair value, and any gains or losses arising from changes in fair value and any dividend or interest income earned on the financial liabilities are recognised in profit or loss.

The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income, and upon the derecognition of such liability, the accumulated amount of change in fair value that is attributable to changes in the credit risk of that liability, which is recognised in other comprehensive income, is transferred to retained earnings. Other gains or losses arising from changes in fair value and any dividend or interest income earned on the financial liabilities are recognised in profit or loss. If the impact of the change in credit risk of such financial liability dealt with in the above way would create or enlarge an accounting mismatch in profit or loss, the Group shall present all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in profit or loss.

9.4.1.2 Other financial liabilities

The Group shall classify all financial liabilities as subsequently measured at amortized cost, except for financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and gains or losses arising from derecognition or amortization are recognised in profit or loss for the period.

When the contractual cash flows are changed due to the renegotiation or modification of the contract made between the Group and the counterparty and the renegotiation or modification does not result in the derecognition of the financial liabilities that is subsequently measured at amortized cost, the Group shall recalculate the carrying amount of the financial liabilities and shall recognise related gains or losses in profit or loss. The carrying amount of the financial liabilities shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial liability's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial liability and are amortized over the remaining term of the modified financial liability.

9.4.1.2.1 Financial guarantee contracts

A financial guarantee contract is a contract by the issuer which is required to compensate specific amount to the contract holder who suffers from losses when the specific debtor cannot repay the debts in accordance with the initial or revised debt instrument terms upon maturity of debts. Financial guarantee contracts that are not designated as financial liabilities at fair value through profit or loss, or are for the financial liabilities arising as the transfer of financial assets that do not meet the derecognition condition or arising from continuous involvement of transferred financial assets, are measured at the higher of: (i) the loss provision after initial recognition, and (ii) balance of amount recognised initially less the accumulated amortization amount determined on the basis of relevant revenue standards.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.5 Derecognition of financial liabilities

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (a borrower) and a lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability (or part of the financial liability) derecognised and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

9.6 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 (including refinanced), repurchased, sold and cancelled by the Group are recognised as changes of equity. Change of fair value of equity instruments is not recognised by the Group. Transaction costs related to equity transactions are deducted from equity.

The Group recognises the distribution to holders of the equity instruments as distribution of profits, and dividends paid do not affect total amount of shareholders equity.

9.7 Derivative instrument and embedded derivatives

The derivative instruments of the Group include forward exchange contract, etc. The derivative instruments are measured initially at fair value on the relevant contractual signing date, and measured subsequently at fair value. At the end of reporting period, the derivative financial instruments at a positive fair value are presented in trading financial assets, and those at a negative fair value are presented in trading financial liabilities.

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

For the hybrid contract comprised of embedded derivatives and master contract, if the master contract belongs to financial assets, the Group shall apply the hybrid contract as a whole to the accounting standards on the classification of financial assets rather than split embedded derivatives from the hybrid contract.

The Group will split the embedded derivatives from the hybrid contract to treat as a stand-alone derivative instrument if the master contract included in the hybrid contract does not belong to financial assets, and the following conditions are met:

- (1) The economic characteristics of the embedded derivatives are not closely related to the economic characteristics and risk of the master contract.
- (2) The stand-alone instrument which has the same terms of embedded derivatives conforms to the definition of derivative instruments.
- (3) The hybrid contract is not measured at fair value through profit or loss over the current period.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial instruments (Continued)

9.7 Derivative instrument and embedded derivatives (Continued)

Where an embedded derivative is split from a hybrid contract, the Group performs accounting treatment for the master contract of the hybrid contract in accordance with applicable accounting standards. Where the Group is unable to measure the fair value of an embedded derivative reliably in accordance with the terms and conditions of the embedded derivative, the fair value of such embedded derivative is determined as the difference between the fair value of the hybrid contract and that of the master contract. Where the fair value of such embedded derivative on the acquisition date or the subsequent balance sheet dates is still unable to be measured separately, the Group designates the hybrid contract in a whole into the financial instrument at fair value through profit or loss over the current period.

9.8 Offsetting financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the statement of financial position. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the statement of financial position and shall not be offset.

10. Receivables financing

Bills receivable and trade receivables classified as at FVTOCI with a period of one year (inclusive) since obtaining are presented as receivables financing; those with a period of over one year since obtaining are presented as other lending investments. For the relevant accounting policies, see Note III 9.1, 9.2 and 9.3.

11. Inventories

Inventories include raw materials, semi-finished products, work in progress, finished goods and turnover materials.

Inventories are initially carried at actual cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. The actual cost of inventories transferred out is determined by using the weighted average method. Turnover materials include low value consumables and packing materials, which are amortized by using the immediate write-off method.

The Group adopts a perpetual inventory system.

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the cost of inventories is higher than the net realizable value, a provision for decline in value of inventories is recognised in profit or loss. If factors that previously resulted in the provision for decline in value of inventories no longer exist, the amount of the write-down is reversed. The reversal is limited to the amount originally provided for the provision for the decline in value of inventories, and is recognised in profit or loss of the current period.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The provision for decline in values of raw materials, semi-finished products, work in progress, finished goods, and turnover materials are made on an individual basis. For items of inventories that relate to a product line that is produced and marketed in the same geographical area, have the same or similar end uses or purposes, and cannot be practicably evaluated separately from other items, provision for decline in value of inventories can be determined on an aggregate basis.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

12. Contract assets

12.1 Determination method and standards of contract assets

Contract asset refers to the Group's right to receive consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time. The Group's unconditional (i.e., depending on the passage of time only) right to receive consideration from the customer is separately presented as receivables.

12.2 Determination and accounting methods of expected credit loss ("ECL") of contract assets

For the determination and accounting methods of expected credit loss of contract assets, see Note III, "9.2 Impairment of financial instruments".

13. Held-for-sale non-current assets and disposal groups

Non-current assets and disposal groups are classified as held for sale category when the Group recovers the book value through a sale (including an exchange of nonmonetary assets that has commercial substance) rather than continuing use.

Non-current assets or disposal groups classified as held for sale are required to satisfy the following conditions: (1) the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group; (2) the sale is highly probable, i.e. the Group has made a resolution about selling plan and obtained a confirmed purchase commitment and the sale is expected to be completed within one year.

When there is loss of control over a subsidiary due to disposal of investments in the subsidiary, and the proposed disposal of investment in the subsidiary satisfies classification criteria of held-for-sale category, the investments in subsidiaries are classified as held-for-sale category as a whole in the company's separate financial statement, and all assets and liabilities of subsidiaries are classified as held-for-sale category in the consolidated financial statements regardless that part of the equity investments are remained after the sale.

The Group measures the no-current assets or disposal groups classified as held for sale at the lower of their carrying amount and fair value less costs to sell. Where the carrying amount is higher than the net amount of fair value less costs to sell, carrying amount should be reduced to the net amount of fair value less costs to sell, and such reduction is recognised in impairment loss of assets and included in profit or loss for the period. Meanwhile, provision for impairment of held-for-sale assets are made. When there is increase in the net amount of fair value of non-current assets held for sale less costs to sell at the balance sheet date, the original deduction should be reversed in impairment loss of assets recognised after the classification of held-for-sale category, and the reverse amount is include in profit or loss for the period, except for the impairment loss of assets recognised before classified as held for sale.

Non-current assets classified as held-for-sale or disposal groups are not depreciated or amortized, interest and other costs of liabilities of disposal group classified as held for sale continue to be recognised.

When all or part of equity investments in an associate or joint ventures are classified as held-for-sale assets. For the part that is classified as held-for-sale, it is no longer accounted for using the equity method since the date of the classification.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

14. Long-term equity investments

Long-term equity investments include investments in subsidiaries, Joint ventures and associates. A long-term equity investment is recorded at its initial investment cost on acquisition.

14.1 Recognition of investment cost

For a long-term equity investment acquired through business combination involving enterprises under common control, shares of book value of shareholders' equity of combined party in financial statements of ultimate controlling party is recognised as initial investment cost of long-term equity investment at the date of combination. The difference between initial investment cost of long-term equity investment and cash paid, non-cash assets transferred and book value of liabilities assumed, is adjusted in capital reserve. If the balance of capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained earnings. If the consideration of the combination is satisfied by the issue of equity securities, the initial investment cost of the long-term equity investment is the share of book value of shareholders' equity of the acquired entity in the ultimate controlling party's consolidated financial statements at the date of combination. The aggregate face value of the shares issued is accounted for as share capital. The difference between the initial investment cost and the aggregate face value of the shares issued is adjusted to capital reserve. If the balance of capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained earnings. If the initial investment cost of the long-term equity investment is the share of book value in the ultimate controlling party's consolidated financial statements, the difference between the initial investment cost and the sum of carrying amount of equity investments previously held in the acquiree and the new investment cost is adjusted to capital reserve. If the balance of capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained earnings.

For a long-term equity investment acquired through business combination not involving enterprises under common control, the investment cost of the long-term equity investment is the cost of acquisition. Where equity interests in an acquiree are acquired in stages through multiple transactions ultimately constituting a business combination not involving entities under common control, the acquirer shall determine if these transactions are considered to be a "package deal". If yes, these transactions are accounted for as a single transaction where control is obtained. If no, the sum of carrying amount of equity investments previously held in the acquiree and the new investment cost is deemed as the initial investment cost of long-term equity investments that was changed to be accounted for using cost method. If the equity previously held was accounted for using the equity method, the corresponding other comprehensive income is not subject to accounting treatment temporarily. If the equity investment previously held is designated as non-trading equity instrument investment at fair value through other comprehensive income, the difference between its fair value and book value, and the accumulated changes in fair value previously included in other comprehensive income are transferred to retained earnings.

The expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

Long-term equity investment acquired otherwise than through a business combination is initially measured at its cost. When the entity is able to exercise significant influence or joint control (but not control) over an investee due to additional investment, the cost of long-term equity investments is the sum of the fair value of previously-held equity investments determined in accordance with Accounting Standard for Business Enterprises No.22 – Financial Instruments; Recognition and Measurement and the additional investment cost.

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FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

14. Long-term equity investments (Continued)

14.2 Subsequent measurement and recognition of profit and loss

14.2.1 Long-term equity investment accounted for using the cost method

For a long-term equity investment where the Company can exercise real-time control over the investee, the long-term investment is accounted for using the cost method in the Company's financial statements. Control is the power over an investee. An investor must have exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.

Under the cost method, the long-term equity investment is measured at its initial investment cost. The cost of long-term equity investment is adjusted if capital is contributed or withdrawn. The cash dividend or profit distribution declared by the investee is recognised as investment income for the period.

14.2.2 Long-term equity investment accounted for using the equity method

The equity method is adopted when the Group has joint control, or exercises significant influence on the investee. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control with other parties over those policies.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the cost is made to the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is recognised in profit or loss for the period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognises its share of the net profits or losses and other comprehensive income made by the investee as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to the investee's net profits and losses based on the fair value of the investee's identifiable assets at the acquisition date, using the Group's accounting policies and periods, and eliminating the portion of the profits or losses arising from internal transactions with its joint ventures and associates, attributable to the investing entity according to its share ratio (but impairment losses for assets arising from internal transactions shall be recognised in full), except for the disposal of assets that consist of operations. The carrying amount of the investment is reduced based on the Group's share of any profit distributions or cash dividends declared by the investee. The Group's share of net losses of the investee is recognised to the extent the carrying amount of the investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero, except that the Group has the obligations to assume additional losses. The Group adjusts the carrying amount of the long-term equity investment for any statement of change in equity of the investee (other than net profits or losses, other comprehensive income, and profit distribution) and includes the corresponding adjustments in the shareholders' equity of the Group.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

14. Long-term equity investments (Continued)

14.3 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and receivable and the carrying amount is recognised in profit or loss for the period. For a long-term equity investment accounted for using the equity method, if remaining shares after the disposal are still accounted for using the equity method, other comprehensive income is accounted on the basis of directly disposed related assets and liabilities of investee, and profit or loss is carried forward proportionately; other owners' equity recognised from changes of owners' equity except for net profit or loss, other comprehensive income and profit distribution is recognised in profit or loss of current period and carried forward proportionately. For a long-term equity investment accounted for using the cost method, if remaining shares after the disposal are still accounted for using the cost method, other comprehensive income recognised before controlling the investee according to equity method or recognition and measurement of financial instruments, accounted for on the basis of directly disposed related assets and liabilities of the investee, and recognised in profit or loss for the period and carried forward proportionately; changes of owners' equity except for net profit or loss, other comprehensive income and profit distribution are carried forward and recognised in profit or loss for the current period.

The Group loses control on investee due to disposal of part of shares, during preparing separate financial statement, remaining shares after disposal can make joint control or significant influence on investee, are accounted under equity method, and adjusted as they are accounted under equity method since the acquisition date; if remaining shares after disposal cannot make joint control or significant influence on investee, they are accounted according to recognition and measurement of financial instruments, and the difference between fair value on date of losing control and book value is recognised in profit or loss of current period. Before the Group obtained controls over the investee, other comprehensive income recognised due to equity method or recognition and measurement of financial instruments, is accounted on the basis of related assets and liabilities, and recognised in profit or loss; changes of owners' equity except for net profit or loss, other comprehensive income and profit distribution are recognised in profit or loss of current period. Remaining shares after disposal are accounted under equity method, other comprehensive income and other owners' equity are carried forward as proportion; remaining shares after disposal are accounted due to recognition and measurement of financial instruments other comprehensive income and other owners' equity are all carried forward.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

15. Fixed assets

A fixed asset is recognised only when the economic benefits associated with the asset will probably flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meets the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognised. Otherwise, such expenditure shall be recognised in the profit or loss for the period in which it is incurred.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for intended use.

Depreciation is calculated using the straight-line method. The estimated useful lives, estimated residual value rates and annual depreciation rates of each category of fixed asset are presented as follows:

	Useful life	Expected net residual value rate	Annual depreciation rate
Buildings	20-45 years	5%	2.11%-4.75%
Machinery	6-10 years	5%	9.50%-15.83%
Vehicles	5 years	5%	19.00%
Office facilities and others	5 years	5%	19.00%

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

The Group reviews the useful life, estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and makes adjustment if necessary.

16. Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditure incurred during the construction period, borrowing costs that shall be capitalized before the construction gets ready for its intended use and other relevant expenses.

Construction in progress is transferred to a fixed asset when it is ready for intended use.

17. Borrowing cost

Borrowing costs are interests and other costs incurred by the Group in connection with the borrowing of funds. Borrowing costs include interests, amortization of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. The amounts of other borrowing costs incurred are recognised as an expense in the period in which they incurred. Qualifying assets are assets (fixed assets, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

17. Borrowing cost (Continued)

The capitalization of borrowing costs commences only when all of the following conditions are satisfied:

- (1) expenses for the asset have incurred;
- (2) borrowing costs are being incurred; and
- (3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Any borrowing costs subsequently incurred are recognised as an expense in the period in which they are incurred.

During the capitalization period, the amount of interest to be capitalized for each accounting period shall be determined as follows:

- (1) Where funds are borrowed for a specific purpose, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds.
- (2) Where funds are borrowed for a general purpose, the amount of interest to be capitalized on such borrowings is determined by applying a weighted average interest rate to the weighted average of the excess amounts of accumulated expenditure on the asset over and above the amounts of specific-purpose borrowings.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted by activities other than those necessary to prepare the asset for its intended use or sale, when the interruption is for a continuous period of more than 3 months. Borrowing costs incurred during these periods are recognised as an expense of the current period until the acquisition, construction or production is resumed.

18. Intangible assets

An intangible asset shall be recognised only when it is probable that the economic benefits associated with the asset will flow to the enterprise and the cost of the asset can be measured reliably. Intangible assets are initially measured at cost.

The useful life of an intangible asset is determined according to the period over which it is expected to generate economic benefits for the Group. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

18. Intangible assets (Continued)

The useful lives of the intangible assets are as follows:

	Useful life
Land use right	40-50 years
Software licenses	3-10 years
Patents, licenses and technical know-how	5-10 years
Trademark	20 years
Backlog orders and service contracts	Over the service providing periods

Land use rights that purchased by the Group are accounted for as intangible assets. For buildings such as plants that are developed and constructed by the Group, the relevant land use rights and buildings are accounted for as intangible assets and fixed assets, respectively. Payments for the land and buildings purchased are allocated between the land use rights and the buildings; if the payments cannot be reasonably allocated, all of the land use rights and buildings are accounted for as fixed assets.

An intangible asset with a finite useful life is amortized using the straight-line method over its useful life. For an intangible asset with a finite useful life, the Group reviews the useful life and the amortization method at least at each financial year-end and makes adjustment if necessary.

An intangible asset with an indefinite useful life is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Such asset is not amortized, but its useful life is reassessed in each accounting period. If there is evidence indicating that the useful life of the intangible asset is finite, it is accounted for using the above accounting policies applicable to intangible assets with finite useful life.

The Group classifies the expenditure on an internal research and development project into expenditure on the research phase and expenditure on the development phase. Expenditure on the research phase of an internal research and development project is recognised in profit or loss for the period in which it is incurred. Expenditure on the development phase is capitalized when the Group can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (iv) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase. Expenditure on the development phase that does not meet the above criteria is recognised in profit or loss for the period in which it is incurred.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

19. Impairment of assets

The Group determines the impairment of assets of goodwill, long-term equity investments, fixed assets, construction in progress, right-of-use assets, intangible assets and assets relating to contract cost, using the following methods:

The Group assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset and performs test for impairment. Goodwill arising from a business combination and an intangible asset with an indefinite useful life are tested for impairment at least at each year-end, irrespective of whether there is any indication that the asset may be impaired. Intangible assets that have not been ready for intended use are tested for impairment each year.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on an individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.

When the recoverable amount of an asset or asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The reduction in carrying amount is treated as impairment loss and recognised in profit or loss of the current period. A provision for impairment loss of the asset is recognised accordingly.

For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated from the acquisition date on a reasonable basis, to each of the related asset groups; if it is impossible to allocate to the related asset groups, it is allocated to each of the related sets of asset groups. Each of the related asset groups or sets of asset groups is an asset group or set of asset group that is able to benefit from the synergies of the business combination and shall not be larger than a reportable segment determined by the Group.

In testing an asset group or a set of asset groups to which goodwill has been allocated for impairment, if there is any indication of impairment, the Group firstly tests the asset group or set of asset groups excluding the amount of goodwill allocated for impairment, compares the recoverable amount with the carrying amount and recognises impairment loss if any. After that, the Group tests the asset group or set of asset groups including goodwill for impairment, the carrying amount (including the portion of the carrying amount of goodwill allocated) of the related asset group or set of asset groups is compared to its recoverable amount. If the carrying amount of the asset group or set of asset groups is higher than its recoverable amount, the amount of the impairment loss firstly reduces the carrying amount of the goodwill allocated to the asset group or set of asset groups, and then reduces the carrying amount of other assets (other than the goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

Once the above impairment loss of above except for the assets relating to contract cost is recognised, it cannot be reversed in the subsequent accounting periods.

The Group shall recognise an impairment loss of the asset relating to contract cost to the extent that the carrying amount of an asset exceeds: (a) the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates; less (b) the estimated costs that relate to providing those goods or services. The Group shall, after the impairment has been provided, recognise in profit or loss a reversal of some or all of an impairment loss previously recognised when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised previously.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

20. Long-term prepaid expenses

Long-term prepaid expenses are amortized using the straight line method. Their amortization period is as follows:

	Amortization period
Improvement expenditure for rental fixed assets	Shorter period between the estimated useful life and the lease period

21. Employee benefits

Employee benefits are all forms of considerations given by an entity in exchange for services rendered by employees or for the termination of employment. Employee benefits include short-term benefits, post-employment benefits, termination benefits and other long-term employee benefits. The benefits the Group provided to employees' spouse, children, dependent, and families of deceased employees also belong to employee benefits.

21.1 Short-term benefits

The actual short-term benefits occurred during the accounting period that employees provide services are recognised as liability in the costs of the relevant assets or profit or loss of the current period.

21.2 Benefits after demission (defined contribution plan)

The employees of the Group participate in pension insurance and unemployment insurance which are managed by the local government, along with supplementary pensions, and the relevant expenditure is recognised, when incurred, in the costs of the relevant assets or profit or loss of the current period.

21.3 Termination benefits

The Group recognises a liability and expenses for termination benefits at the earlier of the following dates: a) when the Group can no longer withdraw the offer of those benefits; and b) when the Group recognises costs for a restructuring and involves the payment of termination costs.

22. Provisions

Except for contingent consideration transferred and contingent liabilities assumed in business combinations not involving enterprises under common control, the Group recognises an obligation related to a contingency as a provision when all of the following conditions are satisfied:

- (1) the obligation is a present obligation of the Group;
- (2) it is probable that an outflow of economic benefits from the Group will be required to settle the obligation; and
- (3) the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, with comprehensive consideration of factors such as the risks, uncertainty and time value of money relating to a contingency. The carrying amount of a provision is reviewed at the balance sheet date. If there is clear evidence that the carrying amount does not reflect the current best estimate, the carrying amount is adjusted to the best estimate.

A contingent liability recognised in a business combination not involving enterprise under common control is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with the principle of revenue recognition.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

23. Revenue

The revenue of the Group is mainly generated from business types as follows:

- (1) Sales of goods and raw materials
- (2) Maintenance revenue
- (3) Construction contract revenue
- (4) Technology service revenue

The Group recognises revenue based on the transaction price allocated to such performance obligation when 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 the commitment that a good and service that is distinct shall be transferred by the Group to the customer. Transaction price refers to the consideration that the Group is expected to charge due to the transfer of goods or services to the customer, but it does not include payments received on behalf of third parties and amounts that the Group expects to return to the customer.

If there are two or more of performance obligations included in the contract, at the contract inception, the Group allocates the transaction price to each single performance obligation based on the proportion of stand-alone selling price of goods or services promised in single performance obligation. However, if there is conclusive evidence indicating that the contract discount or variable consideration is only relative with one or more (not the whole) performance obligations in the contract, the Group will allocate the contract discount or variable consideration to relative one or more performance obligation. Stand-alone selling price refers to the price of single sales of goods or services. When the stand-alone selling price cannot be observed directly, the Group estimates the stand-alone selling price through comprehensive consideration of all reasonably acquired relative information and maximum use of observable inputs.

It is a performance obligation satisfied during a period of time if one of the following conditions is met: (i) the customer obtains and consumes economic benefits at the same time of the Group’s performance; (ii) the customer is able to control goods in progress during the Group’s performance; (iii) goods generated during the Group’s performance have irreplaceable utilization, and the Group is entitled to collect amounts of cumulative performance part which have been done up to now. Otherwise, the Group will recognise revenue at the point in time when the customer obtains control over relative goods or services.

The Group adopts the input method to determine performance schedules, namely according to the Group’s input into the performance of contractual obligations.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

23. Revenue (Continued)

For sales with quality assurance terms, if the quality assurance provides a separate service to the customer other than ensuring that the goods or services sold meet the established standards, the quality assurance constitutes a single performance obligation. Otherwise, the Group will account for the quality assurance responsibility in accordance with the Accounting Standard for Business Enterprises No. 13 – Contingencies.

The Group determines whether it is a principal or an agent at the time of the transaction based on whether it owns the “control” of the goods or services before the transfer of such goods or services to the customer. The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer, and the revenue shall be recognised based on the total consideration received or receivable; otherwise, the Group is an agent, and the revenue shall be recognised based on the amount of commission or handling fee that is expected to be charged, and such amount is determined based on the net amount of the total consideration received or receivable after deducting the prices payable to other related parties or according to the established commission amount or proportion.

When the Group collects amounts of sold goods or services in advance from the customer, the Group will firstly recognise the amounts as a liability and then transfer to revenue until satisfying relevant performance obligations.

If the costs incurred in fulfilling a contract are not within the scope of other standard other than standards on revenue, the Group shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria: 1) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify; 2) the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and 3) the costs are expected to be recovered.

The asset mentioned above shall be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates and recognised in profit or loss for the period.

Contract asset refers to the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time. Accounting policies relating to contract assets are specified in Note III. 12. The Group’s unconditional (i.e., depending on the passage of time only) right to receive consideration from the customer is separately presented as receivables.

Contract liabilities refer to the Group’s obligation to transfer goods or services to a customer for that the Group has received consideration from the customer.

Contract assets and contract liabilities under the same contract are presented at net amount.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

24. Government grants

Government grant is recognised when the Group can comply with the conditions attached to it and it can be received. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount.

Pursuant to government documents, if the government grant is a compensation for constructing or forming long-term assets, the government grant is recognised as government grants related to assets. When government documents are not stated clearly, the fundamental conditions attached to the grant should be the criterion for judgments. If the fundamental conditions attached to the grant are for constructing or forming long-term assets, the government grant is recognised as government grants related to assets, otherwise, the government grant is recognised as government grants related to income.

A government grant related to income is accounted as follows: (a) if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss or reduced related costs over the periods in which the related costs are recognised; (b) if the grant is a compensation for related expenses or losses already incurred, it is recognised immediately in profit or loss of the current period. The Group classifies government grants that are difficult to be distinguished as government grants related to income aggregately.

A government grant related to an asset shall be deducted from the carrying amount of the asset; or recognised as deferred income and included in profit or loss over the useful life of the related asset with a reasonable and systemic method. (However, a government grant measured at a nominal amount is recognised immediately in profit or loss in the current period.) Where the relevant asset is sold, transferred, scrapped or damaged prior to the end of its useful life, the related undistributed deferred income is transferred to the profit or loss of the disposal period.

A government grant related to the Group's daily activities is recognised in other income/written off related cost and expense based on the nature of economic activities; a government grant is not related to the Group's daily activities is recognised in non-operating income and expenses.

25. Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or expense in profit or loss of the current period, or recognised directly in other comprehensive income or shareholders' equity if it arises adjustments for goodwill from a business combination or relates to a transaction or event which is recognised directly in other comprehensive income or shareholders' equity.

The Group measures a current tax asset or liability arising from the current and prior periods based on the amount of income tax expected to be paid by the Group or returned by the tax authority calculated according to related tax laws.

For temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the carrying amounts and the tax bases of items, the tax bases of which can be determined for tax purposes, but which have not been recognised as assets and liabilities, deferred taxes are provided using the liability method.

Notes to the Financial Statements

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

25. Income tax (Continued)

A deferred tax liability is recognised for all taxable temporary differences, except:

- (1) where the taxable temporary differences arise from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (a) the transaction is not a business combination; and (b) at the time of the transaction, it affects neither accounting profit nor taxable profit or deductible loss.
- (2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

A deferred tax asset is recognised for deductible temporary differences, carry forward of unused deductible tax losses and tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of deductible tax losses and tax credits can be utilized, except:

- (1) where the deferred tax asset arises from a transaction that is not a business combination and, at the time of the transaction, neither the accounting profit nor taxable profit or deductible loss is affected.
- (2) where the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, a deferred tax asset is only recognised to the extent that: it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized in the future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects at the balance sheet date, to recover the assets or settle the liabilities.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the deferred tax assets to be utilized. Unrecognised deferred tax assets are reassessed at the balance sheet date 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 deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Leases

Lease is a contract that conveys the right to use an asset for a period of time in exchange for consideration.

At inception of the contracts, the Group assesses whether the contract is, or contains, a lease. Unless the terms and conditions of the contract are changed, the Group does not reassess whether a contract is, or contains, a lease.

26.1 The Group as a lessee

26.1.1 Separating components of a lease

For a contract that contains lease and non-lease components, the Group allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease components and the aggregate stand-alone price of the non-lease components.

26.1.2 Right-of-use assets

Except for short-term leases and leases for which the underlying asset is of low value, at the commencement date of the lease, the Group recognises a right-of-use assets. The commencement date of the lease is the date on which a lessor makes an underlying asset available for use by the Group. The Group measures the right-of-use assets at cost. The cost of the right-of-use assets comprises:

- (1) the amount of the initial measurement of the lease liabilities;
- (2) any lease payments made at or before the commencement date, less any lease incentives;
- (3) any initial direct costs incurred by the Group.

The Group applies ASBE 4 Fixed Assets on depreciation, to depreciate right-of-use assets. If the Group is reasonably certain, that the lease will transfer ownership of the underlying asset to the Group by the end of the lease term, the right-of-use assets is depreciated from the commencement date to the end of the useful life of the underlying asset. Otherwise, the right-of-use assets is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term.

The Group applies ASBE 8 Impairment of Assets, to determine whether the right-of-use assets are impaired and to account for any impairment loss identified.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Leases (Continued)

26.1 The Group as a lessee (Continued)

26.1.3 Lease liabilities

Except short-term leases and leases of low value assets, the Group initially measures lease liabilities at the commencement date of the lease at the present value of the lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses interest rate implicit in the lease as discount rate; or uses the incremental borrowing rate as discount rate if the interest rate implicit in the lease is not readily determinable.

The lease payments comprise the following payments by the Group for the right to use the underlying asset during the lease term:

- (1) fixed payments (including in-substance fixed payments), less any lease incentives;
- (2) variable lease payments that depend on an index or a rate.

Variable lease payments that depend on an index or a rate, are initially measured using the index or rate as at the commencement date. Variable lease payments not included in the measurement of the lease liabilities, are recognised in profit or loss, or in the cost of relevant assets, in the period of those payments.

After the commencement date of the lease, interest on the lease liabilities in each period during the lease term is calculated by a constant periodic rate of interest on the remaining balance of the lease liabilities, and recognized in profit or loss or related asset cost.

After the commencement date of the lease, the Group re-measures the lease liabilities and adjusts the right-of-use assets accordingly, if either (the Group will include the difference in the profit or loss if the carrying amount of right-of-use assets is adjusted to zero but the lease liabilities are still required to be decreased):

- (1) there is a change in the lease term, or in the assessment of an option to purchase the underlying asset, the Group re-measures the lease liabilities, on the basis of the revised lease term and the revised discount rate;
- (2) there is a change in the amounts expected to be payable under a residual value guarantee, or in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group re-measures the lease liabilities, on the basis of the revised lease payments and the unchanged discount rate.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Leases (Continued)

26.1 The Group as a lessee (Continued)

26.1.4 Short-term leases and leases for which the underlying asset is of low value

The Group elects not to recognise right-of-use assets or lease liabilities for short-term leases and leases for which the underlying asset is of low value, for leasing of buildings, machineries, motor vehicles, office facilities and others. A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease for which the underlying asset is of low value is that, the value of the underlying asset is low when it is new. For short-term leases and leases for which the underlying asset is of low value, the Group recognises the lease payments associated with those leases as an expense or cost of relevant asset on a straight-line basis over the lease term.

26.1.5 Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group reallocates the consideration in the contract, and remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

If a lease modification reduces the scope of the lease or shortens the lease term, the Group shall reduce the carrying amount of right-of-use assets accordingly, and recognize the gains or losses on part or complete derecognition of lease in profit or loss of the period. For other lease modifications that result in remeasurement of lease liabilities, the Group shall adjust the carrying amount of right-of-use assets accordingly.

26.2 The Group as a lessor

26.2.1 Separating components of a lease

For a contract that contains lease and non-lease components, the Group shall allocate the consideration in the contract applying ASBE14 Revenue, on the basis of the relative stand-alone price of the lease components and the aggregate stand-alone price of the non-lease components.

26.2.2 Classification of leases

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

26.2.2.1 The Group as a lessor/lessee under operating leases

The Group recognises lease payments from operating leases as income on a straight-line basis. The Group capitalises initial direct costs incurred in obtaining an operating lease and recognises those costs as an expense over the lease term on the same basis as the lease income.

The Group recognises any variable lease payments not included in the lease payments as income, upon receipts.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Leases (Continued)

26.2.3 Lease modifications

For an operating lease modification, the Group accounts for it as a separate lease since the effective date of the modification. The amount received in advance or lease receivable related to the lease before the modification shall be treated as the receivable of the new lease.

27. Production safety expenses

Production safety expenses withdrawn according to the rules shall be recorded in the costs of related products or profit or loss for the current period, and "Special reserve". When used to distinguish whether it will generate fixed assets for processing, respectively: if belongs to disbursement costs, directly offset against special reserve; if generates fixed assets, summarise the expenditure occurred, and recognised as fixed assets until the asset is ready for its intended use. Meanwhile, offsetting against the special reserve and the accumulated depreciation shall be recognised equivalent at the same time.

28. Fair value measurement

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly; Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

29. Critical judgement in applying accounting policies and key assumptions and uncertainties in accounting estimates

As operating activities have inherent uncertainties, the Group need to make judgments, estimates and assumptions upon report items that cannot be accurately calculated in applying the above accounting policies set out in Note III. These judgments, estimates and assumptions are made based on historical experiences of the management of the Group, taking other related factors into consideration. The actual results may be different from the estimates of the Group.

The Group reviews the above judgments, estimates and assumptions periodically based on going concern. If the changes of accounting estimates only affect the current period, the influence amount is recognised in the current period. If the changes of accounting estimates affect both of the current period and the future period, the influence amount is recognised in the current period and the future period.

Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

Consolidation of entities in which the Group holds less than a majority of voting rights

The Group considers that it controls Qingdao CRRC Electric Equipment Co., Ltd. ("Qingdao Electric") even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Qingdao Electric with a 45% equity interest. Pursuant to articles of Qingdao Electric, for resolutions of the shareholders' meeting affecting relative operating activities of Qingdao Electric, CRRC Qingdao Sifang Co., Ltd., a related party of the Company, which owns Qingdao Electric 38% equity interest, commits to comply with the Company in the exercise of the proposal rights and voting rights. The Company recommends four of the seven directors in Board of Qingdao Electric and the resolutions of Board are deemed as valid when more than half of all directors approve.

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FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

29. Critical judgement in applying accounting policies and key assumptions and uncertainties in accounting estimates (Continued)

The key assumptions and uncertainties used in accounting estimates

The key assumptions and uncertainties, which may lead to significant adjustment to carrying amount of assets and liabilities in the future on balance sheet date, are set out as follows:

29.1 Provision for expected credit losses of trade receivables and contract assets

The Group recognises impairment provision for contract assets and trade receivables based on expected credit losses. The Group divides the above items into different portfolios based on the common risk characteristics, and employs impairment matrix on the basis of portfolios to determine the credit loss of related items. If there is an evidence proving that the value of trade receivables or contract assets has been recovered, and the recovery is related to the matter subsequent to the determination of the loss objectively, the impairment loss originally recognised shall be reversed. As at 31 December 2019, the Group has re-evaluated the historically observable overdue ratio and considered the changes in forward-looking information to calculate the expected credit losses through default risk exposures and lifetime expected credit losses.

29.2 Provision for impairment of inventories

According to the accounting policy for inventories, the Group adopts the lower of cost and net realisable value to measure inventories, and recognises provision for impairment of inventories on the condition that the cost of them is higher than the net realisable value or they are slow-moving or obsolete. At the end of each year, the Group will review whether a single inventory is an obsolete and slow-moving item and whether the net realisable value is lower than its cost. The differences (if any) between the re-estimated value and the current estimate will impact the carrying amount of the inventory in the period in which the estimate is changed.

29.3 Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires a calculation of the present value of the future expected cash flows from the asset groups or sets of asset groups in which the goodwill is included and an estimate of the expected future cash flow from the asset groups or sets of asset groups, and also chooses a suitable discount rate which reflects the time value of currency and particular risk of assets in the present market.

29.4 Impairment of non-current assets other than financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-current assets other than financial assets at the end of each period. Intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indicator exists. Other non-current assets other than financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When the carrying amount of an asset or asset group is higher than its recoverable amount (i.e., the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from it), it is indicated that such asset or asset group is impaired. The fair value less costs to sell is determined with reference to the price in the relevant sales agreement or an observable market price in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset or asset group. When calculating the present value of expected future cash flows from an asset or asset group, management shall estimate the expected future cash flows from the asset or asset group and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

29. Critical judgement in applying accounting policies and key assumptions and uncertainties in accounting estimates (Continued)

The key assumptions and uncertainties used in accounting estimates (Continued)

29.5 Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, such as the expected actual profitability condition of the enterprise running under deficit and the actual tax rate in the expected reversed years based upon the likely timing and level of future taxable profit.

29.6 Provision for warranties

The Group makes product warranty provision for the sales of some products. Management estimates future maintenance expense based on the historical maintenance experience of products and discount it into the present value by selecting an appropriate discount rate to recognise provision for warranties.

30. Changes in significant accounting policies

New Lease Standards

The Group began to adopt revised Accounting Standards for Business Enterprises 21 Leases (“New Lease Standards”, the pre-revision standards referred as “Original Lease Standards”), promulgated by Ministry of Finance in 2018, from 1 January 2019. New Lease Standards improve the definition of a lease and add the identification, spin off and combination of a lease; cancels the classification of the operating lease and finance lease of a lease, and requires recognising right-of-use assets and lease liabilities of all leases in addition to short-term leases and leases of low value assets at the commencement date of the lease, and recognising depreciation and interest expense respectively; improves subsequent measurement of leases by the lease, adds option re-evaluation and the accounting under lease modifications, and also adds requirements in disclosure thereon. In addition, New Lease Standards enrich disclosures by a lessor. The revised accounting policies on the recognition and measurement of leases with the Group as a lessor and lessee are presented in Note III. 26.

For contracts existing at the initial application date, the Group elects not to re-assess whether they are, or contain leases.

The Group as a lessee

The Group adjusts the amount of retained earnings and other related items in the financial statements at the initial application date in accordance with the accumulated impact from the New Lease Standards, and does not adjust the information of comparable period.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

30. Changes in significant accounting policies (Continued)

New Lease Standards (Continued)

The Group as a lessee (Continued)

For operating leases (except to leases of low value assets) before the initial application date, the Group adopts one or more simplifying approaches below for each lease:

- (1) Leases expected to be completed within 12 months after the initial application date, are treated as short-term leases;
- (2) When determining lease liabilities, the same discount rate will be used for leases with similar characteristics;
- (3) The measurement of right-of-use assets does not include initial direct costs;
- (4) As a substitute of impairment test for right-of-use assets, the Group applies ASBE13 Contingencies, to assess if the contract containing a lease is a loss contract and adjust the right-of-use assets based on the loss incurred at the initial application date;
- (5) For lease modifications before the initial application date, the Group makes accounting treatments based on the final lease arrangements after the lease modification.

On the initial application date, the Group makes following adjustments due to adoption of New Lease Standards:

For a lease previously classified as an operating lease, the Group recognised a lease liability at the initial application date, by measuring that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial implementation, and a right-of-use assets is measured based on the amount equal to the lease liability, adjusted by the amount of any prepaid lease payment.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

30. Changes in significant accounting policies (Continued)

New Lease Standards (Continued)

The Group as a lessee (Continued)

On 1 January 2019, the Group recognised lease liabilities of RMB70,805,231, and right-of-use assets of RMB77,470,900. For operating leases before the initial application date, the Group measures the lease liabilities at the present value of the lease payments, with the incremental borrowing rate as the discount rate. The borrowing rate range is 4.75%-4.90%.

The impact of the implementation of the New Lease Standards on the related items in the Group's balance sheet on 1 January 2019 is listed as follows:

Item	31 December 2018	Adjustment	1 January 2019
Current Assets:			
Prepayments	416,359,549	(6,665,669)	409,693,880
Non-current Assets:			
Right-of-use assets	–	77,470,900	77,470,900
Current Liabilities:			
Non-current liabilities due within one year	302,750,776	22,515,036	325,265,812
Non-current Liabilities:			
Lease liabilities	–	48,290,195	48,290,195

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

30. Changes in significant accounting policies (Continued)

New Lease Standards (Continued)

The Group as a lessee (Continued)

The reconciliation between lease liabilities recognised on 1 January 2019, and the significant operating lease commitment disclosed in the 2018 annual financial statements, is as follows:

Item	1 January 2019
I. Operating lease commitment at 31 December 2018	86,338,765
Lease liabilities discounted at the incremental borrowing rate	76,106,384
Less: Expedient – short-term leases	<u>5,301,153</u>
Lease liabilities related to previous operating lease commitments, recognised due to adoption of New Lease Standards	<u>70,805,231</u>
II. Lease liabilities at 1 January 2019	
Presented as:	
Non-current liabilities due within one year	22,515,036
Lease liabilities	48,290,195

The book value of the right-of-use assets on 1 January 2019 is composed as follows:

Item	1 January 2019
Right-of-use assets:	
Right-of-use assets recognised for operating leases prior to the initial application date	70,805,231
Reclassified prepaid rent (Note 1)	<u>6,665,669</u>
Total:	<u><u>77,470,900</u></u>

Note 1: Prepaid rent for lease of the Group is presented as prepayments at 31 December 2018 and is reclassified to right-of-use assets on the initial application date.

Right-of-use assets on 1 January 2019 are disclosed by categories as below:

Item	1 January 2019
Buildings	75,218,151
Vehicles	<u>2,252,749</u>
Total:	<u><u>77,470,900</u></u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Presentation of financial statements

The Group has prepared the financial statements for the year 2019 in accordance with the Notice of the Revised Format of 2019 Financial Statements for General Business Enterprises (Cai Kuai (2019) No. 6, hereinafter referred to as the "Cai Kuai No.6 Document") released by the Ministry of Finance on 30 April 2019. Cai Kuai No.6 Document revised the presenting accounts in the balance sheet and income statement and split "Bills receivable and trade receivables" to be "Bills receivable" and "Trade receivables", and "Bills payable and trade payables" to be "Bills payable" and "Trade payables". It also specified or revised the presentation of line items of "Non-current assets due within one year", "Deferred income", "Other equity instruments", "Research and development expenses", "Interest income" under "Financial expenses", "Other income", "Gains on disposal of assets", "Non-operating income" and "Non-operating expenses", and adjusted the presenting location of "Impairment losses of assets", and specified the presentation of "Capital contribution of holders of other equity instruments". For the above changes in presenting accounts, the Group has adjusted retrospectively the comparable data for the prior year.

IV. TAXATION

1. Major categories of taxes and respective tax rates

The corporate income tax of the Company and the subsidiaries incorporated in the PRC is levied at 25% of taxable profit. The subsidiaries incorporated out of the PRC shall pay the enterprise income tax in accordance with their local tax laws.

Major categories of taxes and respective tax rates of the Company and its PRC subsidiaries in the current period are set out below:

Value-added tax ("VAT", Note)	– VAT on sales is calculated at applicable tax rate and paid after deducting input VAT on purchase
City maintenance and construction surtax	– It is levied at 7% on the turnover taxes paid

Note: According to Cai Shui [2018] No. 32, since 1 May 2018, the VAT rate for sales or import of goods is adjusted from 17% to 16%. According to Cai Shui [2019] No. 39, since 1 April 2019, the VAT rate for sales or import of goods is adjusted from 16% to 13%.

2. Tax benefits and official approval

The Group's tax benefits and official approval are as follows:

Pursuant to the provisions of Rule 28 under the Corporate Income Tax Law of the People's Republic of China, high-tech enterprises that require government support are subject to corporate income tax at the rate of 15%. The Company and its subsidiaries, including Zhuzhou Times Electronics Technology Co., Ltd. ("Times Electronics"), Ningbo CRRC Times Sensor Technology Co., Ltd. ("Ningbo Times"), Zhuzhou National Engineering Research Centre of Converters Co., Ltd. ("ZNERCC"), Hunan CRRC Times Signal & Communication Co., Ltd. ("Times Signal & Communication"), Shenyang CRRC Times Transportation Technology Co., Ltd. ("Shenyang Times"), Qingdao CRRC Electric Equipment Co., Ltd. ("Qingdao Electric") and Specialist Machine Developments (Shanghai) Co., Ltd. ("Shanghai SMD") were accredited as high-tech enterprises and granted certificates of high-tech enterprise and are subject to income tax at the rate of 15%. Among them, the Company, Times Electronics, Ningbo Times ZNERCC and Time Signal & Communication are qualified for 3 years (from 2017 to 2019). Shenyang Times and Qingdao Electric are qualified for 3 years (from 2019 to 2021). In 2019, the Company and above subsidiaries are subject to income tax at the rate of 15% (2018: 15%). Shanghai SMD is qualified for 3 years (from 2019 to 2021). In 2019, Shanghai SMD is subject to income tax at the rate of 15% (2018: 25%).

Notes to the Financial Statements

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IV. TAXATION (Continued)

2. Tax benefits and official approval (Continued)

Pursuant to "The Notice Regarding the Tax Policies of the Strategy of Further Development of Western Region Issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation" (《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》), the subsidiary of the Company, Baoji CRRC Times Engineering Machinery Co., Ltd. ("Baoji Times") enjoyed the preferential tax at the rate of 15%, and the eligibility period is 3 years (from 2017 to 2019).

Pursuant to "The Notice Regarding the Tax Policies of the Encouragement Policy of Further Development of Software Industry and Integrate Circuit Industry Issued by Ministry of Finance and State Administration of Taxation" (《財政部、國家稅務總局關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》), CRRC Times Electric Software Technology Co., Ltd. ("Times Software") enjoyed the preferential tax policy of "Two years exemptions and three years halve" ("兩免三減半") since year 2015.

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	31 December 2019	31 December 2018
Cash on hand	37,683	61,065
Bank deposits	4,289,042,975	4,380,951,733
Other cash and bank balances	13,406,534	13,366,352
	<u>4,302,487,192</u>	<u>4,394,379,150</u>

As at 31 December 2019, the bank deposits of RMB13,406,534 (31 December 2018: RMB13,366,352) of the Group were restricted as security deposits for issuance of bank letters of guarantee.

As at 31 December 2019, the cash and bank balances deposited overseas by the Group were equivalent to RMB207,530,596 (31 December 2018: equivalent to RMB148,472,651).

Interest income earned on current deposits is calculated by using the current deposit interest rate. The deposit periods for short-term deposits vary from 11 days to 6 months depending on the cash requirements of the Group and earn interest at the respective deposit rates.

As at 31 December 2019, the Group had the time deposits at banks of RMB45,000,000 (31 December 2018: Nil), with a term of more than three months.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Held-for-trading financial assets

	31 December 2019	31 December 2018
Financial assets measured at fair value through profit or loss		
Including: investment on debt instruments – bank financial products	500,202,178	1,203,855,068
investment on debt instruments – bank structural deposits	4,405,574,583	400,000,000
	4,905,776,761	1,603,855,068

As at 31 December 2019, the bank financial products and structural deposits held by the Group were with expected yield rates from 2.20% to 3.85% per annum (31 December 2018: from 2.20% to 4.30%).

3. Bills receivable

(1) Categories of bills receivable

	31 December 2019	31 December 2018
Commercial acceptance bills	2,455,230,090	3,084,493,236
Bank acceptance bills	291,318,895	485,616,749
	2,746,548,985	3,570,109,985
Less: Provision for credit loss	20,438,563	61,669,115
	2,726,110,422	3,508,440,870

The credit risks of commercial acceptance bills and bank acceptance bills held by the Group have not been significantly increased since initial recognition. The Group has measured the provision for impairment losses based on 12-month expected credit losses of the financial instrument.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Bills receivable (Continued)

(2) As at 31 December 2019 and 31 December 2018, no pledged bills receivable were included in the balances of bills receivable.

(3) As at 31 December 2019 and 31 December 2018, bill receivables amounting to RMB800,000 were impaired due to the default of the drawer.

(4) Analysis of commercial acceptance bills for which provision for credit loss is assessed on a portfolio basis:

As at 31 December 2019

Credit losses has not occurred	Expected average loss rate %	Gross carrying amount	Credit impairment provision	Carrying amount
Category I	1.00	883,248,019	8,841,524	874,406,495
Category II	–	–	–	–
Category III	0.73	1,569,071,914	11,444,855	1,557,627,059
Category IV	5.23	2,910,157	152,184	2,757,973
Total	0.83	2,455,230,090	20,438,563	2,434,791,527

As at 31 December 2018

Credit losses has not occurred	Expected average loss rate %	Gross carrying amount	Credit impairment provision	Carrying amount
Category I	1.90	1,699,993,623	32,351,446	1,667,642,177
Category II	–	–	–	–
Category III	1.24	1,303,485,249	16,117,135	1,287,368,114
Category IV	16.29	81,014,364	13,200,534	67,813,830
Total	2.00	3,084,493,236	61,669,115	3,022,824,121

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Bills receivable (Continued)

(4) Analysis of commercial acceptance bills for which provision for credit loss is assessed on a portfolio basis:
(Continued)

Provision for credit loss of bills receivable:

	2019	2018
Opening balance	61,669,115	–
Provision in the current year	2,279,182	61,669,115
Reversal in the current year	(43,509,734)	–
Closing balance	20,438,563	61,669,115

(5) No bills receivable were actually written off in 2019 and 2018.

(6) Top five bills receivable are listed as follows:

Name	31 December 2019
Non-related party 1	915,000,000
CRRC Zhuzhou Locomotive Co., Ltd.	550,000,000
Bombardier Sifang (Qingdao) Transportation Ltd.	238,501,006
Non-related party 2	180,000,000
Non-related party 3	62,300,000
Total	1,945,801,006

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Bills receivable (Continued)

(6) Top five bills receivable are listed as follows: (Continued)

Name	31 December 2018
CRRC Zhuzhou Locomotive Co., Ltd.	1,249,690,890
Non-related party 1	813,400,000
CRRC Qingdao Sifang Co., Ltd.	206,780,000
Non-related party 4	192,080,000
Guangzhou Locomotive Co., Ltd.	<u>161,700,000</u>
Total	<u><u>2,623,650,890</u></u>

4. Trade receivables

(1) Disclosed by aging

	31 December 2019	31 December 2018
Within 6 months	6,092,206,421	5,769,340,250
6 months to 1 year	781,919,918	530,702,851
1 to 2 years	664,376,177	207,491,912
2 to 3 years	91,700,692	91,220,576
Over 3 years	<u>226,785,652</u>	<u>155,047,044</u>
	7,856,988,860	6,753,802,633
Less: Provision for credit loss	<u>443,024,138</u>	<u>267,838,040</u>
	<u><u>7,413,964,722</u></u>	<u><u>6,485,964,593</u></u>

The credit period of trade receivables is usually 6 months. The trade receivables bear no interest.

Notes to the Financial Statements

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Trade receivables (Continued)

(2) Categorized by method of provision for credit loss

By category	31 December 2019					31 December 2018				
	Gross carrying amount		Provision for credit loss			Gross carrying amount		Provision for credit loss		
	Amount	Proportion %	Provision for credit impairment	Proportion of provision %	Carrying amount	Amount	Proportion %	Provision for credit impairment	Proportion of provision %	Carrying amount
Trade receivables for which provision for credit impairment is collectively assessed on a portfolio basis and credit risk characteristics	7,660,392,926	97.50	246,428,204	3.22	7,413,964,722	6,753,802,633	100.00	267,838,040	3.97	6,485,964,593
Trade receivables for which provision for credit impairment is individually assessed	196,595,934	2.50	196,595,934	100.00	-	-	-	-	-	-
Total	7,856,988,860	100.00	443,024,138	5.64	7,413,964,722	6,753,802,633	100.00	267,838,040	3.97	6,485,964,593

Trade receivables for which provision for credit impairment is individually assessed

Trade receivables (by company)	Closing balance			
	Gross carrying amount	Provision for credit impairment	Proportion of provision	Reason for provision
Non-related party 5	64,605,000	64,605,000	100%	Possibility of recovery
Non-related party 6	30,563,584	30,563,584	100%	Possibility of recovery
Non-related party 7	37,998,450	37,998,450	100%	Possibility of recovery
Non-related party 8	5,529,135	5,529,135	100%	Possibility of recovery
Non-related party 9	8,093,692	8,093,692	100%	Possibility of recovery
Other trade receivables for which provision is individually assessed	49,806,073	49,806,073	100%	Possibility of recovery
Total	196,595,934	196,595,934		

Notes to the Financial Statements

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Trade receivables (Continued)

(2) Categorized by method of provision for credit loss (Continued)

Trade receivables for which provision for credit loss is assessed on a portfolio basis (Category I)

Item	31 December 2019				31 December 2018			
	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount
Within 6 months	0.78	1,817,473,868	14,099,166	1,803,374,702	0.78	2,077,084,277	16,213,093	2,060,871,184
6 months to 1 year	1.65	142,358,624	2,344,570	140,014,054	1.47	114,058,303	1,680,479	112,377,824
1 to 2 years	8.53	243,670,910	20,795,235	222,875,675	2.78	86,221,613	2,398,577	83,823,036
2 to 3 years	7.62	57,674,204	4,396,395	53,277,809	6.59	28,941,602	1,908,670	27,032,932
Over 3 years	76.98	13,986,578	10,767,048	3,219,530	27.05	1,721,679	465,684	1,255,995
Total	2.30	2,275,164,184	52,402,414	2,222,761,770	0.98	2,308,027,474	22,666,503	2,285,360,971

Trade receivables for which provision for credit loss is assessed on a portfolio basis (Category II)

Item	31 December 2019				31 December 2018			
	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount
Within 6 months	1.22	2,396,862,247	29,128,566	2,367,733,681	0.76	1,723,535,481	13,106,868	1,710,428,613
6 months to 1 year	2.27	350,668,580	7,972,687	342,695,893	1.63	171,613,360	2,798,571	168,814,789
1 to 2 years	9.30	291,549,044	27,113,390	264,435,654	12.34	26,736,444	3,298,036	23,438,408
2 to 3 years	12.25	1,334,391	163,463	1,170,928	22.91	10,741,961	2,460,825	8,281,136
Over 3 years	45.56	33,557	15,289	18,268	-	-	-	-
Total	2.12	3,040,447,819	64,393,395	2,976,054,424	1.12	1,932,627,246	21,664,300	1,910,962,946

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Trade receivables (Continued)

(2) Categorized by method of provision for credit loss (Continued)

Trade receivables for which provision for credit loss is assessed on a portfolio basis (Category III)

Item	31 December 2019				31 December 2018			
	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount
Within 6 months	0.24	997,248,167	2,358,505	994,889,662	0.47	1,441,570,559	6,765,157	1,434,805,402
6 months to 1 year	3.97	26,785,506	1,064,114	25,721,392	2.12	160,639,393	3,406,499	157,232,894
1 to 2 years	2.91	13,732,107	399,567	13,332,540	10.13	10,068,774	1,019,743	9,049,031
2 to 3 years	62.50	95,920	59,950	35,970	20.00	26,830	5,366	21,464
Total	0.37	1,037,861,700	3,882,136	1,033,979,564	0.69	1,612,305,556	11,196,764	1,601,108,791

Trade receivables for which provision for credit loss is assessed on a portfolio basis (Category IV)

Item	31 December 2019				31 December 2018			
	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount
Within 6 months	4.80	880,622,139	42,262,538	838,359,601	4.47	527,149,933	23,578,139	503,571,794
6 months to 1 year	6.05	262,107,208	15,860,780	246,246,428	9.29	84,391,795	7,842,269	76,549,526
1 to 2 years	27.38	114,614,885	31,377,229	83,237,656	46.07	84,465,081	38,913,310	45,551,771
2 to 3 years	72.11	22,242,088	16,039,644	6,202,444	65.84	51,510,183	33,916,582	17,593,601
Over 3 years	73.94	27,332,903	20,210,068	7,122,835	70.48	153,325,365	108,060,172	45,265,193
Total	9.62	1,306,919,223	125,750,259	1,181,168,964	23.57	900,842,357	212,310,472	688,531,885

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Trade receivables (Continued)

(3) Provision for credit loss of trade receivables are as follows:

2019

	Lifetime expected credit losses (Not credit- impaired)	Lifetime expected credit losses (Credit- impaired)	2019 Total
1 January 2019	75,391,076	192,446,964	267,838,040
Transfer to credit-impaired losses	(14,298,293)	14,298,293	–
Provision in the current year	53,995,636	148,795,798	202,791,434
Write-off in the current year	–	(27,607,843)	(27,607,843)
Exchange realignment	2,507	–	2,507
31 December 2019	<u>115,090,926</u>	<u>327,933,212</u>	<u>443,024,138</u>

2018

	Lifetime expected credit losses (Not credit- impaired)	Lifetime expected credit losses (Credit- impaired)	2018 Total
1 January 2018	80,308,610	247,616,041	327,924,651
Transfer to credit-impaired losses	(5,262,144)	5,262,144	–
Provision (reversal) in the current year	311,099	(54,470,940)	(54,159,841)
Write-off in the current year	–	(5,960,281)	(5,960,281)
Exchange realignment	33,511	–	33,511
31 December 2018	<u>75,391,076</u>	<u>192,446,964</u>	<u>267,838,040</u>

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Trade receivables (Continued)

(4) Trade receivables actually written off in the current year:

	2019	2018
Trade receivables actually written off (Note)	<u>27,607,843</u>	<u>5,960,281</u>

Note: The trade receivables written off in the current year were the trade receivables generated from the sale of goods to non-related parties, but they were unrecoverable due to the operation difficulties of the opposite company, and therefore, these trade receivables were written off.

(5) In the current year, the Group derecognized the trade receivables of RMB292,000,000 due to trade receivables factoring, and related financing costs were recorded in "Finance costs".

(6) Top five trade receivables are listed as follows:

Name	31 December 2019
Non-related party 10	538,451,858
CRRC Qingdao Sifang Co., Ltd.	446,815,431
Non-related party 11	418,665,125
Non-related party 12	245,027,417
Non-related party 13	<u>196,351,084</u>
Total	<u>1,845,310,915</u>

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Trade receivables (Continued)

(6) Top five trade receivables are listed as follows: (Continued)

Name	31 December 2018
CRRC Qingdao Sifang Co., Ltd.	1,111,945,443
Non-related party 11	754,497,868
Non-related party 10	317,597,549
Non-related party 12	183,685,435
Non-related party 14	<u>165,173,232</u>
Total	<u><u>2,532,899,527</u></u>

5. Trade receivables financing

	31 December 2019	31 December 2018
Bills receivable measured at fair value	1,884,817,895	854,151,906
Trade receivables measured at fair value	670,135,475	<u>176,768,180</u>
	<u>2,554,953,370</u>	<u><u>1,030,920,086</u></u>

The Group discounted and endorsed a part of bank acceptance bills while transferred a part of trade receivables according to its daily fund management needs, which qualified for derecognition. Therefore, the part of bank acceptance bills and trade receivables were classified by the Group as financial assets at fair value through other comprehensive income.

Measured at fair value:

Item	31 December 2019	31 December 2018
Cost	2,619,248,453	1,054,489,279
Carrying amount	2,554,953,370	<u>1,030,920,086</u>
Changes in fair value included in other comprehensive income	64,295,083	<u>23,569,193</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Trade receivables financing (Continued)

Notes receivable endorsed or discounted and not yet due at the balance sheet date:

As at 31 December 2019

Items	Derecognized amount	Non-derecognized amount
Commercial acceptance bills	–	11,526,536
Bank acceptance bills	<u>188,449,023</u>	<u>54,526,982</u>
Total	<u>188,449,023</u>	<u>66,053,518</u>

As at 31 December 2018

Items	Derecognized amount	Non-derecognized amount
Commercial acceptance bills	–	40,000,000
Bank acceptance bills	<u>237,129,183</u>	<u>88,819,890</u>
Total	<u>237,129,183</u>	<u>128,819,890</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Prepayments

Aging analysis of prepayments is as follows:

	31 December 2019	31 December 2018
Within 1 year	272,875,127	355,694,833
1 to 2 years	39,417,798	43,375,562
2 to 3 years	4,480,479	12,054,717
Over 3 years	8,651,757	5,234,437
	<u>325,425,161</u>	<u>416,359,549</u>

Top five prepayments are listed as follows:

Name	31 December 2019
Non-related party 15	85,771,143
Non-related party 16	21,314,275
Non-related party 17	19,614,584
Non-related party 18	9,350,516
Non-related party 19	6,641,027
Total	<u>142,691,545</u>

Name	31 December 2018
Non-related party 20	47,942,146
Non-related party 21	32,892,288
Non-related party 16	29,732,856
Non-related party 15	24,337,566
Non-related party 18	22,952,577
Total	<u>157,857,433</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables

7.1 Summary of other receivables

	31 December 2019	31 December 2018
Interest receivable	–	–
Dividends receivable	–	–
Other receivables	<u>106,498,054</u>	<u>106,146,467</u>
Total	<u><u>106,498,054</u></u>	<u><u>106,146,467</u></u>

7.2 Other receivables

(1) Disclosed by aging:

	31 December 2019	31 December 2018
Within 1 year	58,795,290	60,231,885
1 to 2 years	12,130,406	41,735,330
2 to 3 years	35,974,804	3,988,828
Over 3 years	<u>2,962,283</u>	<u>2,827,177</u>
	109,862,783	108,783,220
Less: Provision for credit loss	<u>3,364,729</u>	<u>2,636,753</u>
	<u><u>106,498,054</u></u>	<u><u>106,146,467</u></u>

(2) Classification of other receivables by nature is as follows:

	31 December 2019	31 December 2018
Tender deposit	69,630,031	54,962,464
Deposit	3,701,446	23,636,694
Others	<u>33,166,577</u>	<u>27,547,309</u>
	<u><u>106,498,054</u></u>	<u><u>106,146,467</u></u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables (continued)

7.2 Other receivables (continued)

(3) Provision for credit loss of other receivables are as follows:

	2019	2018
12-month expected credit losses		
Opening balance	2,636,753	10,190,687
Provision in the current year	2,041,225	–
Reversal in the current year	(248,248)	(7,472,675)
Write-off in the current year	<u>(1,065,001)</u>	<u>(81,259)</u>
Closing balance	<u>3,364,729</u>	<u>2,636,753</u>

(4) Top five other receivables are listed as follows:

Name	31 December 2019
Non-related party 10	33,894,620
Non-related party 22	4,600,000
Non-related party 23	3,600,000
Non-related party 24	2,595,468
Non-related party 25	<u>2,120,000</u>
Total	<u>46,810,088</u>

Name	31 December 2018
Non-related party 10	33,894,620
Non-related party 23	3,600,000
Non-related party 26	3,403,897
Non-related party 27	2,900,000
Non-related party 28	<u>2,400,000</u>
Total	<u>46,198,517</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other receivables (continued)

7.2 Other receivables (continued)

- (5) As at 31 December 2019 and 31 December 2018, the Group had no other receivables related to government subsidies.
- (6) As at 31 December 2019 and 31 December 2018, the Group had no other receivables derecognized due to the transfer of financial assets.
- (7) As at 31 December 2019 and 31 December 2018, the Group had no assets or liabilities generated due to transfer of other receivables and continuing involvement.

8. Inventories

(1) Categories of inventories

	31 December 2019		
	Gross carrying amount	Provision for decline in value	Carrying amount
Raw materials	1,571,039,288	88,643,409	1,482,395,879
Semi-finished products	601,854,485	5,834,533	596,019,952
Work in progress	501,211,448	18,169,178	483,042,270
Finished goods	1,198,640,652	17,595,093	1,181,045,559
Turnover materials	25,558,054	22,943	25,535,111
	<u>3,898,303,927</u>	<u>130,265,156</u>	<u>3,768,038,771</u>

	31 December 2018		
	Gross carrying amount	Provision for decline in value	Carrying amount
Raw materials	874,516,414	82,642,516	791,873,898
Semi-finished products	481,976,539	17,131,598	464,844,941
Work in progress	486,094,972	11,116,301	474,978,671
Finished goods	1,373,095,728	17,598,733	1,355,496,995
Turnover materials	27,556,413	736,367	26,820,046
	<u>3,243,240,066</u>	<u>129,225,515</u>	<u>3,114,014,551</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Inventories (continued)

(2) Provision for decline in value of inventories

2019

	1 January 2019	Provision	Reversal	Write-off	Exchange realignment	31 December 2019
Raw materials	82,642,516	11,311,984	(2,085,985)	(4,847,426)	1,622,320	88,643,409
Semi-finished products	17,131,598	3,970,974	(2,556,661)	(12,711,378)	–	5,834,533
Work in progress	11,116,301	6,375,876	–	–	677,001	18,169,178
Finished goods	17,598,733	4,726,440	(4,950,536)	–	220,456	17,595,093
Turnover materials	736,367	961,379	(46,958)	(1,627,845)	–	22,943
	<u>129,225,515</u>	<u>27,346,653</u>	<u>(9,640,140)</u>	<u>(19,186,649)</u>	<u>2,519,777</u>	<u>130,265,156</u>

2018

	1 January 2018	Provision	Reversal	Write-off	Exchange realignment	31 December 2018
Raw materials	114,819,608	14,127,039	(43,407,833)	(2,601,545)	(294,753)	82,642,516
Semi-finished products	80,336,068	3,302,110	(61,780,002)	(4,726,578)	–	17,131,598
Work in progress	3,669,078	10,528,960	(1,718,884)	(1,284,056)	(78,797)	11,116,301
Finished goods	51,950,697	1,884,665	(26,506,110)	(9,672,730)	(57,789)	17,598,733
Turnover materials	1,187,130	482,506	(933,269)	–	–	736,367
	<u>251,962,581</u>	<u>30,325,280</u>	<u>(134,346,098)</u>	<u>(18,284,909)</u>	<u>(431,339)</u>	<u>129,225,515</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Contract assets

(1) Details of contract assets

	31 December 2019		
	Gross carrying amount	Provision for credit loss	Carrying amount
Quality guarantee deposit (Note)	546,145,090	11,683,162	534,461,928
Less: Contract assets included in other non-current assets (Note V, 20)	356,396,035	7,282,781	349,113,254
	<u>189,749,055</u>	<u>4,400,381</u>	<u>185,348,674</u>

	31 December 2018		
	Gross carrying amount	Provision for credit loss	Carrying amount
Quality guarantee deposit	222,360,099	5,173,409	217,186,690
Less: Contract assets included in other non-current assets (Note V, 20)	24,937,877	849,653	24,088,224
	<u>197,422,222</u>	<u>4,323,756</u>	<u>193,098,466</u>

Note: The above quality guarantee deposit receivables mainly include those related to sales contract, construction contract and maintenance service contract. Among them, the sales of goods and services and construction contract related services provided by the Group are recognized as the transfer of control rights of inventories (including other marine engineering products, such as deep-water robots), under the terms of the contract, and the contract stipulates that the payment shall be made separately at different stages in proportion. The revenue is recognized by the Group as the transfer of control right, but it has met the conditions for receiving the consideration of contract as agreed in the contract, thus forming the contract assets.

The maintenance service provided by the Group is recognized as revenue in accordance with the performance progress, and the part exceeding the consideration of the customer for settlement has not met the conditions for receiving the consideration of contract as agreed in the contract, thus forming the contract asset.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Contract assets (continued)

(2) Provision for credit losses of contract assets

	2019	2018
Opening balance	5,173,409	–
Provision in the current year	6,460,489	5,173,409
Exchange realignment	49,264	–
Closing balance	11,683,162	5,173,409

As at 31 December 2019 and 31 December 2018, the Group had no credit-impaired contract assets.

Contract assets are disclosed by category on a portfolio and credit basis as follows:

2019

Not credit-impaired item	Expected average loss rate %	Gross carrying amount	Credit impairment provision	Carrying amount
Category I	1.04	79,118,925	821,708	78,297,217
Category II	1.69	323,762,956	5,467,630	318,295,326
Category III	0.65	59,113,907	387,170	58,726,737
Category IV	5.95	84,149,302	5,006,654	79,142,648
Total	2.14	546,145,090	11,683,162	534,461,928

2018

Not credit-impaired item	Expected average loss rate %	Gross carrying amount	Credit impairment provision	Carrying amount
Category I	0.82	77,116,272	628,498	76,487,774
Category II	0.84	26,290,445	219,525	26,070,920
Category III	0.63	39,531,486	247,072	39,284,414
Category IV	5.14	79,421,896	4,078,314	75,343,582
Total	2.32	222,360,099	5,173,409	217,186,690

Notes to the Financial Statements

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Other current assets

	31 December 2019	31 December 2018
Bank financial products (Note 1)	–	2,034,610,548
Structural deposits (Note 2)	100,000,000	600,000,000
Value-added tax retained	296,595,434	23,097,790
Other taxes retained	89,423,696	71,619,165
	486,019,130	2,729,327,503

Note 1: As at 31 December 2018, the expected yield rate per annum of fixed-income bank financial products and structural deposits held by the Group is from 2.20% to 4.50% per annum. The credit risk is low for counterparties of these financial products and structural deposits are banks with high-level credit ratings. These financial products have expired in succession from 14 January 2019 to 29 June 2019.

Note 2: As at 31 December 2019, the Group had structural deposits with fixed income and yield rate per annum of 3.50% whose counterparties were all banks with high-level credit ratings. Therefore, the credit risk was low. These structural deposits have matured on 27 January 2020.

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments

2019

	Opening balance	Changes for the current year			Closing balance
		Investment	Investment income or loss recognized under equity method	Cash dividends announced	
Non-listed investments					
Equity method					
Joint ventures					
Zhuzhou Shiling Transportation Equipment Co., Ltd ("Shiling")	208,360,915	-	303,003	-	208,663,918
Wenzhou CRRC Electric Equipment Co., Ltd ("Wenzhou Electric")	15,783,118	-	237,683	-	16,020,801
Shanghai Shentong CRRC Rail Transit Operation Safety Engineering Technology Research Co., Ltd ("Shanghai Shentong CRRC")	6,257,031	-	311,285	(225,000)	6,343,316
	<u>230,401,064</u>	<u>-</u>	<u>851,971</u>	<u>(225,000)</u>	<u>231,028,035</u>
Associates					
Wuxi CRRC Hofer Powertrain Co., Ltd. ("CRRC Hofer")	152,593,243	-	(13,953,394)	-	141,847,140
Siemens Traction Equipment Ltd., Zhuzhou ("Zhuzhou Siemens")	45,790,970	-	171,226	-	45,962,196
Hunan Guoxin Semiconductor Technology Co., Ltd. ("Guoxin Technology") (Note 1)	25,000,000	25,000,000	33,270	-	50,033,270
Hunan CRRC-Wabtec Rail Transit Technology Co., Ltd. ("CRRC Wabtec")	10,232,202	-	839,798	-	11,072,000
Zhirui Semiconductor Co., Ltd. ("Zhirui Semiconductor") (Note 2)	-	47,000,000	98,488	-	47,098,488
	<u>233,616,415</u>	<u>72,000,000</u>	<u>(12,810,612)</u>	<u>-</u>	<u>296,013,094</u>
	<u>464,017,479</u>	<u>72,000,000</u>	<u>(11,958,641)</u>	<u>(225,000)</u>	<u>527,041,129</u>

Note 1: In December 2019, the Group and other seven companies including Chongqing Chang'an Automobile Co., Ltd. jointly in the same proportion increased capital to Guoxin Technology in which the Group increased capital of RMB25,000,000, remaining to hold 25% shares but not have control, which was accounted for as investment in associates.

Note 2: In May 2019, the Group and other two companies including Dongfeng Electric Vehicle Co., Ltd. jointly established Zhirui Semiconductor in which the Group contributed RMB47,000,000, holding 47% shares but not have control, which was accounted for as investment in associates.

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

2018

	Opening balance	Changes for the current year					Closing balance
		Investment	Impact of unrealized profit	Investment income or loss recognized under equity method	Cash dividends announced	Exchange realignment	
Non-listed investments							
Equity method							
Joint ventures							
Shiling	203,530,474	-	10,119,017	211,424	(5,500,000)	-	208,360,915
Wenzhou Electric	-	-	-	204,724	-	-	15,783,118
Shanghai Shentong CRRC	6,084,780	-	-	172,251	-	-	6,257,031
	<u>209,615,254</u>	<u>-</u>	<u>10,119,017</u>	<u>588,399</u>	<u>(5,500,000)</u>	<u>-</u>	<u>230,401,064</u>
Associates							
CRRC Hofer	-	153,801,622	-	(1,211,094)	-	2,715	152,593,243
Zhuzhou Siemens	47,640,792	-	-	(1,849,822)	-	-	45,790,970
Guoxin Technology	-	25,000,000	-	-	-	-	25,000,000
CRRC Wabtec	12,970,788	-	-	(2,738,586)	-	-	10,232,202
	<u>60,611,580</u>	<u>178,801,622</u>	<u>-</u>	<u>(5,799,502)</u>	<u>-</u>	<u>2,715</u>	<u>233,616,415</u>
	<u>270,226,834</u>	<u>178,801,622</u>	<u>10,119,017</u>	<u>(5,211,103)</u>	<u>(5,500,000)</u>	<u>2,715</u>	<u>464,017,479</u>

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets

(1) Details of fixed assets

2019

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
Opening balance	1,768,574,567	2,446,290,309	46,550,945	360,809,613	4,622,225,434
Purchase	449,203	72,679,920	2,532,441	77,598,429	153,259,993
Transferred from construction in progress	148,783,985	287,557,392	–	28,143,647	464,485,024
Sale and retirement	–	(10,106,709)	(3,923,805)	(7,761,531)	(21,792,045)
Exchange realignment	1,664,670	7,660,815	15,058	1,436,364	10,776,907
Closing balance	<u>1,919,472,425</u>	<u>2,804,081,727</u>	<u>45,174,639</u>	<u>460,226,522</u>	<u>5,228,955,313</u>
Accumulated depreciation					
Opening balance	414,025,001	1,182,837,375	36,377,178	189,432,703	1,822,672,257
Provision	63,630,978	255,176,516	4,819,711	56,293,033	379,920,238
Disposal or retirement	–	(9,002,461)	(3,713,523)	(5,487,017)	(18,203,001)
Exchange realignment	131,171	4,579,898	13,986	418,100	5,143,155
Closing balance	<u>477,787,150</u>	<u>1,433,591,328</u>	<u>37,497,352</u>	<u>240,656,819</u>	<u>2,189,532,649</u>
Impairment provision					
Opening balance	10,513,264	46,887,139	–	607,170	58,007,573
Disposal or retirement	–	(540,072)	–	(600,591)	(1,140,663)
Closing balance	<u>10,513,264</u>	<u>46,347,067</u>	<u>–</u>	<u>6,579</u>	<u>56,866,910</u>
Carrying amount					
Closing balance	<u>1,431,172,011</u>	<u>1,324,143,332</u>	<u>7,677,287</u>	<u>219,563,124</u>	<u>2,982,555,754</u>
Opening balance	<u>1,344,036,302</u>	<u>1,216,565,795</u>	<u>10,173,767</u>	<u>170,769,740</u>	<u>2,741,545,604</u>

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets (continued)

(1) Details of fixed assets (continued)

2018

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
Opening balance	1,759,736,228	2,215,468,045	45,333,615	325,057,473	4,345,595,361
Purchase	59,210	68,689,507	3,541,896	83,009,545	155,300,158
Transferred from construction in progress	9,514,296	204,034,193	–	1,957,860	215,506,349
Sale and retirement	(7,455)	(39,701,865)	(2,293,900)	(48,780,573)	(90,783,793)
Exchange realignment	(727,712)	(2,199,571)	(30,666)	(434,692)	(3,392,641)
Closing balance	<u>1,768,574,567</u>	<u>2,446,290,309</u>	<u>46,550,945</u>	<u>360,809,613</u>	<u>4,622,225,434</u>
Accumulated depreciation					
Opening balance	355,901,828	1,007,453,234	33,634,923	170,904,829	1,567,894,814
Provision	58,298,498	209,882,071	4,670,059	46,681,468	319,532,096
Write-off	(5,292)	(33,458,003)	(1,919,324)	(28,031,859)	(63,414,478)
Exchange realignment	(170,033)	(1,039,927)	(8,480)	(121,735)	(1,340,175)
Closing balance	<u>414,025,001</u>	<u>1,182,837,375</u>	<u>36,377,178</u>	<u>189,432,703</u>	<u>1,822,672,257</u>
Impairment provision					
Opening balance	10,513,264	48,433,991	–	710,055	59,657,310
Write-off	–	(1,546,852)	–	(102,885)	(1,649,737)
Closing balance	<u>10,513,264</u>	<u>46,887,139</u>	<u>–</u>	<u>607,170</u>	<u>58,007,573</u>
Carrying amount					
Closing balance	<u>1,344,036,302</u>	<u>1,216,565,795</u>	<u>10,173,767</u>	<u>170,769,740</u>	<u>2,741,545,604</u>
Opening balance	<u>1,393,321,136</u>	<u>1,159,580,820</u>	<u>11,698,692</u>	<u>153,442,589</u>	<u>2,718,043,237</u>

(2) As at 31 December 2019, the Group had no temporarily idle fixed assets.

(3) As at 31 December 2019, the fixed assets leased out by the Group through operating lease were buildings, carrying an amount of RMB35,415,817 (31 December 2018: RMB42,645,749).

(4) As at 31 December 2019 and 31 December 2018, there were no buildings for which the certificate of title had not yet been transacted.

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Construction in progress

	31 December 2019	31 December 2018
Innovation experiment platform construction project	30,291,863	29,894,316
The revamping and expansion of high voltage IGBT chip module production line	24,657,434	16,625,106
Data centre computer room	8,273,087	4,821,690
Office renovation	7,697,056	–
Semiconductor intelligent manufacturing project	3,247,955	3,028,576
Verification and screening platform for key materials of rail transit products	3,232,180	–
X-ray inspection equipment	2,803,527	–
Laboratory of urban rail transit driverless signal system	1,429,490	–
Semiconductor key lab construction project	–	144,742,066
HCMT test bench	–	11,427,371
Development of electrical drive system for passenger cars and tester of industrialized power drive	–	10,062,925
Laboratory Relocation and Expansion Project	–	9,961,349
Changsha laboratory of CSL3 Signal system-engineering verification system	–	7,070,696
Changsha laboratory of CSL4 Signal system-engineering verification system	–	5,146,569
Germany laboratory of CSL3 Signal system-engineering verification system	–	4,401,030
Others	10,577,208	27,899,987
	92,209,800	275,081,681

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Construction in progress (continued)

The movements of construction in progress in 2019 are as follows:

	Budget	balance of 1 January 2019	Increase	Transferred to fixed assets	Exchange realignment	balance of 31 December 2019	Capital resource	Proportion of projects investment to budget
Innovation experiment platform construction project	964,500,000	29,894,316	397,547	-	-	30,291,863	Self-raised	3%
The revamping and expansion of high voltage LGBT chip module production line	505,000,000	16,625,106	83,497,337	75,465,009	-	24,657,434	Government grant and self-raised	22%
Data centre computer room	16,500,000	4,821,690	3,451,397	-	-	8,273,087	Self-raised	50%
Office renovation	8,000,000	-	7,697,056	-	-	7,697,056	Self-raised	96%
Semiconductor intelligent manufacturing project	43,400,000	3,028,576	22,170,122	21,950,743	-	3,247,955	Self-raised	58%
Verification and screening platform for key materials of rail transit products	19,610,000	-	3,232,180	-	-	3,232,180	Self-raised	16%
X-ray inspection equipment	4,537,650	-	2,803,527	-	-	2,803,527	Self-raised	62%
Laboratory of urban rail transit driverless signal system	4,760,000	-	1,429,490	-	-	1,429,490	Self-raised	30%
Semiconductor key lab construction project	341,880,000	144,742,066	16,412,626	161,154,692	-	-	Government grant and self-raised	67%
HCMT test bench	12,612,667	11,427,371	-	11,495,985	68,614	-	Self-raised	91%
Development of electrical drive system for passenger cars and tester of industrialized power drive	12,000,000	10,062,925	72,768	10,135,693	-	-	Self-raised	84%
Laboratory Relocation and Expansion Project	9,961,349	9,961,349	-	9,961,349	-	-	Self-raised	100%
Changsha laboratory of CSL3 Signal system-engineering verification system	7,123,146	7,070,696	52,450	7,123,146	-	-	Self-raised	100%
Changsha laboratory of CSL4 Signal system-engineering verification system	5,673,352	5,146,569	526,783	5,673,352	-	-	Self-raised	100%
Germany laboratory of CSL3 Signal system-engineering verification system	4,401,030	4,401,030	-	4,401,030	-	-	Self-raised	100%
Others		27,899,987	139,673,023	157,124,025	128,223	10,577,208		
		275,081,681	281,416,306	464,485,024	196,837	92,209,800		

Note: The Group received special loan for semiconductor key lab construction project. The capitalized interest for the current year amounted to RMB346,849 (2018: the capitalized interest was RMB667,413). As at 31 December 2019, among the balance of construction in progress, the accumulated capitalized interest amounted to RMB400,355 (31 December 2018: the accumulated capitalized interest was RMB3,033,982).

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Construction in progress (continued)

The movements of construction in progress in 2018 are as follows:

	Budget	Closing balance of prior year	Increase	Transferred to fixed assets	Exchange realignment	Closing balance of current year	Capital resource	Proportion of projects investment to budget
Semiconductor key lab construction project	341,880,000	131,826,777	69,540,792	56,625,503	-	144,742,066	Government grant and self-raised	62%
Innovation experiment platform construction project	935,800,000	-	29,894,316	-	-	29,894,316	Self-raised	3%
The revamping and expansion of high voltage IGBT chip module production line	505,000,000	451,165	16,173,941	-	-	16,625,106	Government grant and self-raised	3%
HCMT test bench	12,612,667	-	11,427,371	-	-	11,427,371	Self-raised	91%
Development of electrical drive system for passenger cars and tester of industrialized power drive	12,000,000	-	10,062,925	-	-	10,062,925	Self-raised	84%
Laboratory Relocation and Expansion Project	13,138,000	7,157,711	2,803,638	-	-	9,961,349	Self-raised	76%
Changsha laboratory of CSL3 Signal system-engineering verification system	7,500,000	-	7,070,696	-	-	7,070,696	Self-raised	94%
Changsha laboratory of CSL4 Signal system-engineering verification system	5,500,000	-	5,146,569	-	-	5,146,569	Self-raised	94%
Data centre computer room	16,500,000	-	4,821,690	-	-	4,821,690	Self-raised	29%
Germany laboratory of CSL3 Signal system-engineering verification system	5,000,000	-	4,401,030	-	-	4,401,030	Self-raised	88%
High temperature ion implantation equipment	13,780,200	13,404,421	1,488,381	14,892,802	-	-	Self-raised	100%
PECVDS equipment	13,500,000	13,241,298	146,305	13,387,603	-	-	Government grant	100%
Low pressure chemical vapour deposition	11,372,775	7,105,167	4,821,673	11,926,840	-	-	Self-raised	100%
Renovation of logistics warehouse for passenger cars electrical drive system	28,980,000	6,947,364	63,208	7,010,572	-	-	Self-raised	29%
Power cycle tester of press pack IGBT	9,264,189	6,376,617	3,563,442	9,940,059	-	-	Self-raised	100%
Auto silver sintering equipment	5,929,748	5,218,349	579,265	5,797,614	-	-	Self-raised	98%
ICP etching machine	7,820,784	4,954,139	3,307,035	8,261,174	-	-	Self-raised	100%
Power curve tracer and semi-automatic probe station	4,893,776	3,004,741	1,965,824	4,970,565	-	-	Self-raised	100%
Others		37,035,688	76,314,717	82,693,617	271,775	30,928,563		
		<u>236,723,437</u>	<u>253,592,818</u>	<u>215,506,349</u>	<u>271,775</u>	<u>275,081,681</u>		

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Right-of-use assets

The movements of right-of-use assets in 2019 are as follows:

	Land use right (Note)	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost						
Opening balance of the current year	-	75,218,151	-	2,252,749	-	77,470,900
Addition	14,881,413	36,295,956	8,148,271	5,932,500	1,542,830	66,800,970
Closing balance of the current year	14,881,413	111,514,107	8,148,271	8,185,249	1,542,830	144,271,870
Accumulated depreciation						
Opening balance of the current year	-	-	-	-	-	-
Provision	1,417,278	30,671,394	2,808,728	2,226,695	596,147	37,720,242
Closing balance of the current year	1,417,278	30,671,394	2,808,728	2,226,695	596,147	37,720,242
Carrying amount						
Closing balance	13,464,135	80,842,713	5,339,543	5,958,554	946,683	106,551,628
Opening balance	-	75,218,151	-	2,252,749	-	77,470,900

Note: Land assets are industrial land use rights rented by SMD (a subsidiary of the Group) from non-related party in 2019. The lease period is from 10 June 2019 to 9 June 2029, and the total rent is equivalent to RMB20,374,258.

The Group leases a number of assets, including land use rights, buildings, machinery, vehicles, office equipment and others, with a lease term of 1-10 years.

In 2019, the Group's lease expenses of short-term leases included in the current profit and loss amounts to RMB6,431,275. As at 31 December 2019, the portfolio of short term leases of the Group is similar with short term lease expenses disclosed above.

In 2019, the total cash outflow related to leasing was RMB44,407,145, including the cash outflow related to lease liabilities of RMB37,975,870.

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets

The movements of intangible assets in 2019 are as follows:

	Land use right	Software licenses	Patents, license and know-how	Trademarks	Backlog orders and service contracts	Total
Cost						
Closing balance of the prior year	228,873,766	155,956,632	726,361,052	121,466,800	52,924,818	1,285,583,068
Purchase	139,524	15,735,429	11,400	-	-	15,886,353
Transferred from development expenditure	-	-	136,170,842	-	-	136,170,842
Decrease in current year	-	(1,394,548)	-	-	-	(1,394,548)
Exchange realignment	731,748	886,513	12,531,517	6,236,238	1,445,397	21,831,413
Closing balance of the current year	229,745,038	171,184,026	875,074,811	127,703,038	54,370,215	1,458,077,128
Accumulated amortization						
Closing balance of the prior year	41,967,296	105,576,232	240,186,128	22,775,025	52,924,818	463,429,499
Provision	4,387,940	15,248,591	64,625,109	10,398,675	-	94,660,315
Decrease in current year	-	(655,589)	-	-	-	(655,589)
Exchange realignment	-	606,284	3,922,465	1,951,392	1,445,397	7,925,538
Closing balance of the current year	46,355,236	120,775,518	308,733,702	35,125,092	54,370,215	565,359,763
Impairment provision						
Closing and opening balance	-	506,859	146,037,805	-	-	146,544,664
Carrying amount						
Closing balance	<u>183,389,802</u>	<u>49,901,649</u>	<u>420,303,304</u>	<u>92,577,946</u>	<u>-</u>	<u>746,172,701</u>
Opening balance	<u>186,906,470</u>	<u>49,873,541</u>	<u>340,137,119</u>	<u>98,691,775</u>	<u>-</u>	<u>675,608,905</u>

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets (continued)

The movements of intangible assets in 2018 are as follows:

	Land use right	Software licenses	Patents, license and know-how	Trademarks	Backlog orders and service contracts	Total
Cost						
Closing balance of the prior year	228,976,252	119,617,259	686,030,693	122,908,800	53,553,118	1,211,086,122
Purchase	–	36,729,878	1,080,933	–	–	37,810,811
Transferred from development expenditure	–	–	42,133,425	–	–	42,133,425
Decrease in current year	–	(137,769)	–	–	–	(137,769)
Exchange realignment	(102,486)	(252,736)	(2,883,999)	(1,442,000)	(628,300)	(5,309,521)
Closing balance of the current year	<u>228,873,766</u>	<u>155,956,632</u>	<u>726,361,052</u>	<u>121,466,800</u>	<u>52,924,818</u>	<u>1,285,583,068</u>
Accumulated amortization						
Closing balance of the prior year	37,570,589	80,390,424	181,447,502	16,899,960	49,602,480	365,910,955
Provision	4,396,707	25,379,200	59,675,926	6,109,390	3,927,463	99,488,686
Decrease in current year	–	(113,050)	–	–	–	(113,050)
Exchange realignment	–	(80,342)	(937,300)	(234,325)	(605,125)	(1,857,092)
Closing balance of the current year	<u>41,967,296</u>	<u>105,576,232</u>	<u>240,186,128</u>	<u>22,775,025</u>	<u>52,924,818</u>	<u>463,429,499</u>
Impairment provision						
Closing and opening balance	–	506,859	146,037,805	–	–	146,544,664
Carrying amount						
Closing balance	<u>186,906,470</u>	<u>49,873,541</u>	<u>340,137,119</u>	<u>98,691,775</u>	<u>–</u>	<u>675,608,905</u>
Opening balance	<u>191,405,663</u>	<u>38,719,976</u>	<u>358,545,386</u>	<u>106,008,840</u>	<u>3,950,638</u>	<u>698,630,503</u>

As at 31 December 2019 and 31 December 2018, the Group had no land use rights pledged to secured bank borrowings.

The land use rights related to the land located in Mainland China which is held under a term of 40-50 years.

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Development expenditure

The movements of development expenditure in 2019 are as follows:

	Closing balance of prior year	Internal development	Decrease		Closing balance of current year
			Recognized as intangible assets	Recognized in profit or loss	
Research expense	–	1,606,529,489	–	1,606,529,489	–
Development expenditure	<u>188,436,535</u>	<u>153,442,353</u>	<u>136,170,842</u>	<u>–</u>	<u>205,708,046</u>
	<u>188,436,535</u>	<u>1,759,971,842</u>	<u>136,170,842</u>	<u>1,606,529,489</u>	<u>205,708,046</u>

The movements of development expenditure in 2018 are as follows:

	Closing balance of prior year	Internal development	Decrease		Closing balance of current year
			Recognized as intangible assets	Recognized in profit or loss	
Research expense	–	1,442,970,390	–	1,442,970,390	–
Development expenditure	<u>113,520,722</u>	<u>117,049,238</u>	<u>42,133,425</u>	<u>–</u>	<u>188,436,535</u>
	<u>113,520,722</u>	<u>1,560,019,628</u>	<u>42,133,425</u>	<u>1,442,970,390</u>	<u>188,436,535</u>

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Goodwill

As at 31 December 2019

	Closing balance of prior year	Exchange realignment	Closing balance of current year	Impairment provision	Net carrying amount
Dynex Power Inc. ("Dynex")	46,517,958	–	46,517,958	46,517,958	–
Ningbo Times	437,432	–	437,432	–	437,432
Times Electronics	13,333,101	–	13,333,101	–	13,333,101
SMD	593,291,637	13,257,990	606,549,627	203,222,785	403,326,842
	<u>653,580,128</u>	<u>13,257,990</u>	<u>666,838,118</u>	<u>249,740,743</u>	<u>417,097,375</u>

As at 31 December 2018

	Closing balance of prior year	Exchange realignment	Closing balance of current year	Impairment provision	Net carrying amount
Dynex	46,517,958	–	46,517,958	46,517,958	–
Ningbo Times	437,432	–	437,432	–	437,432
Times Electronics	13,333,101	–	13,333,101	–	13,333,101
SMD	566,003,743	27,287,894	593,291,637	131,532,117	461,759,520
	<u>626,292,234</u>	<u>27,287,894</u>	<u>653,580,128</u>	<u>178,050,075</u>	<u>475,530,053</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Goodwill (continued)

The movements of impairment of goodwill are as follows:

	1 January 2019	Provision	Exchange realignment	31 December 2019
Dynex	46,517,958	–	–	46,517,958
SMD	131,532,117	68,000,000	3,690,668	203,222,785
	<u>178,050,075</u>	<u>68,000,000</u>	<u>3,690,668</u>	<u>249,740,743</u>

	1 January 2018	Exchange realignment	31 December 2018
Dynex	46,517,958	–	46,517,958
SMD	125,482,420	6,049,697	131,532,117
	<u>172,000,378</u>	<u>6,049,697</u>	<u>178,050,075</u>

In this year, the Group assessed the recoverable amount of the asset portfolio forming the goodwill of SMD, and determined that the goodwill of SMD was impaired, with the amount of RMB68 million (last year: nil). The main factor of impairment occurred in the asset portfolio is the weak performance of deep-water robot market and the decline of company's sales data. There are no other assets in the asset portfolio that require the provision for impairment.

The recoverable amount of the goodwill of SMD is determined based on present value of the expected future cash flows of the asset portfolio. The management prepares the cash flow prediction for the next five years (the "budget period") based on the latest financial budget assumptions, deduces the cash flow of the subsequent years, and sets the discount rate before tax used to calculate the recoverable amount as 16.0% (2018: 14.5%). A key assumption used in predicting future cash flows is the revenue growth rate in the budget period, which is set to be 2% in the calculation period. Other key assumptions used in predicting future cash flows include a stable gross margin of budget. The gross margin of budget is based on the Company's past performance.

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Long-term prepaid expenses

	1 January 2019	Increase	Amortization	31 December 2019
Lease improvement	<u>31,924,398</u>	<u>7,711,930</u>	<u>4,891,813</u>	<u>34,744,515</u>

	1 January 2018	Increase	Amortization	31 December 2018
Lease improvement	<u>12,396,018</u>	<u>21,707,193</u>	<u>2,178,813</u>	<u>31,924,398</u>

19. Deferred tax assets/liabilities

Recognized deferred tax assets:

	31 December 2019		31 December 2018	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Provision for product quality warranties	803,484,009	121,745,502	671,641,771	100,903,542
Provision for credit loss	477,477,927	71,307,081	337,234,920	50,823,115
Assets impairment provision	155,584,970	24,309,329	217,714,930	36,196,850
Government grant	523,853,408	56,791,459	457,600,893	68,977,426
Unrealized profits from internal transactions	556,790,152	83,518,523	517,058,735	77,558,810
Depreciation differences arising from tax laws and accounting	53,226,116	8,690,061	70,734,444	11,216,610
Deductible losses	173,332,726	32,403,104	137,386,548	27,144,943
Accrued expenses	73,589,313	11,038,711	60,322,294	9,129,159
Unpaid employee benefits accrued	67,531,936	10,129,790	67,791,131	10,186,263
Changes in fair value of financial assets at FVTOCI	64,101,910	9,540,430	23,569,193	3,535,379
Others	11,027,661	1,654,149	13,843,697	2,076,555
	<u>2,960,000,128</u>	<u>431,128,139</u>	<u>2,574,898,556</u>	<u>397,748,652</u>

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Deferred tax assets/liabilities (continued)

Recognized deferred tax liabilities:

	31 December 2019		31 December 2018	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Asset valuation appreciation	230,670,260	43,827,349	245,253,508	47,480,286
Depreciation differences arising from tax laws and accounting	21,754,260	5,764,879	26,395,649	6,994,847
	252,424,520	49,592,228	271,649,157	54,475,133

Deductible losses and deductible temporary differences of unrecognized deferred tax assets are as follows:

	31 December 2019	31 December 2018
Deductible temporary differences	113,699,594	82,492,955
Deductible losses	180,063,740	72,900,423
	293,763,334	155,393,378

Deductible losses of unrecognized deferred tax assets will expire in the following years:

	31 December 2019	31 December 2018
2019	–	10,259,566
2020	431,317	480,208
2021	12,116,962	12,116,962
2022	11,913,401	11,913,401
2029	8,750,182	–
Non-fixed period (Note)	146,851,878	38,130,286
	180,063,740	72,900,423

Note: The deductible losses of the Group's subsidiary CRRC Times Electric (Hong Kong) Co., Ltd. ("HK Electric") and Dynex Power Inc. may be recovered without a fixed term.

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Other non-current assets

	31 December 2019	31 December 2018
Prepayments for acquisition of land use rights	42,831,600	42,831,600
Prepayments for purchase of machinery and equipment	273,439,158	134,303,142
Contract assets	349,113,254	24,088,224
	<u>665,384,012</u>	<u>201,222,966</u>

21. Short-term borrowings

	31 December 2019	31 December 2018
Other borrowing	–	139,296,814
Unsecured loan	146,596,015	28,950,000
	<u>146,596,015</u>	<u>168,246,814</u>

As at 31 December 2019, the annual interest rate of the above borrowings was ranging from 2.50%-3.50% (31 December 2018: 2.15%-3.50%).

22. Bills payable

	31 December 2019	31 December 2018
Commercial acceptance bills	329,539,815	506,281,231
Bank acceptance bills	1,952,805,354	1,843,192,385
	<u>2,282,345,169</u>	<u>2,349,473,616</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Trade payables

Trade payables are listed as follows:

	31 December 2019	31 December 2018
Within 3 months	3,660,957,358	2,523,831,740
3 months to 1 year	307,196,251	368,016,509
1 to 2 years	201,659,803	162,739,683
2 to 3 years	126,575,374	74,371,824
Over 3 years	111,540,053	97,670,109
	4,407,928,839	3,226,629,865
Less: Classified as long-term payables (Note V, 32)	16,517,630	41,525,173
	4,391,411,209	3,185,104,692

The trade payables are non-interest-bearing and generally repaid within 3 months.

24. Contract liabilities

	31 December 2019	31 December 2018
Within 1 year	722,915,442	503,931,074
1 to 2 years	139,804,474	128,621,384
2 to 3 years	26,511,893	9,975,907
Over 3 years	7,136,879	6,809,278
	896,368,688	649,337,643

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Employee benefits payable

Details of employee benefits payable in 2019 are as follows:

	1 January 2019	Increase	Decrease	Exchange realignment	31 December 2019
Short-term benefits	129,791,009	1,941,356,971	1,927,668,161	262,939	143,742,758
Post-employment benefits (Defined contribution plan)	6,049,954	258,273,109	257,915,996	238,583	6,645,650
	<u>135,840,963</u>	<u>2,199,630,080</u>	<u>2,185,584,157</u>	<u>501,522</u>	<u>150,388,408</u>

Details of employee benefits payable in 2018 are as follows:

	1 January 2018	Increase	Decrease	Exchange realignment	31 December 2018
Short-term benefits	45,919,263	1,759,915,033	1,676,101,140	57,853	129,791,009
Post-employment benefits (Defined contribution plan)	1,303,938	231,574,162	226,846,696	18,550	6,049,954
	<u>47,223,201</u>	<u>1,991,489,195</u>	<u>1,902,947,836</u>	<u>76,403</u>	<u>135,840,963</u>

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Employee benefits payable (continued)

Details of short-term benefits in 2019 are as follows:

	1 January 2019	Increase	Decrease	Exchange realignment	31 December 2019
Salaries, bonuses, allowances and subsidies	70,430,343	1,513,849,391	1,513,594,398	262,939	70,948,275
Staff welfare	297,981	71,109,838	71,312,389	-	95,430
Social insurance	816,431	124,517,070	124,341,043	-	992,458
Including: Basic medical insurance	349,389	68,356,432	68,256,329	-	449,492
Supplementary medical insurance	61,177	38,387,775	38,438,228	-	10,724
Work injury insurance	322,673	11,817,204	11,658,724	-	481,153
Maternity insurance	83,192	5,955,659	5,987,762	-	51,089
Housing fund	159,560	107,298,129	106,950,602	-	507,087
Union fund and employee education fund	57,041,073	66,674,498	53,477,247	-	70,238,324
Others	1,045,621	57,908,045	57,992,482	-	961,184
	<u>129,791,009</u>	<u>1,941,356,971</u>	<u>1,927,668,161</u>	<u>262,939</u>	<u>143,742,758</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Employee benefits payable (continued)

Details of short-term benefits in 2018 are as follows:

	1 January 2018	Increase	Decrease	Exchange realignment	31 December 2018
Salaries, bonuses, allowances and subsidies	2,179,991	1,395,634,852	1,327,442,353	57,853	70,430,343
Staff welfare	52,009	65,217,502	64,971,530	–	297,981
Social insurance	493,984	111,395,502	111,073,055	–	816,431
Including: Basic medical insurance	252,976	61,714,080	61,617,667	–	349,389
Supplementary medical insurance	60,710	31,274,546	31,274,079	–	61,177
Work injury insurance	119,708	13,205,985	13,003,020	–	322,673
Maternity insurance	60,590	5,200,891	5,178,289	–	83,192
Housing fund	75,941	99,992,390	99,908,771	–	159,560
Union fund and employee education fund	41,125,893	44,363,385	28,448,205	–	57,041,073
Others	1,991,445	43,311,402	44,257,226	–	1,045,621
	<u>45,919,263</u>	<u>1,759,915,033</u>	<u>1,676,101,140</u>	<u>57,853</u>	<u>129,791,009</u>

Details of defined contribution plan in 2019 are as follows:

	1 January 2019	Increase	Decrease	Exchange realignment	31 December 2019
Basic pension insurance	5,931,051	204,575,931	204,196,042	238,583	6,549,523
Unemployment insurance	47,518	6,114,670	6,076,115	–	86,073
Annuity	71,385	47,582,508	47,643,839	–	10,054
	<u>6,049,954</u>	<u>258,273,109</u>	<u>257,915,996</u>	<u>238,583</u>	<u>6,645,650</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Employee benefits payable (continued)

Details of defined contribution plan in 2018 are as follows:

	1 January 2018	Increase	Decrease	Exchange realignment	31 December 2018
Basic pension insurance	1,122,217	183,437,819	178,647,535	18,550	5,931,051
Unemployment insurance	109,064	5,875,473	5,937,019	–	47,518
Annuity	72,657	42,260,870	42,262,142	–	71,385
	<u>1,303,938</u>	<u>231,574,162</u>	<u>226,846,696</u>	<u>18,550</u>	<u>6,049,954</u>

26. Taxes payable

	31 December 2019	31 December 2018
Corporate income tax	42,149,269	40,102,635
Value-added tax	65,331,545	119,280,489
City maintenance and construction tax and educational surcharges	8,821,572	20,716,486
Individual income tax	27,067,189	68,469,801
Others	9,686,798	8,619,804
	<u>153,056,373</u>	<u>257,189,215</u>

27. Other payables

27.1 Summary of other payables

	31 December 2019	31 December 2018
Dividends payable	–	2,860,000
Interests payable	–	674,302
Other payables	857,451,744	665,537,693
	<u>857,451,744</u>	<u>669,071,995</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Other payables (continued)

27.2 Dividends payable

	31 December 2019	31 December 2018
Investors:		
CRRC Qingdao Sifang Co., Ltd.	-	1,976,000
Qingdao Hongda Schnell Science & Technology Co., Ltd.	-	884,000
	<u>-</u>	<u>2,860,000</u>

27.3 Other payables

(1) Other payables are analyzed by nature as follows:

	31 December 2019	31 December 2018
Deposits and pledges	359,879,287	302,372,983
Amounts due to related companies	206,428,430	173,717,724
Government subsidies to be distributed (Note 1)	73,589,313	60,322,294
Recovery of factoring (Note 2)	193,871,569	114,701,804
Withholding social insurance	19,267,328	12,815,466
Others	4,415,817	1,607,422
	<u>857,451,744</u>	<u>665,537,693</u>

Note 1: Government subsidies to be distributed are all amounts due to related companies.

Note 2: On 23 December 2019, the Group and China Merchants Bank Zhuzhou Branch ("CMB") entered into a transfer contract of trade receivables. The Group derecognised the trade receivables for the Group has lost the right of recourse against the trade receivables and has transferred substantially all the risks and rewards. On 31 December 2019, the Group received from the original debtor the trade receivables, which were presented as other payables.

On 27 December 2018, the Group and China Construction Bank Zhuzhou Branch ("CCB") entered into a transfer contract of trade receivables. The Group derecognised the trade receivables for the Group has lost the right of recourse against the trade receivables and has transferred substantially all the risks and rewards. On 28 December 2018, the Group received from the original debtor the trade receivables, which were presented as other payables.

Notes to the Financial Statements

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Other payables (continued)

27.3 Other payables (continued)

(2) The aging analysis of other payables is as follows:

	31 December 2019	31 December 2018
Within 1 year	543,997,677	377,539,668
1 to 2 years	49,473,269	70,083,440
2 to 3 years	43,716,352	65,397,029
Over 3 years	<u>220,264,446</u>	<u>156,051,858</u>
	<u>857,451,744</u>	<u>669,071,995</u>

28. Non-current liabilities due within one year

	31 December 2019	31 December 2018
Provisions due within one year (Note V, 33)	353,383,129	297,750,776
Lease liabilities due within one year (Note V, 31)	33,272,918	N/A
Long-term borrowings due within one year (Note V, 30)	<u>5,031,066</u>	<u>5,000,000</u>
	<u>391,687,113</u>	<u>302,750,776</u>

Long-term borrowings due within one year are as follows:

	31 December 2019	31 December 2018
Unsecured loans	<u>5,031,066</u>	<u>5,000,000</u>

29. Other current liabilities

	31 December 2019	31 December 2018
VAT collected in advance	<u>112,563,399</u>	<u>—</u>

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. Long-term borrowings

	31 December 2019	31 December 2018
Unsecured loans	235,566,894	237,329,655
Less: Long-term borrowings due within one year (Note V, 28)	5,031,066	5,000,000
	<u>230,535,828</u>	<u>232,329,655</u>

Maturity analysis:

	31 December 2019	31 December 2018
Due within 1 year	5,031,066	5,000,000
Due within 1 to 2 years	147,847,828	5,056,915
Due within 2 to 5 years	15,000,000	154,584,740
Due more than 5 years	67,688,000	72,688,000
	<u>235,566,894</u>	<u>237,329,655</u>

As at 31 December 2019, the annual interest rates of the above borrowings were 1.08%-4.92%(31 December 2018: 1.08%-4.92%).

31. Lease liabilities

	31 December 2019
Lease liabilities	104,784,813
Less: Classified as non-current liabilities due within one year (Note V, 28)	<u>33,272,918</u>
	<u>71,511,895</u>

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Long-term payables

Maturity analysis:

	31 December 2019	31 December 2018
1 to 2 years	16,517,630	24,354,272
Over 2 years	—	17,170,901
	<u>16,517,630</u>	<u>41,525,173</u>

33. Provisions

	1 January 2019	Increase	Decrease	Exchange realignment	31 December 2019
Provision for product quality warranties	671,641,771	709,866,153	578,048,588	24,673	803,484,009
Less: Provisions used up within one year (Note V, 28)					<u>297,750,776</u>
					<u>373,890,995</u>

	1 January 2018	Increase	Decrease	Exchange realignment	31 December 2018
Provision for product quality warranties	554,613,997	711,912,824	594,869,516	(15,534)	671,641,771
Less: Provisions used up within one year (Note V, 28)					<u>297,750,776</u>
					<u>334,208,148</u>

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FOR THE YEAR ENDED 31 DECEMBER 2019
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Deferred income

	31 December 2019	31 December 2018
Government grant related to assets	263,893,303	272,403,248
Government grant related to income	301,547,380	188,797,645
Total	<u>565,440,683</u>	<u>461,200,893</u>
Including: Deferred income amortized within one year	182,736,902	113,142,931

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Deferred income (continued)

In 2019, the government grants are as follows:

	1 January 2019	Increase	Recognized as other income	31 December 2019	Related to asset/ income
Automobile component project	-	150,000,000	-	150,000,000	Income
Research on key technologies of high speed maglev transportation	39,670,000	15,896,900	-	55,566,900	Income
The revamping of high voltage and low voltage IGBT chip module production line	50,000,000	-	-	50,000,000	Asset
Construction of R&D and trial-manufacturing center of IGBT for electric vehicles	50,000,000	-	-	50,000,000	Asset
8-inch IGBT intelligent manufacturing and digital factory construction item	42,000,000	-	-	42,000,000	Asset
Industrial foundation fortification project-production of IGBT module for alternative fuel automobiles	23,340,000	-	-	23,340,000	Asset
SIC single crystal material R & D and industrialization project	-	28,000,000	(6,012,215)	21,987,785	Asset
Maotangao staff dorm building construction project	18,613,718	-	(454,918)	18,158,800	Asset
SIC-based power electronic devices lab & fab construction project (SIC base industrial construction project fund)	17,000,000	-	(3,359,984)	13,640,016	Asset
Research and development of power transmission and control system	10,305,000	808,500	-	11,113,500	Income
8 MW golden sun demonstration project	21,783,334	-	(10,891,667)	10,891,667	Asset
Basic construction compensation	8,379,936	-	(206,912)	8,173,024	Asset
Hunan governmental earmark on the development of mobile internet industry in 2016	5,000,000	-	-	5,000,000	Asset
Construction of intelligent manufacturing works for core components of rolling stock	5,000,000	-	(902,778)	4,097,222	Asset
(Power electronics) research for power electronic devices & built for production line	4,400,000	-	(400,000)	4,000,000	Asset
R&D, industrialization of 6-inch SIC Wafer and application in high power IGBT	7,932,505	-	(5,973,033)	1,959,472	Asset
Photovoltaic power generation comprehensive test system construction project	2,691,667	-	(1,900,000)	791,667	Asset
Industrialization of 200KM EMU AC Drive & network control system and ATP control device	2,691,667	-	(1,900,000)	791,667	Asset
Test platforms of power electronics devices & electric drive systems	937,500	-	(250,000)	687,500	Asset
(Power electronics) integrated manufacturing technology R&D and industrialization of SIC based power electronic devices	77,456,200	-	(77,230,000)	226,200	Income
Guiding funds for transformation of Finance Bureau to industrial structure adjustment	-	35,496,419	(35,496,419)	-	Income
Others	73,999,366	120,411,742	(101,395,845)	93,015,263	Asset/Income
	<u>461,200,893</u>	<u>350,613,561</u>	<u>(246,373,771)</u>	<u>565,440,683</u>	

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FOR THE YEAR ENDED 31 DECEMBER 2019
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Deferred income (continued)

In 2018, the government grants are as follows:

	1 January 2018	Increase	Recognized as other income	31 December 2018	Related to asset/ income
(Power electronics) integrated manufacturing technology R&D and industrialization of devices	73,536,200	3,920,000	-	77,456,200	Income
The revamping of high voltage and low voltage IGBT chip module production line	50,000,000	-	-	50,000,000	Asset
Construction of R&D and trial-manufacturing center of IGBT for electric vehicles	50,000,000	-	-	50,000,000	Asset
8-inch IGBT intelligent manufacturing and digital factory construction item	-	42,000,000	-	42,000,000	Asset
Research on key technologies of high speed maglev transportation	15,800,000	23,870,000	-	39,670,000	Income
8 MW golden sun demonstration project	32,675,000	-	(10,891,666)	21,783,334	Asset
Industrial foundation fortification project-production of IGBT module for alternative fuel automobiles	23,340,000	-	-	23,340,000	Asset
Maotangao staff dorm building construction project	19,068,636	-	(454,918)	18,613,718	Asset
SIC-based power electronic devices lab & fab construction project (SIC base industrial construction project fund)	17,000,000	-	-	17,000,000	Asset
R&D, industrialization of 6-inch SIC wafer and application in high power IGBT	12,000,000	-	(4,067,495)	7,932,505	Asset
Basic construction compensation	8,586,848	-	(206,912)	8,379,936	Asset
Photovoltaic power generation comprehensive test system construction project	4,591,667	-	(1,900,000)	2,691,667	Asset
Industrialization of 200KM EMU AC drive & network control system and ATP control device	4,591,667	-	(1,900,000)	2,691,667	Asset
(Power electronics) research for power electronic devices & built for production line	4,800,000	-	(400,000)	4,400,000	Asset
Construction of intelligent manufacturing works for core components of rolling stock	5,000,000	-	-	5,000,000	Asset
Hunan governmental earmark on the development of mobile internet industry in 2016	5,000,000	-	-	5,000,000	Asset
Test platforms of power electronics devices & electric drive systems	1,187,500	-	(250,000)	937,500	Asset
Manufacturing equipment and complete process of large-scale integrated circuit	-	31,913,800	(31,913,800)	-	Income
Others	88,273,098	67,169,396	(71,138,128)	84,304,366	Asset/Income
	<u>415,450,616</u>	<u>168,873,196</u>	<u>(123,122,919)</u>	<u>461,200,893</u>	

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Share capital

	31 December 2019 & 31 December 2018	
	Carrying amount	Proportion
Registered, issued and paid unrestricted shares:		
State-owned legal person shares	628,147,237	53.44%
Overseas listed foreign shares	547,329,400	46.56%
	<u>1,175,476,637</u>	<u>100.00%</u>

36. Capital reserve

	1 January 2019	Decrease (Note)	31 December 2019
Share premium	3,352,123,130	47,905,592	3,304,217,538
Others	17,663,411	–	17,663,411
	<u>3,369,786,541</u>	<u>47,905,592</u>	<u>3,321,880,949</u>

	31 December 2018 & 1 January 2018
Share premium	3,352,123,130
Others	17,663,411
	<u>3,369,786,541</u>

Note: In March 2019, the Company acquired all 25% of the circulating non-controlling interests of the Dynex (a subsidiary). The relevant equity transfer procedures were completed on 15 March 2019 (Canadian time), and the Dynex delisted on the Toronto Stock Exchange at the end of trading on 19 March 2019 (Canadian time). After the transaction, the Dynex became a wholly-owned subsidiary of the Company. The Group deducted RMB 42,762,468 from capital reserve, which was the excess of consideration paid for the acquisition of minority interests in Dynex over the net asset of Dynex determined based on the shareholding ratio. See Note VII. 2 for details.

In December 2019, the Company increased the capital of its subsidiary Baoji Times by RMB300,000,000 unilaterally. After the increase, the proportion of the Company's equity in Baoji Times increased from 85.80% to 90.15%. Registration of changes in ownership of equity was completed on 30 December 2019. The Group deducted RMB5,143,124 from capital reserve, which was the excess of the consideration paid for capital increase over the share of net assets in Baoji Times determined based on the new obtained shareholding ratio. See Note VII. 2 for details.

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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Other comprehensive income

	1 January 2019 & 31 December 2018	Amount incurred for current year before tax	Less: Previously transferred to OCI but to profit or loss for the current year	Less: Income tax expenses	Attributable to Shareholder of the parent company after tax	Attributable to non-controlling shareholders after tax	31 December 2019
Changes in fair value of financial assets	(19,941,139)	(64,295,083)	(23,569,193)	(6,005,051)	(34,520,711)	(200,128)	(54,461,850)
Exchange realignment	(118,140,714)	31,938,493	-	-	32,286,435	(347,942)	(85,854,279)
	<u>(138,081,853)</u>	<u>(32,356,590)</u>	<u>(23,569,193)</u>	<u>(6,005,051)</u>	<u>(2,234,276)</u>	<u>(548,070)</u>	<u>(140,316,129)</u>

	1 January 2018	Amount incurred for current year before tax	Less: Previously transferred to OCI but to profit or loss for the current year	Less: Income tax expenses	Attributable to Shareholder of the parent company after tax	Attributable to non-controlling shareholders after tax	31 December 2018
Changes in fair value of financial assets	(13,384,000)	(21,049,193)	(13,384,000)	(1,148,379)	(6,557,139)	40,325	(19,941,139)
Exchange realignment	(116,467,835)	(2,281,980)	-	-	(1,672,879)	(609,101)	(118,140,714)
	<u>(129,851,835)</u>	<u>(23,331,173)</u>	<u>(13,384,000)</u>	<u>(1,148,379)</u>	<u>(8,230,018)</u>	<u>(568,776)</u>	<u>(138,081,853)</u>

38. Special reserve

	1 January 2019	Increase in the year	Decrease in the year	31 December 2019
Safety production reserve	<u>12,070,105</u>	<u>42,480,748</u>	<u>37,040,881</u>	<u>17,509,972</u>

	1 January 2018	Increase in the year	Decrease in the year	31 December 2018
Safety production reserve	<u>13,569,337</u>	<u>30,613,239</u>	<u>32,112,471</u>	<u>12,070,105</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Surplus reserve

	1 January 2019	Increase in appropriation to surplus reserve in 2019 (Note 1)	31 December 2019
Statutory surplus reserve	<u>1,801,776,624</u>	<u>270,381,434</u>	<u>2,072,158,058</u>

	1 January 2018	Increase in 2018			31 December 2018
		Consolidation of holly-owned subsidiaries (Note 2)	Loss of control due to the capital increase by minority shareholders (Note 3)	Appropriation to surplus reserve (Note 1)	
Statutory surplus reserve	<u>1,598,210,193</u>	<u>9,347,986</u>	<u>29,207</u>	<u>194,189,238</u>	<u>1,801,776,624</u>

Note 1: According to the Company Law and the Company's articles of association, the Company is required to transfer 10% of its net profit to the statutory surplus reserve. After statutory surplus reserve is accrued, discretionary surplus reserve can be accrued accordingly, which can be used to make up for the annual losses of previous years or increase equity in accordance upon approval.

Note 2: The Company merged Zhuzhou CRRC Times Equipment Technology Co., Ltd. ("Times Equipment"), a wholly-owned subsidiary, therefore, the charged surplus reserve of Times Equipment among the retained earnings was transferred to the Company's surplus reserve.

Note 3: Because of loss of control due to the capital increase by minority shareholders, the Group accounted its investment in Wenzhou Electric under equity method and adjusted the Group's surplus reserve and retained earnings.

40. Retained earnings

	2019	2018
Retained earnings at the end of prior year	13,603,735,926	11,723,779,095
Add: Net profit attributable to shareholders of the Parent	2,659,163,867	2,612,487,749
Less: Appropriation to statutory surplus reserve (Note V. 39, Note 1)	270,381,434	194,189,238
Cash dividends paid (Note 1)	528,964,487	528,964,487
Other decreases (Note V. 39, Note 2)	—	9,347,986
Loss of control due to the capital increase by non-controlling shareholders (Note V. 39, Note 3)	—	29,207
Retained earnings at the end of the year	<u>15,463,553,872</u>	<u>13,603,735,926</u>

Note 1: The 2018 scheme of profit distribution proposal of the Company has been reviewed and approved in the 2018 Annual General Meeting held on 20 June 2019, pursuant to which a final dividend of RMB0.45 (including tax) was paid on each of the 1,175,476,637 shares in issue, amounting to a total cash dividend of RMB528,964,487.

According to the resolution of the board of directors on 27 March 2020, the board of directors recommends to distribute cash dividends of RMB0.45 per share (including tax) to the whole shareholders of the Company. Based on the total amount of 1,175,476,637 shares, the proposed cash dividends distribution of the Company is RMB528,964,487. The above proposal is subject to the approval of the general meeting of shareholders. Prior to the approval, there will be no liability assumed so it is not presented in the financial statement.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Revenue and cost of sales

(1) Revenue is stated as follows:

	2019	2018
Revenue from principal operations	16,199,727,068	15,577,537,986
Other operating income	104,479,723	80,362,748
	16,304,206,791	15,657,900,734

(2) Details of revenue are listed as follows:

	2019	2018
Revenue from sale of goods and materials	14,229,595,103	13,816,482,670
Maintenance income	1,463,861,871	1,300,295,748
Revenue from construction contracts	451,937,995	419,580,079
Technical service income	130,385,765	95,614,948
Lease income	17,859,559	13,272,962
Other operating income	10,566,498	12,654,327
	16,304,206,791	15,657,900,734

(3) Significant performance obligations:

Sales of goods and materials

The Group principally engages in sales of on-board electric system and components. The Group recognizes revenue at the timing that the customer obtains control over the goods. The Group mainly adopts land transportation and recognizes revenue upon receipts and approval of the goods as qualified by the customer.

Prepayments received by the customer before delivery of electric equipment and goods are recognized as contract liabilities in the consolidated financial statements. The sales course of electric equipment has no significant financing component and right of return existed.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Revenue and cost of sales (continued)

(3) Significant performance obligations: (continued)

Maintenance income

The Group's repair and maintenance business is mainly to repair and maintain on-board electric system and components. The Group recognizes revenue using input method based on performance progress during the performance of obligation of repair and maintenance.

Revenue from construction contract

The Group's revenue from construction contract mainly arises from production of marine engineering products such as deep-water robot. The Group adopts marine transportation and recognizes revenue upon receipts and approval of the goods as qualified by the customer.

Prepayments received by the customer before delivery of marine engineering products are recognized as contract liabilities in the consolidated financial statements. The sales course of marine engineering products has no significant financing component and right of return existed.

(4) Cost of sales is stated as follows:

	2019	2018
Cost of sales from principal operations	9,884,232,716	9,760,772,450
Other operating cost	81,494,734	29,474,416
	<u>9,965,727,450</u>	<u>9,790,246,866</u>

42. Tax and surcharges

	2019	2018
City maintenance and construction tax	62,220,993	55,474,722
Educational surcharges	45,915,128	40,138,735
Others	42,556,056	35,819,407
	<u>150,692,177</u>	<u>131,432,864</u>

43. Administrative expenses

In 2019, the administrative expenses included the auditors' remuneration of RMB3,980,000 (2018: RMB3,069,811).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

44. Finance costs

	2019	2018
Interest expenses (Note)	25,886,618	8,250,383
Less: Capitalised interests	346,849	667,413
Interest income	(28,727,953)	(40,238,077)
Exchange gains	7,220,835	431,380
Service charges of financial institutions	8,257,532	9,152,080
Cash discount income, etc	(7,854,258)	(1,523,993)
	<u>4,435,925</u>	<u>(24,595,640)</u>

Note: Interest expenses include interest expenses arising from lease liabilities amounting to RMB5,154,482 (2018: not appropriate) and factoring expenses amounting to RMB8,531,821 (2018: nil).

45. Other income

	2019	2018
Refunds of VAT	204,120,757	255,572,840
Technology project fund	134,167,181	93,193,255
Government rewards	112,206,590	29,526,884
	<u>450,494,528</u>	<u>378,292,979</u>

46. Investment income

	2019	2018
Income from non-listed investments:		
Long-term equity investments losses under the equity method	(11,958,641)	(5,211,103)
Investment income on disposal of held-for-trading financial assets	106,887,877	84,973,649
Losses from forward foreign exchange contracts	–	(116,303)
Investment income on disposal of equity instruments	51,084	–
	<u>94,980,320</u>	<u>79,646,243</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47. Gains on fair value changes

	2019	2018
Held-for-trading financial assets – Gains on fair value changes	<u>5,776,761</u>	<u>–</u>

48. Credit impairment losses

	2019	2018
Credit impairment losses of bills receivable	(41,230,552)	61,669,115
Credit impairment losses of trade receivables	202,791,434	(54,159,841)
Credit impairment losses of other receivables	1,792,977	(7,472,675)
Credit impairment losses of contract assets	27,361	4,323,756
Credit impairment losses of other non-current assets	<u>6,433,128</u>	<u>849,653</u>
	<u>169,814,348</u>	<u>5,210,008</u>

49. Asset impairment losses

	2019	2018
Impairment losses of goodwill	68,000,000	–
Loss from decline in value of inventories	<u>17,706,513</u>	<u>(104,020,818)</u>
	<u>85,706,513</u>	<u>(104,020,818)</u>

50. Gains/(losses) on disposal of non-current assets

	2019	2018
Gains on disposal of non-current assets	–	1,800,039
Losses on disposal of non-current assets	<u>(272,649)</u>	<u>(387,661)</u>
	<u>(272,649)</u>	<u>1,412,378</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51. Non-operating income

	2019	2018
Income from insurance claims	24,738,189	2,902,805
Penalty income and default compensation income	2,399,720	4,244,448
Unsettled payment	3,473	7,680,633
Government grant	–	402,780
Others	6,310,924	11,084,037
	<u>33,452,306</u>	<u>26,314,703</u>

52. Non-operating expenses

	2019	2018
Penalty expenses	167,698	230,767
Default compensation	–	406,656
Losses from assets retirement	–	338,871
Abnormal losses	1,235,018	582,645
Others	722,222	518,022
	<u>2,124,938</u>	<u>2,076,961</u>

53. Expenses by nature

The supplementary information to cost of sales, selling expenses, administrative expenses and research and development expenses of the Group classified by nature is as follows:

	2019	2018
Consumption of raw materials and semi-finished products	7,939,141,831	7,417,000,773
Inventory movements of finished goods and work in progress	159,338,600	441,480,222
Employee benefits	2,199,630,080	1,991,489,195
Depreciation of fixed assets	379,920,238	319,532,096
Depreciation of right-of-use assets	37,720,242	–
Amortization of intangible assets	94,660,315	99,488,686
Amortization of long-term prepaid expenses	4,891,813	2,178,813
Provision for product quality warranties	709,866,153	711,912,824
Research and development expenses	<u>1,606,529,489</u>	<u>1,442,970,390</u>

Notes to the Financial Statements

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Income tax expenses

	2019	2018
Current income tax expenses		
– Mainland China	305,739,660	348,348,417
– Other countries and regions	2,968,302	2,426,817
	308,707,962	350,775,234
Deferred tax expenses	(33,654,536)	(34,179,520)
	275,053,426	316,595,714

The relationship between income tax expenses and total profit is as follows:

	2019	2018
Total profit	2,932,612,787	2,967,130,929
Income tax expenses at statutory tax rate of 25% (Note)	733,153,197	741,782,732
Effect of different income tax rates for overseas entities	15,490,802	1,990,897
Effect of preferential tax rate applicable to the Company and its certain subsidiaries	(353,633,725)	(340,133,570)
Profits and losses attributable to associates and joint ventures	2,017,870	(718,020)
Income not subject to tax	(1,446,372)	(2,332,903)
Additional deduction on research and development expenses	(149,696,254)	(90,399,586)
Expenses not deductible for tax	19,323,168	12,877,354
Deductible temporary differences not recognised and deductible losses	33,125,333	3,272,060
Utilization of deductible temporary differences not recognised in the prior years and deductible losses	(11,365,356)	(12,112,032)
Difference on annual tax return of enterprise income tax	(10,273,103)	2,725,878
Others	(1,642,134)	(357,096)
Tax expenses at the Group's effective tax rate	275,053,426	316,595,714

Note: The income tax of the Group is calculated based on the estimated taxable income gained in China and the applicable tax rate. Tax arising from taxable income in other regions is calculated at applicable tax rates according to existing laws, interpretations and practices of the countries in which the Group operates.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the period attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares in issue.

The calculation of basic earnings per share is as follows:

	2019	2018
Income		
Net profit for the period attributable to ordinary shareholders of the Company	<u>2,659,163,867</u>	<u>2,612,487,749</u>
Shares		
Weighted average number of ordinary shares in issue of the Company	<u>1,175,476,637</u>	<u>1,175,476,637</u>
Basic earnings per share (Yuan/Share)	<u>2.26</u>	<u>2.22</u>
Diluted earnings per share (Yuan/Share)	<u>N/A</u>	<u>N/A</u>

The Company did not have potentially diluted ordinary shares as at the approval date of these financial statements.

Notes to the Financial Statements

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

56. Supplementary information to statement of cash flows

(1) Supplementary information to statement of cash flows

	2019	2018
Reconciliation of Net Profit to Cash Flow from Operating Activities:		
Net profit	2,657,559,361	2,650,535,215
Add: Asset impairment losses	85,706,513	(104,020,818)
Credit impairment losses	169,814,348	5,210,008
Depreciation of fixed assets	379,920,238	319,532,096
Depreciation of right-of-use assets	37,720,242	N/A
Amortization of intangible assets	94,660,315	99,488,686
Increase (decrease) in special reserve	7,322,718	(1,187,806)
Amortisation of long-term prepaid expenses	4,891,813	2,178,813
Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	272,649	(1,412,378)
Finance costs	25,539,769	7,582,970
Investment income	(94,980,320)	(79,646,243)
Gains on fair value changes	(5,776,761)	-
Increase in deferred tax assets	(28,771,631)	(24,951,734)
Decrease in deferred tax liabilities	(4,882,905)	(15,660,877)
Decrease (increase) in inventories	(674,250,511)	506,762,463
Decrease (increase) in receivables under operating activities	(2,481,773,932)	160,831,640
Increase in payables under operating activities	1,664,977,629	233,321,167
Net Cash Flow from Operating Activities	<u>1,837,949,535</u>	<u>3,758,563,202</u>

Net movement in cash and cash equivalents:

	2019	2018
Closing balance of cash	4,244,080,658	4,381,012,798
Less: Opening balance of cash	<u>4,381,012,798</u>	<u>3,422,194,522</u>
Net (decrease) increase in cash and cash equivalents	<u>(136,932,140)</u>	<u>958,818,276</u>

Notes to the Financial Statements

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Renminbi Yuan

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

56. Supplementary information to statement of cash flows (continued)

(2) Cash and cash equivalents

	31 December 2019	31 December 2018
Cash		
Including: Cash on hand	37,683	61,065
Bank deposits on demand	4,212,042,975	4,345,951,733
Time deposits	<u>32,000,000</u>	<u>35,000,000</u>
Closing balance of cash and cash equivalents	<u><u>4,244,080,658</u></u>	<u><u>4,381,012,798</u></u>

57. Asset with restrictions on ownership or use right

	31 December 2019	31 December 2018
Pledged cash and bank balances	13,406,534	13,366,352
Notes receivable endorsed or discounted and not yet due at the balance sheet date	66,053,518	128,819,890
Right-of-use assets	<u>106,551,628</u>	<u>N/A</u>

Note: As at 31 December 2019, the cash and bank balances of RMB13,406,534 (31 December 2018: RMB 13,366,352) were used as security deposits by the Group for issuance of letters of guarantee from banks.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

VI. CHANGES IN SCOPE OF CONSOLIDATION

1. Establishment of subsidiary

In January 2019, the Company established Zhuzhou CRRC Times Semiconductor Co., Ltd. ("Times Semiconductor"), a wholly-owned subsidiary, with a registered capital of RMB300 million. The industrial and commercial registration has been completed on 18 January 2019.

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of subsidiaries of the Company are as follows:

Name of company	Place of registration/ Principal place of business	Registered capital	Nature of business	Proportion of shareholding		Proportion of voting
				Direct	Indirect	
Subsidiaries newly established or invested						
Ningbo Times	Ningbo, Zhejiang #1	RMB148,826,200	Manufacturing	100%	–	100%
Times Electronics	Zhuzhou, Hunan #2	RMB80,000,000	Manufacturing	100%	–	100%
Shenyang Times	Shenyang, Liaoning #2	RMB56,000,000	Manufacturing	100%	–	100%
Baoji Times	Baoji, Shanxi #3	RMB406,136,600	Manufacturing	90.15%	–	90.15%
Taiyuan CRRC Time Track Construction Machinery Co., Ltd. ("Taiyuan Times") (Note 1)	Taiyuan, Shanxi #4	RMB50,000,000	Manufacturing	–	55%	55%
Kunming CRRC Times Electric Equipment Co., Ltd. ("Kunming Electric")	Kunming, Yunnan #2	RMB55,000,000	Manufacturing	100%	–	100%
Hangzhou CRRC Times Electric Equipment Co., Ltd. ("Hangzhou Electric")	Hangzhou, Zhejiang #5	RMB75,000,000	Manufacturing	60%	–	60%
Guangzhou CRRC Times Electric Technology Co., Ltd. ("Guangzhou Times")	Guangzhou, Guangdong #6	RMB30,000,000	Manufacturing	60%	–	60%
CRRC Times Electric (Hong Kong) Co., Ltd. ("HK Electric")	Hong Kong	HKD856,952,000	Investment holding	100%	–	100%
Ningbo CRRC Times Electrical Equipment Co., Ltd. ("Ningbo Electric")	Ningbo, Zhejiang #7	RMB10,000,000	Manufacturing	100%	–	100%
Chengdu CRRC Times Electric Technology Co., Ltd. ("Chengdu Electric")	Chengdu, Sichuan #6	RMB30,000,000	Manufacturing	100%	–	100%
Qingdao Electric	Qingdao, Shandong #4	RMB100,000,000	Manufacturing	45%	–	45%
Shanghai CRRC Rail Transit Technology Co., Ltd. ("Shanghai CRRC Rail Transit")	Shanghai #6	RMB50,000,000	Manufacturing	51%	–	51%
Times Software	Zhuzhou, Hunan #8	RMB100,000,000	Software service	100%	–	100%
Times Signal & Communication	Changsha, Hunan #2	RMB229,000,000	Manufacturing	100%	–	100%
Lanzhou CRRC Times Rail Transit Technology Co., Ltd. ("Lanzhou Times")	Lanzhou, Gansu #5	RMB50,000,000	Manufacturing	51%	–	51%
Specialist Machine Developments (Shanghai) Co., Ltd. ("Shanghai SMD")	Shanghai #9	Manufacturing	Manufacturing	100%	–	100%
CRRC Times Electric Australia Pty. Ltd. ("Times Australia")	Australia	AUD290,000	Trading	100%	–	100%
CRRC Times Electric USA, LLC ("Times USA")	USA	USD430,000	Trading	100%	–	100%
CRRC Times Electric Brasil Ltda. ("Times Brasil")	Brazil	USD741,820	Trading	99%	1%	100%
Times Semiconductor (Note VI.1)	Zhuzhou, Hunan #2	RMB300,000,000	Manufacturing	100%	–	100%

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

Name of company	Place of registration/ Principal place of business	Registered capital	Nature of business	Proportion of shareholding		Proportion of voting
				Direct	Indirect	
Subsidiaries acquired by business combination not involving entities under common control						
Dynex (Note 2)	Canada	CAD37,096,192	Investment holding	100%	–	100%
Dynex Semiconductor Limited (“Dynex Semiconductor”)	United Kingdom	GBP15,000,000	Manufacturing	–	100%	100%
SMD	United Kingdom	GBP44,049,014	Investment holding	–	100%	100%
Soil Machine Dynamics Limited	United Kingdom	GBP100	Manufacturing	–	100%	100%
SMD Offshore Support Limited	United Kingdom	GBP2	Trading	–	100%	100%
Soil Machine Dynamics USA LLC	USA	USD0	Trading	–	100%	100%
SMD Robotics Limited	United Kingdom	GBP1	Trading	–	100%	100%
Soil Machine Dynamics Singapore Pte. Ltd.	Singapore	SGD1	Manufacturing	–	100%	100%
SMD do Brasil Ltd.	Brazil	BRL100	Trading	–	100%	100%
Subsidiaries acquired by business combination involving entities under common control						
ZNERCC	Zhuzhou, Hunan ^{# 2}	RMB273,000,000	Manufacturing	100%	–	100%
Shanghai CNR Yongdian Electronic Technology Co., Ltd. (“Shanghai Yongdian”)	Shanghai ^{# 10}	RMB60,000,000	Manufacturing	100%	–	100%

- # 1 Limited liability company (wholly-owned by the legal person)
2 Limited liability company (wholly-owned by a non-natural person)
3 Limited liability company (other)
4 Other limited liability company
5 Limited liability company
6 Limited liability company (foreign investment enterprise and domestic enterprise)
7 Limited liability company (invested by a foreign investment enterprise)
8 Limited liability company (wholly-owned by a natural person)
9 One-person limited liability company (wholly-owned by the legal person)
10 Limited liability company (foreign investment enterprise wholly-owned by the legal person)

Note 1: In December 2018, one of the Group’s subsidiaries, Baoji Times set up a company Taiyuan Times with CRRC Taiyuan Co., Ltd.. The share capital of Taiyuan Times is RMB50,000,000. In January 2019, the Group and the non-controlling shareholder paid the share capital, resulting in the Group owned 55% shares of Taiyuan Times and over half seat of the board. Therefore, the Group owns Taiyuan Times.

Note 2: In March 2019, the Company acquired all 25% of the circulating non-controlling interests of the Dynex (a subsidiary). The relevant equity transfer procedures were completed on 15 March 2019 (Canadian time), and the Dynex delisted on the Toronto Stock Exchange at the end of trading on 19 March 2019 (Canadian time). After the transaction, the Dynex became a wholly-owned subsidiary of the Company. See Note VII. 2 for details.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

Subsidiaries with significant non-controlling interests are as follows:

2019

	Proportion of non-controlling interest	Profits attributable to non-controlling shareholders	Dividends paid to non-controlling shareholders	Accumulated non-controlling interests
Baoji Times	<u>9.85%</u>	<u>(1,244,701)</u>	<u>(12,691,761)</u>	<u>84,816,144</u>

2018

	Proportion of non-controlling interest	Profits attributable to non-controlling shareholders	Dividends paid to non-controlling shareholders	Accumulated non-controlling interests
Baoji Times	<u>14.20%</u>	<u>23,503,261</u>	<u>(12,780,000)</u>	<u>91,120,080</u>

The table below demonstrates main financial information of the subsidiaries above. The information demonstrated is before offsetting the transaction amounts and carrying amounts with other entities within the Group:

Baoji Times

	As at 31 December 2019	As at 31 December 2018
Current assets	<u>2,580,449,571</u>	2,431,437,237
Non-current assets	<u>259,048,105</u>	<u>185,098,077</u>
Total assets	<u>2,839,497,676</u>	<u>2,616,535,314</u>
Current liabilities	<u>1,961,780,520</u>	1,974,716,524
Non-current liabilities	<u>12,859,925</u>	<u>128,083</u>
Total liabilities	<u>1,974,640,445</u>	<u>1,974,844,607</u>
	2019	2018
Revenue	<u>2,065,987,290</u>	2,720,223,956
Net profit	<u>(14,059,632)</u>	165,515,922
Total comprehensive income	<u>(13,455,550)</u>	164,863,279
Net Cash Flow from Operating Activities	<u>(19,667,953)</u>	33,540,140

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Transactions in which the share of owners' equity in a subsidiary is changed but the subsidiary is still under control

(1) Description of changes in the share of owners' equity in subsidiaries

In March 2019, the Company acquired all 25% of the circulating non-controlling interests of the Dynex (a subsidiary). The relevant equity transfer procedures were completed on 15 March 2019 (Canadian time), and the Dynex delisted on the Toronto Stock Exchange at the end of trading on 19 March 2019 (Canadian time). After the transaction, the Dynex became a wholly-owned subsidiary of the Company. The Group deducted RMB 42,762,468 from capital reserve, which was the excess of consideration paid for the acquisition of minority interests in Dynex over the net asset of Dynex determined based on the shareholding ratio.

In December 2019, the Company increased the capital of its subsidiary Baoji Times by RMB300,000,000 unilaterally. After the increase, the proportion of the Company's equity in Baoji Times increased from 85.80% to 90.15%. Registration of changes in ownership of equity was completed on 30 December 2019. The Group deducted RMB5,143,124 from capital reserve, which was the excess of the consideration paid for capital increase over the share of net assets in Baoji Times determined based on the new obtained shareholding ratio.

(2) Effect of transactions on non-controlling interests and owners' equity attributable to the parent company

Item	Dynex	Baoji Times
Cost of purchase		
– Cash	<u>65,938,492</u>	<u>300,000,000</u>
Total cost of purchase	<u>65,938,492</u>	<u>300,000,000</u>
Less: Share of net assets of subsidiaries calculated according to the proportion of equity acquired	<u>23,176,024</u>	<u>294,856,876</u>
Differences	<u>42,762,468</u>	<u>5,143,124</u>
Including: deduction from capital reserve	<u>42,762,468</u>	<u>5,143,124</u>

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VII. INTERESTS IN OTHER ENTITIES (continued)

3. Interests in joint ventures and associates

	Place of registration/ Principal place of business	Nature of business	Registered capital	Proportion of shareholding		Accounting method
				Direct	Indirect	
Joint ventures						
Shiling	Zhuzhou, Hunan	Manufacturing	USD14,000,000	50%	–	Equity method
Wenzhou Electric	Wenzhou, Zhejiang	Manufacturing	RMB30,600,000	50%	–	Equity method
Shanghai Shentong CRRC	Shanghai	R&D and technical service industry	RMB10,000,000	50%	–	Equity method
Associates						
CRRC Hofer	Wuxi, Jiangsu	Manufacturing	EUR 40,000,000	–	49%	Equity method
Zhuzhou Siemens	Zhuzhou, Hunan	Manufacturing	RMB128,989,000	30%	–	Equity method
Guoxin Technology	Zhuzhou, Hunan	Manufacturing	RMB500,000,000	25%	–	Equity method
CRRC Wabtec	Changsha, Hunan	Manufacturing	RMB32,500,000	50%	–	Equity method
Zhirui Semiconductor	Wuhan, Hubei	Manufacturing	RMB300,000,000	47%	–	Equity method

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VII. INTERESTS IN OTHER ENTITIES (continued)

3. Interests in joint ventures and associates (continued)

The table below demonstrates the key financial information of a significant joint venture Shiling, in which all accounting differences have been adjusted to the carrying amount of the financial statements:

	31 December 2019	31 December 2018
Current assets	456,692,710	417,867,139
Including: Cash and bank balances	315,171,467	281,281,951
Non-current assets	50,357,527	55,227,543
Total assets	507,050,237	473,094,682
Current liabilities	84,113,527	50,763,978
Total liabilities	84,113,527	50,763,978
Net assets	422,936,710	422,330,704
Net assets portion based on shareholding	208,663,918	208,360,915
Less: Unrealized profit of downstream trading	-	-
Carrying amount of investment	208,663,918	208,360,915
	2019	2018
Revenue	332,529,558	146,838,798
Income tax expenses	-	266,358
Net profit	606,006	422,847
Total comprehensive income	606,006	422,847
Dividends received (Note)	-	5,500,000

Note: In 2019, no dividends were distributed by Shiling to the Company (2018: RMB5,500,000, and such dividends receivable had been recovered in 2018).

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VII. INTERESTS IN OTHER ENTITIES (continued)

3. Interests in joint ventures and associates (continued)

The table below demonstrates the financial information summary of joint ventures and associates that are individually insignificant to the Group:

	2019	2018
Total carrying amount of investment	318,377,211	255,656,564
Total amounts based on shareholding		
Net loss	(12,261,644)	(5,422,527)
Total comprehensive income	(9,054,353)	(5,419,812)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

As at 31 December 2019

Assets

	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Cash and bank balances	4,302,487,192	–	–	4,302,487,192
Held-for-trading financial assets	–	4,905,776,761	–	4,905,776,761
Bills receivable	2,726,110,422	–	–	2,726,110,422
Trade receivables	7,413,964,722	–	–	7,413,964,722
Trade receivables financing	–	–	2,554,953,370	2,554,953,370
Other receivables	106,498,054	–	–	106,498,054
Other current assets	100,000,000	–	–	100,000,000
Contract assets	185,348,674	–	–	185,348,674
Other non-current assets	349,113,254	–	–	349,113,254
Other equity instrument investment	–	–	2,400,000	2,400,000
	<u>15,183,522,318</u>	<u>4,905,776,761</u>	<u>2,557,353,370</u>	<u>22,646,652,449</u>

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

Liabilities

	Financial liabilities at amortized cost
Short-term borrowings	146,596,015
Bills payable	2,282,345,169
Trade payables	4,391,411,209
Other payables	857,451,744
Long-term borrowings (including long-term borrowings due within one year)	235,566,894
Lease liabilities (including lease liabilities due within one year)	104,784,813
Long-term payables	16,517,630
	<u>8,034,673,474</u>

As at 31 December 2018

Assets

	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Cash and bank balances	4,394,379,150	–	–	4,394,379,150
Held-for-trading financial assets	–	1,603,855,068	–	1,603,855,068
Bills receivable	3,508,440,870	–	–	3,508,440,870
Trade receivables	6,485,964,593	–	–	6,485,964,593
Trade receivables financing	–	–	1,030,920,086	1,030,920,086
Other receivables	106,146,467	–	–	106,146,467
Other current assets	2,634,610,548	–	–	2,634,610,548
Other equity instrument investment	–	–	900,000	900,000
	<u>17,129,541,628</u>	<u>1,603,855,068</u>	<u>1,031,820,086</u>	<u>19,765,216,782</u>

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

Liabilities

	Financial liabilities at amortized cost
Short-term borrowings	168,246,814
Bills payable	2,349,473,616
Trade payables	3,185,104,692
Other payables	669,071,995
Long-term borrowings (including long-term borrowings due within one year)	237,329,655
Long-term payables	41,525,173
	<u>6,650,751,945</u>

Transferred financial assets that are not derecognized in their entirety

As at 31 December 2019, the Group endorsed specific bank acceptance bills or commercial acceptance bills with a carrying amount of RMB66,053,518 (31 December 2018: RMB128,819,890) to certain of its suppliers in order to settle the trade payables. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such bills receivable. Accordingly, it continued to recognize the full carrying amounts of the settled trade payables.

Transferred financial assets that are derecognized in their entirety with continuing involvement

As at 31 December 2019, the Group endorsed specific bank acceptance bills with a carrying amount of RMB188,449,023 (31 December 2018: RMB237,129,183) to certain of its suppliers in order to settle the trade payables. At 31 December 2019, the specific acceptance bills had a maturity of one to eleven months. In accordance with the Bill Law of the People's Republic of China, the holders of the specific bank acceptance bills have a right of recourse against the Group if the PRC banks default. The management is of the opinion that the Group has transferred substantially all risks and rewards, therefore, the specific bank acceptance bills were derecognized. In 2019, the Group has not recognized any gain or loss on the date of transfer of the specific bank acceptance bills. The endorsement has been made evenly throughout the year.

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks

The Group's principal financial instruments, other than derivative instruments, comprise cash and bank balances, held-for-trading financial assets, bills receivable, trade receivables, trade receivables financing, other receivables, other current assets and other non-current assets, bills payable, trade payables, other payables, borrowings, and long-term payables, etc. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as the trade receivables and trade payables, which arise directly from its operations.

The Group also conducts derivative transactions, mainly including forward foreign exchange settlement and sale, aiming at managing the exchange rate risk from the operation of the Group. During the entire period, the Group implements the policy of not conducting derivative instrument speculating transactions.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and market risk. In this regard, the Group's risk management policies are outlined below.

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and bank balances, held-for-trading financial assets, other receivables and other current assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The major customers of the Group are the subsidiaries of CRRC Corporation Limited as well as other state-owned enterprises and institutions in the railway transportation industry. Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 31 December 2019, the Group had certain concentrations of credit risk as 6.85% (31 December 2018: 16.46%) and 23.49% (31 December 2018: 37.50%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Principles for assessing whether the credit risk has increased significantly since the initial recognition, basis for determining the financial impairment of financial assets, the method of using financial instruments to assess expected credit risk and the direct write down method are listed in Note III, 9.2.

As part of the Group's credit risk management, the group uses the aging of trade receivables to assess the impairment losses of trade receivables and contract assets for different portfolios of customers. This type of business involves a large number of customers, which with the same risk characteristics, and the aging information can reflect the solvency of them when the trade receivables expire.

The above-mentioned expected average loss rate is based on historical actual bad debt rate and takes current conditions and forecasts of future economic conditions into consideration. In 2019, the group's assessment methods and major assumptions have not changed.

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks (continued)

Credit risk (continued)

Credit risk exposures of the Group's financial assets and other items are detailed as follows:

As at 31 December 2019

	12-month ECL	Lifetime ECL (Non-credit- impaired)	Lifetime ECL (Credit- impaired)	Carrying amount at 31 December 2019
Financial assets at amortized cost:				
Cash and bank balances	4,302,487,192	–	–	4,302,487,192
Bills receivable	2,746,548,985	–	–	2,746,548,985
Trade receivables	–	6,874,126,339	982,862,521	7,856,988,860
Other receivables	109,862,783	–	–	109,862,783
Contract assets	–	189,749,055	–	189,749,055
Other current assets	100,000,000	–	–	100,000,000
Other non-current assets	–	356,396,035	–	356,396,035
Financial assets at FVTOCI				
Trade receivables financing	2,554,953,370	–	–	2,554,953,370

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks (continued)

Credit risk (continued)

As at 31 December 2018

	12-month ECL	Lifetime ECL (Non-credit- impaired)	Lifetime ECL (Credit- impaired)	Carrying amount at 31 December 2018
Financial assets measured at amortized cost:				
Cash and bank balances	4,394,379,150	–	–	4,394,379,150
Bills receivable and Trade receivables	3,570,109,985	6,300,043,101	453,759,532	10,323,912,618
Other receivables	108,783,220	–	–	108,783,220
Contract assets	–	197,422,222	–	197,422,222
Other current assets	2,634,610,548	–	–	2,634,610,548
Other non-current assets	–	24,937,877	–	24,937,877
Financial assets at FVTOCI				
Other current assets	<u>854,151,906</u>	<u>176,768,180</u>	<u>–</u>	<u>1,030,920,086</u>

Liquidity risk

The Group monitors its risk of shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and expected cash flows from the Group's operations.

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of various financing means, such as bills settlement and bank borrowings. The Group has obtained banking facilities from several commercial banks to meet working capital requirements and capital expenditures.

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks (continued)

Liquidity risk (continued)

The Group's management monitors the liquidity position of the Group on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the Group's financial resources.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at 31 December 2019

	Within 1 year	1 to 2 years	Over 2 years	Total	Carrying amount
Short-term borrowings	148,781,940	–	–	148,781,940	146,596,015
Bills payable	2,282,345,169	–	–	2,282,345,169	2,282,345,169
Trade payables	4,391,411,209	–	–	4,391,411,209	4,391,411,209
Other payables	857,451,744	–	–	857,451,744	857,451,744
Long-term borrowings (including long-term borrowings due within 1 year)	9,545,057	147,847,828	82,688,000	240,080,885	235,566,894
Lease liabilities (including lease liabilities due within 1 year)	38,029,337	26,011,303	54,742,619	118,783,259	104,784,813
Long-term payables	–	16,517,630	–	16,517,630	16,517,630
	<u>7,727,564,456</u>	<u>190,376,761</u>	<u>137,430,619</u>	<u>8,055,371,836</u>	<u>8,034,673,474</u>

As at 31 December 2018

	Within 1 year	1 to 2 years	Over 2 years	Total	Carrying amount
Short-term borrowings	170,808,318	–	–	170,808,318	168,246,814
Bills payable	2,349,473,616	–	–	2,349,473,616	2,349,473,616
Trade payables	3,185,104,692	–	–	3,185,104,692	3,185,104,692
Other payables	669,071,995	–	–	669,071,995	669,071,995
Long-term borrowings (including long-term borrowings due within 1 year)	6,374,676	5,056,915	227,272,740	238,704,331	237,329,655
Long-term payables	–	24,354,272	17,170,901	41,525,173	41,525,173
	<u>6,380,833,297</u>	<u>29,411,187</u>	<u>244,443,641</u>	<u>6,654,688,125</u>	<u>6,650,751,945</u>

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks (continued)

Market risk

Currency risk

The Group's business is mainly located in China and the vast majority of transactions are settled in RMB, but there is still certain sales, purchases and borrowings shall be settled in foreign currencies such as JPY, USD, GBP and HKD, etc. The fluctuation of these foreign currencies against RMB will have an impact on the Group's operating results. As at 31 December 2019 and 31 December 2018, the Group's assets and liabilities dominated in foreign currencies are as follows:

	31 December 2019		31 December 2018	
	Total assets	Total liabilities	Total assets	Total Liabilities
JPY	1,084,520	101,882,213	2,520,212	41,856,951
USD	110,181,210	20,308,769	59,098,088	8,765,569
GBP	272,071,704	239,538,581	80,673,800	20,942,340
HKD	10,272,130	139,075,317	17,113,430	139,177,543

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of JPY, USD, GBP and HKD, with all other variables held constant, of the Group's total equity. As the carrying amounts of financial instruments denominated in other currencies are not significant, their sensitivity analysis is omitted here.

As at 31 December 2019

	Increase/ (decrease) in basis points	Increase/ (decrease) in total shareholders' equity
JPY		
RMB strengthens against JPY	+10%	8,567,804
RMB weakens against JPY	-10%	(8,567,804)
USD		
RMB strengthens against USD	+10%	(7,639,157)
RMB weakens against USD	-10%	7,639,157
GBP		
RMB strengthens against GBP	+10%	(2,765,315)
RMB weakens against GBP	-10%	2,765,315
HKD		
RMB strengthens against HKD	+10%	10,948,271
RMB weakens against HKD	-10%	(10,948,271)

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Financial instruments and their risks (continued)

Market risk (continued)

Currency risk (continued)

As at 31 December 2018

	Increase/ (decrease) in basis points	Increase/ (decrease) in total shareholders' equity
JPY		
RMB strengthens against JPY	+10%	3,343,623
RMB weakens against JPY	-10%	(3,343,623)
USD		
RMB strengthens against USD	+10%	(4,278,264)
RMB weakens against USD	-10%	4,278,264
GBP		
RMB strengthens against GBP	+10%	(5,077,174)
RMB weakens against GBP	-10%	(5,077,174)
HKD		
RMB strengthens against HKD	+10%	10,375,450
RMB weakens against HKD	-10%	(10,375,450)

3. Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is no subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during 2019 and 2018.

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

3. Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio below 30%. Net debt includes financial liabilities at fair value through profit or loss, interest-bearing bank and other borrowings, bills payable and trade payables, employee benefits payable, other taxes payable excluding income tax payable, lease liabilities, other payables and net amount of long-term payables less cash and cash equivalents. Capital includes equity attributable to shareholders of the Parent. The gearing ratios as at balance sheet date were as follows:

	31 December 2019	31 December 2018
Short-term borrowings	146,596,015	168,246,814
Bills payable	2,282,345,169	2,349,473,616
Trade payables	4,391,411,209	3,185,104,692
Employee benefits payable	150,388,408	135,840,963
Taxes payable (excluding income tax payable)	110,907,104	217,086,580
Other payables	857,451,744	669,071,995
Long-term borrowings (including due within one year)	235,566,894	237,329,655
Lease liabilities (including due within one year)	104,784,813	N/A
Long-term payables	16,517,630	41,525,173
Less: Cash and cash equivalents	4,244,080,658	4,381,012,798
Net liabilities	4,051,888,328	2,622,666,690
Equity attributable to the shareholders of the Parent	21,910,263,359	19,824,763,980
Capital and net liabilities	25,962,151,687	22,447,430,670
Gearing ratio	15.61%	11.68%

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IX. DISCLOSURE OF FAIR VALUE

1. Assets measured at fair value

As at 31 December 2019

	Inputs used in financial instruments measured at fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Financial assets at fair value through profit or loss				
– Held-for-trading financial assets	–	4,905,776,761	–	4,905,776,761
Financial assets at fair value through other comprehensive income				
– Trade receivables financing	–	2,554,953,370	–	2,554,953,370
– Other equity instrument investment	–	–	2,400,000	2,400,000

As at 31 December 2018

	Inputs used in financial instruments measured at fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Financial assets at fair value through profit or loss				
– Held-for-trading financial assets	–	1,603,855,068	–	1,603,855,068
Financial assets at fair value through other comprehensive income				
– Trade receivables financing	–	1,030,920,086	–	1,030,920,086
– Other equity instrument investment	–	–	900,000	900,000

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IX. DISCLOSURE OF FAIR VALUE (continued)

2. Assets and liabilities disclosed at fair value

As at 31 December 2019

	Inputs used in financial instruments measured at fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Long-term borrowings	–	230,535,828	–	230,535,828
Long-term payables	–	–	16,517,630	16,517,630

As at 31 December 2018

	Inputs used in financial instruments measured at fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Long-term borrowings	–	232,329,655	–	232,329,655
Long-term payables	–	–	41,525,173	41,525,173

3. Fair value evaluation

Management has assessed the fair values of cash and bank balances, bills receivable, trade receivables, other receivables, other current assets, short-term borrowings, bills payable, trade payables, other payables and long-term borrowings due within one year approximate to the carrying amounts of financial assets and financial liabilities not measured at fair value largely due to the short-term maturities of these instruments.

The Group's finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each balance sheet date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of long-term borrowings, long-term payables, etc. have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and long-term and short-term borrowings as at 31 December 2019 was assessed to be insignificant.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Parent company

Name of the parent company	Place of registration	Nature of business	Registered capital	Proportion of shareholding	Proportion of voting
CRRC Zhuzhou Institute Co., Ltd. (Zhuzhou ZELRI)	Zhuzhou, Hunan	Manufacturing	8,340,710,000	50.16%	50.16%

Zhuzhou ZELRI and the companies it holds are collectively referred to as "the Zhuzhou ZELRI Group".

The controlling shareholder of the parent is CRRC Corporation Limited.

The ultimate holding party of the Company is CRRC Group, which is an enterprise directly under the central government and directly administered by the State-owned Assets Supervision and Administration Commission of the State Council. The ultimate holding party and the companies it holds are collectively referred to as "the ultimate holding party group".

2. Subsidiaries

For details of the subsidiaries of the Company, please refer to Note VII, 1. Interest in subsidiaries.

Investment in subsidiaries

	31 December 2019	31 December 2018
Unlisted shares measured at cost	5,124,623,012	2,214,008,296
Shares listed in Canada measured at cost	–	216,539,728
	5,124,623,012	2,430,548,024
Decline in value	(246,169,001)	(178,169,001)
	4,878,454,011	2,252,379,023
Market value of listed shares	–	103,431,221

3. Joint ventures and associates

For details of the joint ventures and associates of the Company, please refer to Note VII, 3 Interests in joint ventures and associates.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties

Name of the company

(1) Corporations controlled by the parent company

CRRC Beijing Heavy Industry and Mechanics Co., Ltd.
Hunan CRRC Special Electric Equipment Co., Ltd.
Qingdao CRRC Huaxuan Water Co., Ltd.
Shanghai CRRC Hange Shipping and Marine Engineering Co., Ltd.
Xiangyang CRRC Electric Machinery Co., Ltd.
Xiangyang China Railway Hongji Engineering Co., Ltd.
CRCC Zhuzhou Traction Electrical Equipment Test & Certification Co., Ltd.
Zhuzhou Times Rubber and Plastics Components Development Co., Ltd.
Zhuzhou Times New Material Technology Co., Ltd.
Zhuzhou CRRC Electromechanical Technology Co., Ltd.
CRRC-AVC Thermal Technologies (Zhuzhou) Co., Ltd.
Zhuzhou CRRC Times Publishing Co., Ltd.
Zhuzhou Times Electric Insulation Co., Ltd.

(2) Corporation controlled by the ultimate holding party other than the Zhuzhou ZELRI Group

Australia CRRC Changke Rail Transit Equipment Co., Ltd.
Beijing CRRC CED Railway Electric Tech. Co., Ltd.
Cangzhou CRRC Zhuzhou Track Equipment Co., Ltd.
Changzhou Ruitai Engineering Machinery Co., Ltd.
CRRC Changzhou Tech-mark Industrial Co., Ltd.
Chengdu CRRC Electric Co., Ltd.
Chengdu CRRC Sifang Railway Co., Ltd.
Dalian CRRC Ruitong Technology Development Co., Ltd.
Foshan CRRC Sifang Railway Vehicles Co., Ltd.
Guangzhou CRRC Junfa Electrical Co. Ltd.
CRRC Hangzhou Co., Ltd.
Henan CRRC Heavy Equipment Co., Ltd.
Hunan CRRC Environmental Engineering Co., Ltd.
Hunan CRRC Times Electric Vehicle Co., Ltd.
Kungming CRRC Rail Transit Equipment Co., Ltd.
Meishan CRRC Fastener Science & Technology Co., Ltd.
Meishan CRRC Brake Technology Co., Ltd.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the company

(2) Corporation controlled by the ultimate holding party other than the Zhuzhou ZELRI Group (Continued)

CRRCC Massachusetts Co., Ltd.
Nanjing CRRCC Puzhen Rapid Transit Vehicles Co., Ltd.
Nanjing CRRCC Puzhen Haitai Brake Equipment Co., Ltd.
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.
Qingdao KAMAX Buffer Equipment Co., Ltd.
Qingdao Sri Technology Co., Ltd.
Bombardier Sifang (Qingdao) Transportation Ltd.
Qingdao CRRCC Sifang Logistics Co., Ltd.
Qingdao CRRCC Sifang Sales Co., Ltd.
Quanzhou CRRCC Tangshan Railway Vehicle Co., Ltd.
Shandong CRRCC Huateng Environmental Protection Technology Co., Ltd.
Shanghai Alstom Transport Co., Ltd.
Shijiazhuang King Transportation Equipment Co., Ltd.
Shijiazhuang CRRCC Railway Vehicles Equipment Co., Ltd.
Suzhou CRRCC Rail Vehicle Co., Ltd.
CRRCC Tianjin JL Equipment Co., Ltd.
Tianjin CRRCC Sifang Co., Ltd.
Wuxi CRRCC Times Intelligent Equipment Co., Ltd.
Wuhan CRRCC Sifang Maintenance Center Co., Ltd.
Wuhan CRRCC Changke Railway Vehicles Co., Ltd.
Wuhan CRRCC ZELC Rail Transit Equipment Co., Ltd.
Xi'an CRRCC Yongdian Electric Co., Ltd.
Changchun CRRCC Railway Vehicles Co., Ltd.
Zhejiang CRRCC Electric Vehicles Co., Ltd.
CRRCC Transnet Rail (PTY) LTD
CRRCC Erqi Co., Ltd.
CRRCC Finance Co., Ltd.
CRRCC Chengdu Co., Ltd.
CRRCC Dalian Electric Traction Research and Development Center Co., Ltd.
CRRCC Dalian Co., Ltd.
CRRCC Dalian Locomotive Research Institute Co., Ltd.
CRRCC Datong Locomotive Co., Ltd.
CRRCC Industry Research Institute Co., Ltd.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the company

(2) Corporation controlled by the ultimate holding party other than the Zhuzhou ZELRI Group (Continued)

CRRC Guangdong Co., Ltd.
CRRC Guiyang Vehicle Co., Ltd.
CRRC Environmental Technology Co., Ltd.
Lanzhou CRRC Locomotive Co., Ltd.
CRRC Luoyang Co., Ltd.
CRRC Nanjing Puzhen Co., Ltd.
CRRC Qishuyan Institute Co., Ltd.
CRRC Qishuyan Co., Ltd.
CRRC Qiqihar Rolling Stock Co., Ltd.
CRRC Qingdao Sifang Rolling Stock Research Institute Co., Ltd.
CRRC Qingdao Sifang Co., Ltd.
CRRC Shandong Co., Ltd.
CRRC Sifang Co., Ltd.
CRRC Taiyuan Co., Ltd.
CRRC Tangshan Co., Ltd.
CRRC Logistics Co., Ltd.
CRRC Xi'an Co., Ltd.
CRRC Yongji Electric Co., Ltd.
CRRC Changchun Railway Vehicles Co., Ltd.
CRRC Yangtze Co., Ltd.
CRRC Yangtze Tongling Co., Ltd.
CRRC Zhuzhou Electric Co., Ltd.
CRRC Zhuzhou Electric Locomotive Industrial Management Co., Ltd.
CRRC Zhuzhou Locomotive Co., Ltd.
CRRC Ziyang Co., Ltd.
CRRC (Hong Kong) Co., Ltd.
China Railway Inspection Certification (Qingdao) Vehicle Inspection Station Co., Ltd.
Chongqing CRRC Construction Engrg Co., Ltd.
Chongqing CRRC Sifang Technology Co., Ltd.
Chongqing CRRC Changke Rail Vehicle Co., Ltd.
Zhuzhou CRRC Logistics Co., Ltd.
Ziyang CRRC Electric Locomotive Co., Ltd.
Ziyang CRRC Electric Technology Co., Ltd.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the company

(2) Corporation controlled by the ultimate holding party other than the Zhuzhou ZELRI Group (Continued)

CRRC Xi'an YongeJieTong Electric Co., Ltd.
CRRC Ziyang Transmission Co., Ltd.
Bombardier Transportation GmbH
Beijing Nankou SKF Railway Bearing Co., Ltd.
Changde CRRC New Energy Vehicle Co., Ltd.
Changzhou CRRC General Electric Diesel Engine Co., Ltd.
Hefei CRRC Rail Transit Co., Ltd.
Nanjing CRRC Logistics Service Co., Ltd.
Ningbo CRRC Rail Transit Equipment Co., Ltd.
Zhengzhou CRRC Sifang Rail Vehicle Co., Ltd.
CRRC Shenyang Locomotive Co., Ltd.
CRRC Times Electric Vehicle Co., Ltd.
CRRC Information Technology Co., Ltd.
CRRC Zhuzhou Vehicle Co., Ltd.
Zhuzhou Jiufang Equipment Co., Ltd.
Zhuzhou CRRC Special Equipment Technology Co., Ltd.
Zhuzhou CRRC Tianli Forging Co., Ltd.

(3) Joint ventures of the ultimate holding group

Changzhou Ruiyang Transmission Technology Co., Ltd.
Shentong CNR (Shanghai) Railway Vehicles Maintenance Co., Ltd.
Shentong CSR (Shanghai) Railway Vehicles Maintenance Co., Ltd.
Zhuzhou Jiufang Casting Co., Ltd.
Zhuzhou CRRC Times High-tech Investment Co., Ltd.
Shenyang CRRC Wabtec Track Brake Technology Co., Ltd.
Tianjin Electric Locomotive Co., Ltd.
Baweitong Technology Co., Ltd.

(4) Associates of the ultimate holding group

Beijing Beijiufang Science and Trade Co., Ltd.
Guangzhou Locomotive Co., Ltd.

(5) Associates of the Zhuzhou ZELRI Group

Zhuzhou Electric Vehicle Co., Ltd.

Notes to the Financial Statements

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Renminbi Yuan

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties

(1) Sales of goods to related parties

	2019	2018
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	6,451,293,151	5,691,821,668
Joint ventures of the Company	300,685,849	44,230,985
Corporation controlled by the parent company	181,040,851	134,377,163
Parent company	143,667,367	37,749,448
Associate of the ultimate holding group	80,872,570	56,967,450
Associates of the Company	2,601,921	7,917,311
Joint ventures of the ultimate holding group	—	2,623,125
	<u>7,160,161,709</u>	<u>5,975,687,150</u>

(2) Purchase of goods from related parties

	2019	2018
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	1,550,199,858	1,280,919,554
Corporation controlled by the parent company	632,496,426	565,903,001
Joint ventures of the Company	307,126,777	54,595,691
Parent company	32,039,284	4,716,781
Associates of the Company	14,023,153	48,633,775
Joint ventures of the ultimate holding group	6,751,014	24,167,827
	<u>2,542,636,512</u>	<u>1,978,936,629</u>

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(3) Sales of electricity to related parties

	2019	2018
Corporation controlled by the parent company	3,080,258	1,765,344
Parent company	618,179	438,849
Associates of the Company	8,146	19,766
	<u>3,706,583</u>	<u>2,223,959</u>

(4) Purchases of electricity from related parties

	2019	2018
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	661,750	493,820
Corporation controlled by the parent company	–	174,120
	<u>661,750</u>	<u>667,940</u>

(5) Purchases of fixed assets from related parties

	2019	2018
Corporation controlled by the parent company	344,658	–

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(6) Related party leases

As a lessor

	2019	2018
Corporation controlled by the parent company	4,998,734	5,491,909
Parent company	3,136,073	3,539,936
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	1,144,112	125,948
Associates of the Company	417,878	454,854
Joint ventures of the ultimate holding group	8,807	—
	9,705,604	9,612,647

As a lessee

	2019 (Note)	2018
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	3,136,945	4,218,564
Parent company	610,827	2,679,175
Corporation controlled by the parent company	1,362,596	1,029,084
Associates of the Zhuzhou ZELRI Group	—	1,241,013
	5,110,368	9,167,836

Note: The amount of 2019 only contain short-term leases.

During the year ended 31 December 2019, the cost of right-of-use assets that the Group leased from the Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group was RMB8,670,923 and corresponding interest expenses arising from lease liabilities amounting to RMB3,266,229. The cost of right-of-use assets that the Group leased from the Parent Company was RMB2,429,267 and corresponding interest expenses arising from lease liabilities amounting to RMB1,286,743. As at 31 December 2019, the lease liabilities to the Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group and the Parent Company were RMB21,489,248 and RMB1,242,812, respectively.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(7) Technical service provided to related parties

	2019	2018
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	6,598,774	13,182,519
Corporation controlled by the parent company	4,431,433	2,898,361
Parent company	1,334,902	1,323,617
Joint ventures of the ultimate holding group	—	6,790
	<u>12,365,109</u>	<u>17,411,287</u>

(8) Maintenance services provided to related parties

	2019	2018
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	1,092,096,476	696,897,274
Associates of the ultimate holding group	1,292,904	63,745,286
	<u>1,093,389,380</u>	<u>760,642,560</u>

(9) Technical service provided by related parties

	2019	2018
Parent company	237,000,000	209,509,000
Corporation controlled by the parent company	4,729,228	7,220,101
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	188,679	110,000
Joint ventures of the Company	—	215,000
	<u>241,917,907</u>	<u>217,054,101</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(10) Interest income from cash and bank balances

	2019	2018
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	<u>6,370,423</u>	<u>5,070,209</u>

(11) Interests expenses of borrowings

	2019	2018
Controlling shareholders of the parent company	<u>724,997</u>	<u>1,096,009</u>

(12) Remuneration of key management

	2019	2018
Remuneration of key management	<u>14,641,318</u>	<u>16,241,685</u>

The terms of the above sales and purchase transactions, providing and accepting technical services, and lease transactions with related parties were agreed by both parties.

(13) Commitments between the Group and related parties

The material commitments signed between the Group and the respective related parties which are not required to be presented in the financial statements as at the balance sheet date are as follows:

Sales of goods to related parties	2020
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	<u>1,429,835,838</u>
Purchases of goods from related parties	2020
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	535,363,146
Joint ventures of the Company	281,338,974
Corporation controlled by the parent company	212,871,335
Joint ventures of the ultimate holding group	<u>2,610,603</u>
	<u>1,032,184,058</u>

Notes to the Financial Statements

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Renminbi Yuan

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from/to related parties

	31 December 2019	31 December 2018
Trade receivables (including long-term trade receivables):		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	1,384,660,632	1,713,360,225
Joint ventures of the Company	137,589,236	86,485,618
Parent company	97,914,314	28,542,033
Corporation controlled by the parent company	27,524,678	34,824,038
Associates of the ultimate holding group	24,572,272	3,812,175
Associates of the Company	12,202,609	9,734,640
Joint ventures of the ultimate holding group	–	3,050,701
	<u>1,684,463,741</u>	<u>1,879,809,430</u>

	31 December 2019	31 December 2018
Bills receivable:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	856,777,935	1,720,527,780
Associates of the ultimate holding group	15,000,000	165,000,000
Corporation controlled by the parent company	195,129	–
	<u>871,973,064</u>	<u>1,885,527,780</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from/to related parties (continued)

	31 December 2019	31 December 2018
Contract assets:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	38,881,058	22,943,899
Joint ventures of the ultimate holding group	34,253	8,361
Associates of the ultimate holding group	31,900	300,000
Corporation controlled by the parent company	–	267,508
	<u>38,947,211</u>	<u>23,519,768</u>
	31 December 2019	31 December 2018
Trade receivables financing:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	481,336,159	231,900,436
Parent company	90,508,901	30,882,117
Joint ventures of the ultimate holding group	2,848,316	–
Corporation controlled by the parent company	676,816	368,635
	<u>575,370,192</u>	<u>263,151,188</u>
	31 December 2019	31 December 2018
Prepayments:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	3,333,210	1,750,027
Parent company	108,220	145,020
Corporation controlled by the parent company	1,674	–
	<u>3,443,104</u>	<u>1,895,047</u>

Notes to the Financial Statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from/to related parties (continued)

	31 December 2019	31 December 2018
Other receivables:		
Parent company	2,230,700	1,081,500
Corporation controlled by the parent company	1,702,573	2,727
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	604,000	602,880
Associates of the Company	204,478	117,915
	<u>4,741,751</u>	<u>1,805,022</u>

	31 December 2019	31 December 2018
Other non-current assets:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	29,359,799	8,143,384
Parent company	180,000	–
Corporations controlled by the Zhuzhou ZELRI Group	–	8,669,283
	<u>29,539,799</u>	<u>16,812,667</u>

	31 December 2019	31 December 2018
Cash and bank balances:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group (Note)	686,991,594	687,881,170
	<u>686,991,594</u>	<u>687,881,170</u>

Note:

As at 31 December 2019, the Group's deposit with CRRC Finance Co., Ltd. amounted to RMB686,991,594 (31 December 2018: RMB687,881,170).

As at 28 December 2018, the Group entered into a Financial Service Framework Agreement with CRRC Finance Co., Ltd. which was effective from 31 December 2018 to 30 December 2019. Pursuant to Financial Services Framework Agreement, the maximum daily deposit balance with CRRC Finance Co., Ltd. was no more than RMB700,000,000. The interest rate was no less than the benchmark interest rate set by People's Bank of China for similar deposits, the interest rate payable by other major commercial banks in China and the interest rate payable by CRRC Finance Co., Ltd. to other members of the CRRC Group for comparable deposits.

Notes to the Financial Statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from/to related parties (continued)

As at 25 October 2019, the Group entered into a Financial Service Framework Agreement with CRRC Finance Co., Ltd. which was effective from 31 December 2019 to 30 December 2020 (the above framework agreement on financial services signed on 28 December 2018 was terminated). Pursuant to Financial Services Framework Agreement, the maximum daily deposit balance with CRRC Finance Co., Ltd. was no more than RMB700,000,000. The interest rate was no less than the benchmark interest rate set by People's Bank of China for similar deposits, the interest rate payable by other major commercial banks in China and the interest rate payable by CRRC Finance Co., Ltd. to other members of the CRRC Group for comparable deposits.

	31 December 2019	31 December 2018
Trade payables:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	523,334,624	177,352,045
Corporation controlled by the parent company	156,004,885	49,929,507
Joint ventures of the Company	31,513,716	12,694,065
Joint ventures of the ultimate holding group	7,621,997	11,463,618
Parent company	2,598,562	8,354,231
Associates of the Company	103,687	55,000
Associates of the ultimate holding group	21,327	–
	<u>721,198,798</u>	<u>259,848,466</u>

	31 December 2019	31 December 2018
Bills payable:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	328,354,523	245,700,000
Corporation controlled by the parent company	94,685,803	145,437,553
Joint ventures of the Company	20,000,000	5,940,000
Joint ventures of the ultimate holding group	11,020,000	21,060,000
	<u>454,060,326</u>	<u>418,137,553</u>

Notes to the Financial Statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from/to related parties (continued)

	31 December 2019	31 December 2018
Contract liabilities		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	251,463,725	163,252,072
Corporation controlled by the parent company	<u>10,000</u>	<u>—</u>
	<u>251,473,725</u>	<u>163,252,072</u>

	31 December 2019	31 December 2018
Dividends payable:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	<u>—</u>	<u>1,976,000</u>

	31 December 2019	31 December 2018
Other payables:		
Parent company	273,547,515	220,709,990
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	5,033,239	311,616
Corporation controlled by the parent company	<u>1,436,989</u>	<u>13,018,412</u>
	<u>280,017,743</u>	<u>234,040,018</u>

	31 December 2019	31 December 2018
Non-current liabilities due within one year:		
Corporation controlled by the parent company	<u>5,031,066</u>	<u>5,000,000</u>

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from/to related parties (continued)

	31 December 2019	31 December 2018
Long-term borrowings:		
Controlling shareholders of the parent company	<u>87,688,000</u>	<u>92,688,000</u>

In 2019, goods and service provided amounting to RMB7,975,614,591 (2018: RMB6,712,954,687) and purchases of goods and service amounting to RMB2,474,074,237 (2018: RMB2,102,382,040) in related parties between the Group and the Zhuzhou ZELRI Group, the ultimate holding party group other than the Zhuzhou ZELRI Group, joint ventures of the ultimate holding party group other than the Zhuzhou ZELRI Group and associates with above 30% share held by the ultimate holding party group other than the Zhuzhou ZELRI group, constituted connected transactions or continuing connected transactions under the provisions of Chapter 14A of the Hong Kong Listing Rules. The underlying agreement is the product and supporting service mutual supplying framework agreement signed between the Company and CRRC Group (along with its subsidiaries but excluding the Group) on 28 March 2016.

In 2019, the related party transactions about providing and purchasing goods and services of RMB9,256,329 (2018: RMB8,531,885) and RMB209,883 (2018: RMB139,755) respectively between the Group (excluding Qingdao Electric) and Qingdao Electric also constituted connected transactions or continuing connected transactions under the provisions of Chapter 14A of the Hong Kong Listing Rules. Relevant agreements are framework agreements about mutual supply of products and corresponding services, which were signed on 22 December 2016 by the Company and Qingdao Electric (along with its subsidiaries).

China Railway Baoji Machinery Co., Ltd. (the "CRBM", a wholly-owned shareholding company of China Railway Group Limited (the "CREC")) was a main shareholder of the Group's subsidiary Baoji Times. As at 30 December 2019, the change in ownership of equity was completed, which resulted in the proportion of the CRBM was lower than 10%. Therefore the CRBM was no longer a connected person of the Group since 31 December 2019. Meanwhile, the connected person of the CRBM (include CREC) was no longer a connected person of the Group due to the shareholder role of CRBM to Baoji Times. In 2019 (except on 31 December 2019), the transactions about providing and purchasing goods and services of RMB103,815,893 (2018: RMB65,826,635) and RMB8,272,059 (2018: RMB16,212,587) respectively between the Group and CREC (along with its subsidiaries) also constituted connected transactions or continuing connected transactions under the provisions of Chapter 14A of the Hong Kong Listing Rules. Relevant agreements are framework agreements about mutual supply of products and corresponding services, which were signed on 12 January 2017 by the Company and CREC (along with its subsidiaries).

Notes to the Financial Statements

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

6. Amounts due from/to related parties (continued)

Transactions between the Group (other than Taiyuan Times) and Taiyuan Times also constituted connected transactions or continuing connected transactions under the provisions of Chapter 14A of the Hong Kong Listing Rules. The underlying agreement is the product and supporting service mutual supplying framework agreement signed between the Company and Taiyuan Times (along with its subsidiaries) on 28 December 2018. In 2019, the Group (other than Taiyuan Times) obtained income from provision of goods and services to Taiyuan Times amounting to RMB813,109 and paid for purchases of goods and services from Taiyuan Times amounting to RMB33,153,208.

The Group's bills receivable from and bills payable to related parties are non-interest-bearing, unsecured and have fixed terms of repayment, cash and bank deposits are interest-bearing, unsecured and have no fixed terms of repayment, and long-term borrowings are interest-bearing, unsecured and have fixed terms of repayment. Other receivables from and payables to related parties are non-interest-bearing and unsecured. In particular, the repayment period of trading amounts is subject to the provisions of the trading terms, and non-trading amounts have no fixed repayment periods.

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XI. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

	31 December 2019	31 December 2018
Contracted but not provided for		
Capital commitments	426,073,824	385,505,762
Investments in subsidiaries	50,000,000	27,500,000
Total	476,073,824	413,005,762

2. Contingencies

The Group had no contingencies which should be disclosed.

XII. POST BALANCE SHEET EVENTS

Except for the dividend distribution proposal of the board of directors as disclosed in Note V, 40 Retained earning, the outbreak of COVID-19 (the "Outbreak") has spread to over 100 countries and regions in the world since January 2020. In February 2020, the Group resumed operation and production in an orderly manner according to the requirements of relevant local government to ensure the delivery of important orders as scheduled. As the Outbreak continues to evolve, the Group will continue to assess the impact of the Outbreak on the Group in the future.

XIII. OTHER SIGNIFICANT EVENTS

1. Segment reporting

Operating segments

For management purposes, the Group's operating activities are attributable to a single operating segment, focusing on the railway transportation equipment and relevant products and services in the market. Therefore, no other operating segment is presented.

Other information

Products and services information

Revenue from external customers

	2019	2018
Railway transportation equipment and relevant products and services	16,304,206,791	15,657,900,734

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIII. OTHER SIGNIFICANT EVENTS (continued)

1. Segment reporting (continued)

Other information (continued)

Geographical information

Revenue from external customers

	2019	2018
Mainland China	15,464,313,779	14,883,638,444
Other countries and regions	839,893,012	774,262,290
	16,304,206,791	15,657,900,734

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	31 December 2019	31 December 2018
Mainland China	4,381,594,956	3,934,996,092
Other countries and regions	1,046,756,750	1,094,283,306
Total	5,428,351,706	5,029,279,398

Non-current assets are analysed by geographic locations where the assets are located, excluding financial assets and deferred tax assets.

Information of major customers

In 2019, the Group's operating revenue (which accounted for more than 10% of the Group's total revenue) of RMB7,884,161,392 was derived from sales to a single customer (including sales to a group of entities which are known to be under the control of that customer) (2018: RMB6,589,612,036 from a single customer).

Notes to the Financial Statements

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XIII. OTHER SIGNIFICANT EVENTS (continued)

2. Operating lease

As a lessor

According to the lease contracts entered into with lessees, the minimum lease receivables under irrevocable leases are as follows:

	31 December 2019	31 December 2018
Within 1 year (inclusive)	5,001,070	8,753,581
1 to 2 years (inclusive)	4,513,800	4,544,960
2 to 3 years (inclusive)	4,513,800	4,513,800
3 to 4 years (inclusive)	3,516,800	4,513,800
4 to 5 years (inclusive)	—	3,516,800
Total	<u>17,545,470</u>	<u>25,842,941</u>

As a lessee

Significant operating leases

According to the lease contracts entered into with lessors, the minimum lease payables under irrevocable leases are as follows:

	31 December 2018
Within 1 year (inclusive)	36,051,758
1 to 2 years (inclusive)	10,876,655
2 to 3 years (inclusive)	10,565,182
Over 3 years	28,845,170
Total	<u>86,338,765</u>

3. Other financial information

(1) Net current assets and total assets less current liabilities

	31 December 2019		31 December 2018	
	The Group	The Company	The Group	The Company
Net current assets	17,392,754,139	13,098,708,046	15,858,753,699	12,775,983,128
Total assets less current liabilities	<u>23,603,747,238</u>	<u>21,236,623,828</u>	<u>21,310,769,972</u>	<u>19,114,763,628</u>

Notes to the Financial Statements

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XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(2) Contributions paid to pension plans

	2019	2018
Contributions paid to pension plans	<u>211,177,557</u>	<u>184,954,052</u>

As at 31 December 2019 and 2018, the Group were not forced to waive any contribution to reduce the contributions planned to pension in future years.

(3) Remuneration of directors, supervisors and chief executive

Remuneration of directors, supervisors and chief executive for the current year is disclosed as follows:

	2019	2018
Fees	<u>1,058,383</u>	<u>986,683</u>
Other emoluments:		
Salaries, allowances and benefits in kind	<u>1,803,607</u>	<u>1,783,302</u>
Performance related bonuses	<u>1,372,533</u>	<u>2,144,009</u>
Pension scheme contributions	<u>288,809</u>	<u>320,512</u>
	<u>3,464,949</u>	<u>4,247,823</u>
Total	<u>4,523,332</u>	<u>5,234,506</u>

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Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(3) Remuneration of directors, supervisors and chief executive (continued)

Details of remuneration of directors, supervisors and chief executives in 2019 are listed as below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
Executive directors					
Li Donglin (Note 1)	-	-	-	-	-
Yang Shouyi (Note 2)	-	-	-	-	-
Liu Ke'an	-	523,736	272,914	84,596	881,246
Yan Wu	-	448,568	419,154	70,752	938,474
	-	972,304	692,068	155,348	1,819,720
Non-executive director					
Zhang Xinning	-	-	-	-	-
	-	-	-	-	-
Independent non-executive directors					
Chen Jinrong	273,417	-	-	-	273,417
Pu Bingrong	273,417	-	-	-	273,417
Liu Chunru	119,043	-	-	-	119,043
Chen Xiaoming	119,043	-	-	-	119,043
Gao Feng (Note 3)	119,043	-	-	-	119,043
	903,963	-	-	-	903,963
Supervisors					
Li Lue (Note 5)	-	-	-	-	-
Xiong Ruihua (Note 5)	-	-	-	-	-
Pang Yiming	-	345,363	330,705	56,488	732,556
Zhou Guifa	35,377	485,940	349,760	76,973	948,050
Geng Jianxin	119,043	-	-	-	119,043
	154,420	831,303	680,465	133,461	1,799,649
	1,058,383	1,803,607	1,372,533	288,809	4,523,332

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(3) Remuneration of directors, supervisors and chief executive (continued)

Details of remuneration of directors, supervisors and chief executives in 2018 are listed as below:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
Executive directors					
Ding Rongjun (Note 1)	–	–	–	–	–
Li Donglin (Note 1)	–	–	–	–	–
Yang Shouyi (Note 2)	–	–	–	–	–
Liu Ke'an	–	525,269	1,003,208	93,620	1,622,097
Yan Wu	–	437,837	465,046	78,618	981,501
	–	963,106	1,468,254	172,238	2,603,598
Non-executive director					
Zhang Xinning	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors					
Chen Jinrong	283,530	–	–	–	283,530
Pu Bingrong	283,530	–	–	–	283,530
Liu Chunru	103,768	–	–	–	103,768
Chen Xiaoming	103,768	–	–	–	103,768
Gao Feng (Note 3)	44,698	–	–	–	44,698
Ouyang Minggao (Note 4)	29,262	–	–	–	29,262
	848,556	–	–	–	848,556
Supervisors					
Xiong Ruihua	–	–	–	–	–
Pang Yiming	–	349,777	172,481	68,608	590,866
Zhou Guifa	34,359	470,419	503,274	79,666	1,087,718
Geng Jianxin	103,768	–	–	–	103,768
	138,127	820,196	675,755	148,274	1,782,352
	<u>986,683</u>	<u>1,783,302</u>	<u>2,144,009</u>	<u>320,512</u>	<u>5,234,506</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(3) Remuneration of directors, supervisors and chief executive (continued)

Note 1: On 12 July 2018, Ding Rongjun resigned as chairman and executive director of the Company. The former deputy chairman Li Donglin succeeded in chairman and executive director of the Company.

Note 2: On 12 July 2018, Yang Shouyi was appointed as vice chairman and executive director of the Company.

Note 3: On 17 August 2018, Gao Feng was appointed as independent non-executive director of the Company.

Note 4: On 25 March 2018, Ouyang Minggao resigned from independent non-executive director of the Company.

Note 5: On 20 June 2019, Xiong Ruihua resigned from chairman of the board of supervisors of the Company, and Li Lue was appointed as chairman of the board of supervisors.

Top five highest paid individuals of the Group are listed as follows:

	2019	2018
Directors, supervisors and chief executive officers	–	1
Non-directors and non-supervisors employee	5	4
	<u>5</u>	<u>5</u>

The remuneration paid to the above non-director, non-supervisor and non-chief executive highest paid employees is as follows:

	2019	2018
Salaries, allowances and benefits in kind	2,779,851	7,162,568
Performance related bonuses	2,299,687	927,824
Pension scheme contributions	358,356	156,161
	<u>5,437,894</u>	<u>8,246,553</u>

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

	2019	2018
HKD1,000,001 to 2,000,000	5	1
HKD2,000,001 to 3,000,000	–	2
HKD3,000,001 to 4,000,000	–	1
HKD4,000,001 to 5,000,000	–	–
	<u>5</u>	<u>4</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information (continued)

(3) Remuneration of directors, supervisors and chief executive (continued)

In 2019, Li Donglin, Yang Shouyi, Liu Ke'an, Yan Wu, Zhang Xinning, Xiong Ruihua, Li Lue and Pang Yiming waived after-tax allowance amounting to RMB104,000, RMB78,000, RMB65,000, RMB65,000, RMB78,000, RMB52,000, RMB52,000 and RMB26,000 respectively. Besides, there were no director, supervisor, chief executive or any of the non-director, non-supervisor, non-chief executive highest paid individual who waived or agreed to waive any emoluments. In 2018 and 2019, no emoluments were paid by the Group to any director, supervisor, chief executive and any non-director and non-supervisor highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office.

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS

1. Cash and bank balances

	31 December 2019	31 December 2018
Bank deposits	2,452,789,205	2,924,163,813
Others cash and bank balances	12,606,534	12,566,352
	<u>2,465,395,739</u>	<u>2,936,730,165</u>

As at 31 December 2019, the company has RMB12,606,534 (31 December 2018: RMB12,566,352) were restricted as security deposits for issuance of bank letters of guarantee.

As at 31 December 2019, the cash and bank balances deposited overseas by the Company were equivalent to RMB35,753,848 (31 December 2018: equivalent to RMB41,060,956).

Interest income earned on current deposits is calculated by using the current deposit interest rate. The deposit periods for short-term deposits vary from 11 days to 6 months depending on the cash requirements of the Company and earn interest at the respective deposit rates.

As at 31 December 2019 and 31 December 2018, the company has no term deposit with a term of more than three months.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Bills receivable

(1) Categories of bills receivable

	31 December 2019	31 December 2018
Commercial acceptance bills	2,432,147,055	3,152,699,454
Bank acceptance bills	153,975,570	148,832,238
	2,586,122,625	3,301,531,692
Less: Provision for credit loss	18,982,428	61,387,616
	2,567,140,197	3,240,144,076

The credit risks of commercial acceptance bills and bank acceptance bills held by the Group have not been significantly increased since initial recognition. The Group has measured the provision for impairment losses based on 12-month expected credit losses of the financial instrument.

- (2) As at 31 December 2019 and 31 December 2018, no pledged bills receivable were included in the balances of bills receivable.
- (3) As at 31 December 2019 and 31 December 2018, no bills that were transferred to trade receivables default of the drawer were included in the balances of bills receivable.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Bills receivable (continued)

(4) Analysis of commercial acceptance bills for which provision for credit loss is assessed on a portfolio basis:

Provision for credit loss of bills receivable is as follows:

As at 31 December 2019

Credit losses has not occurred	Expected average loss rate %	Gross carrying amount	Credit impairment provision	Carrying amount
Category I	1.13	870,367,483	9,875,425	860,492,058
Category II	–	–	–	–
Category III	0.58	1,561,071,915	9,068,087	1,552,003,828
Category IV	5.50	707,657	38,916	668,741
Total	0.78	2,432,147,055	18,982,428	2,413,164,627

As at 31 December 2018

Credit losses has not occurred	Expected average loss rate %	Gross carrying amount	Credit impairment provision	Carrying amount
Category I	1.65	1,778,895,539	29,346,762	1,749,548,777
Category II	–	–	–	–
Category III	1.39	1,293,485,249	17,934,089	1,275,551,160
Category IV	17.56	80,318,666	14,106,765	66,211,901
Total	1.95	3,152,699,454	61,387,616	3,091,311,838

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Bills receivable (continued)

- (4) Analysis of commercial acceptance bills for which provision for credit loss is assessed on a portfolio basis:
(continued)

Provision for credit loss of bills receivable:

	2019	2018
Opening balance	61,387,616	–
Provision in the current year	1,032,794	61,387,616
Reversal in the current year	(43,437,982)	–
Closing balance	18,982,428	61,387,616

- (5) No bills receivable were actually written off in 2019 and 2018.

- (6) Top five bills receivables are listed as follows:

	31 December 2019
Non-related party 1	915,000,000
CRRC Zhuzhou Locomotive Co., Ltd.	550,000,000
Bombardier Sifang (Qingdao) Transportation Ltd.	238,501,006
Non-related party 2	177,000,000
Non-related party 3	62,300,000
	1,942,801,006

	31 December 2018
CRRC Zhuzhou Locomotive Co., Ltd.	1,239,957,804
Non-related party 1	813,400,000
Non-related party 4	192,080,000
CRRC Qingdao Sifang Co., Ltd.	167,580,000
Guangzhou Locomotive Co., Ltd.	161,700,000
	2,574,717,804

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Trade receivables

(1) Disclosed by aging

	31 December 2019	31 December 2018
Within 6 months	4,326,345,123	4,378,300,687
6 months to 1 year	694,483,049	321,343,339
1 to 2 years	590,394,408	294,297,963
2 to 3 years	129,083,151	44,980,487
Over 3 years	21,614,771	1,287,670
	<u>5,761,920,502</u>	<u>5,040,210,146</u>
Less: Provision of credit loss of trade receivables	<u>158,369,986</u>	<u>81,188,171</u>
	<u><u>5,603,550,516</u></u>	<u><u>4,959,021,975</u></u>

The credit period of trade receivables is usually 6 months. The trade receivables bear no interest.

(2) Categorized by method of provision for credit loss

By category	31 December 2019					31 December 2018				
	Gross carrying amount		Provision for credit loss			Gross carrying amount		Provision for credit loss		
	Amount	Proportion %	Provision for credit impairment	Proportion of provision %	Carrying amount	Amount	Proportion %	Provision for credit impairment	Proportion of provision %	Carrying amount
Trade receivables for which provision for credit loss is collectively assessed on a portfolio basis and credit risk characteristics.	5,761,920,502	100.00	158,369,986	2.75	5,603,550,516	5,040,210,146	100.00	81,188,171	1.61	4,959,021,975

Notes to the Financial Statements

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Trade receivables (continued)

(2) Categorized by method of provision for credit loss (continued)

Trade receivables for which provision for credit loss is assessed on a portfolio basis (Category I)

Item	31 December 2019				31 December 2018			
	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount
Within 6 months	0.49	2,190,225,999	10,791,119	2,179,434,880	0.48	2,749,177,574	13,164,766	2,736,012,808
6 months to 1 year	0.40	473,032,712	1,910,495	471,122,217	0.74	211,925,424	1,559,632	210,365,792
1 to 2 years	5.63	275,426,232	15,516,349	259,909,883	1.68	234,883,241	3,938,118	230,945,123
2 to 3 years	2.78	114,325,829	3,179,414	111,146,415	8.18	22,889,489	1,872,017	21,017,472
Over 3 years	99.45	10,634,126	10,575,626	58,500	16.39	323,742	53,048	270,694
Total	1.37	3,063,644,898	41,973,003	3,021,671,895	0.64	3,219,199,470	20,587,581	3,198,611,889

Trade receivables for which provision for credit loss is assessed on a portfolio basis (Category II)

Item	31 December 2019				31 December 2018			
	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount
Within 6 months	1.28	1,943,725,464	24,794,936	1,918,930,528	0.77	1,343,835,677	10,412,156	1,333,423,521
6 months to 1 year	3.40	186,297,291	6,328,974	179,968,317	1.81	89,268,288	1,615,473	87,652,815
1 to 2 years	9.34	288,635,269	26,967,701	261,667,568	12.18	25,458,621	3,101,689	22,356,932
2 to 3 years	12.25	1,334,391	163,463	1,170,928	22.91	10,741,961	2,460,825	8,281,136
Over 3 years	45.56	33,557	15,289	18,268	-	-	-	-
Total	2.41	2,420,025,972	58,270,363	2,361,755,609	1.20	1,469,304,547	17,590,143	1,451,714,404

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Trade receivables (continued)

(2) Categorized by method of provision for credit loss (continued)

Trade receivables for which provision for credit loss is assessed on a portfolio basis (Category III)

Item	31 December 2019				31 December 2018			
	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount
Within 6 months	1.55	71,119,753	1,101,478	70,018,275	0.46	78,279,556	361,367	77,918,189
6 months to 1 year	5.52	15,680,421	865,380	14,815,041	1.59	14,204,252	225,768	13,978,484
1 to 2 years	14.93	1,882,588	281,072	1,601,516	10.10	4,875,768	492,444	4,383,324
2 to 3 years	62.50	95,920	59,950	35,970	20.00	26,830	5,366	21,464
Total	2.60	88,778,682	2,307,880	86,470,802	1.11	97,386,406	1,084,945	96,301,461

Trade receivables for which provision for credit loss is assessed on a portfolio basis (Category IV)

Item	31 December 2019				31 December 2018			
	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount	Expected average loss rate %	Gross carrying amount	Provision for credit loss	Carrying amount
Within 6 months	12.18	121,273,907	14,774,539	106,499,368	4.90	207,007,880	10,137,429	196,870,451
6 months to 1 year	24.54	19,472,625	4,778,744	14,693,881	23.81	5,945,375	1,415,431	4,529,944
1 to 2 years	53.67	24,450,319	13,123,372	11,326,947	67.19	29,080,333	19,539,980	9,540,353
2 to 3 years	91.51	13,327,011	12,194,997	1,132,014	87.72	11,322,207	9,931,810	1,390,397
Over 3 years	100.00	10,947,088	10,947,088	-	93.46	963,928	900,852	63,076
Total	29.46	189,470,950	55,818,740	133,652,210	16.49	254,319,723	41,925,502	212,394,221

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Trade receivables (continued)

(3) Provision for credit loss of trade receivables are as follows:

2019

	Lifetime expected credit losses (Not credit-impaired)	Lifetime expected credit losses (Credit-impaired)	2019 Total
1 January 2019	38,892,022	42,296,149	81,188,171
Transferred to incurred credit-impaired losses	(8,931,275)	8,931,275	–
Provision (reversal) in the current year	36,343,308	41,796,897	78,140,205
Transfer out in the current year (Note)	(958,390)	–	(958,390)
31 December 2019	<u>65,345,665</u>	<u>93,024,321</u>	<u>158,369,986</u>

Note: In 2019, the Company increased capital contribution to the Times Semiconductor in physical assets, and transferred relevant assets to Times Semiconductor.

2018

	Lifetime expected credit losses (Not credit-impaired)	Lifetime expected credit losses (Credit-impaired)	2018 Total
1 January 2018	53,507,773	58,773,749	112,281,522
Transferred to incurred credit-impaired losses	(2,997,491)	2,997,491	–
Provision (reversal) in the current year	(14,145,440)	(29,617,162)	(43,762,602)
Write-off in the current year	–	(3,359)	(3,359)
Increases as a result of merger by absorption (Note)	2,527,180	10,145,430	12,672,610
31 December 2018	<u>38,892,022</u>	<u>42,296,149</u>	<u>81,188,171</u>

Note: In May 2018, Zhuzhou CRRC Times Equipment Technology Co., Ltd., the wholly-owned subsidiary of the Company, was merged by the parent company which led to the increase in bad debt.

(4) No trade receivables were actually written off in the current year.

Notes to the Financial Statements

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Trade receivables (continued)

(5) In the current year, the Company derecognized the trade receivables of RMB292,000,000 due to trade receivables factoring, and related financing costs were recorded in "Finance costs".

(6) Top five trade receivables are listed as follows:

	31 December 2019
Non-related party 10	538,451,858
ZNERCC	444,543,190
CRRC Qingdao Sifang Co., Ltd.	421,284,279
Times Signal & Communication	324,058,891
Non-related party 12	245,027,417
	<u>1,973,365,635</u>

	31 December 2018
CRRC Qingdao Sifang Co., Ltd.	1,088,024,902
Times Signal & Communication	322,587,217
Non-related party 10	317,597,549
Baoji Times	291,232,232
ZNERCC	271,237,611
	<u>2,290,679,511</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

4. Trade receivables financing

	31 December 2019	31 December 2018
Bills receivable measured at fair value	1,486,211,441	569,695,731
Trade receivables measured at fair value	<u>590,740,130</u>	<u>132,155,491</u>
	<u>2,076,951,571</u>	<u>701,851,222</u>

The Company discounted and endorsed a part of bank acceptance bills while transferred a part of trade receivables according to its daily fund management needs, which qualified for derecognition. Therefore, the part of bank acceptance bills and trade receivables were classified by the Group as financial assets at fair value through other comprehensive income.

Measured at fair value:

Item	31 December 2019	31 December 2018
Cost	2,126,503,353	718,758,897
Carrying amount	<u>2,076,951,571</u>	<u>701,851,222</u>
Changes in fair value through other comprehensive income	<u>49,551,782</u>	<u>16,907,675</u>

Notes to the Financial Statements

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Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

4. Trade receivables financing (continued)

Measured at fair value: (continued)

Bills receivable endorsed or discounted and not yet due at the balance sheet date:

As at 31 December 2019

Items	Derecognized amount	Non-derecognized amount
Commercial acceptance bills	–	5,200,000
Bank acceptance bills	38,227,761	11,033,638
Total	38,227,761	16,233,638

As at 31 December 2018

Items	Derecognized amount	Non-derecognized amount
Commercial acceptance bills	–	–
Bank acceptance bills	73,172,779	39,324,963
Total	73,172,779	39,324,963

5. Prepayments

The aging analysis of prepayments is as follows:

	31 December 2019	31 December 2018
Within 1 year	186,265,964	241,793,147
1 to 2 years	37,851,816	35,279,821
2 to 3 years	2,415,335	3,397,225
Over 3 years	4,273,246	2,488,625
	230,806,361	282,958,818

Notes to the Financial Statements

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

5. Prepayments (continued)

Top five prepayments are listed as follows:

	31 December 2019
Non-related party 15	85,771,143
Non-related party 16	21,314,275
Non-related party 17	19,614,584
Non-related party 29	6,503,654
Non-related party 25	5,499,147
	<u>138,702,803</u>

	31 December 2018
Non-related party 20	47,942,146
Non-related party 16	32,892,288
Non-related party 15	29,732,856
Non-related party 30	18,581,421
Non-related party 31	17,973,792
	<u>147,122,503</u>

6. Other receivables

6.1 Summary of other receivables

	31 December 2019	31 December 2018
Interest receivable	–	39,836,613
Dividends receivable	202,706,837	120,760,000
Other receivables	430,942,451	590,569,467
	<u>633,649,288</u>	<u>751,166,080</u>
Total		

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

6.1 Summary of other receivables (continued)

Top five other receivables (including dividends receivable and interest receivable) are listed as follows:

	31 December 2019
Times Semiconductor	183,704,742
Baoji Times	159,534,590
Times Signal & Communication	69,323,045
HK Electric	48,495,530
Ningbo Times	87,493,986
	<u>548,551,893</u>

	31 December 2018
Baoji Times	282,865,890
Ningbo Electric	100,600,000
Times Signal & Communication	69,035,826
Ningbo Times	95,157,562
HK Electric	85,820,473
	<u>633,479,751</u>

6.2 Dividends receivable

	31 December 2019	31 December 2018
Baoji Times	153,906,837	77,220,000
Ningbo Times	48,800,000	38,200,000
Ningbo Electric	-	3,000,000
Qingdao Electric	-	2,340,000
	<u>202,706,837</u>	<u>120,760,000</u>

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

6.3 Other receivables

(1) Disclosed by aging

	31 December 2019	31 December 2018
Within 1 year	279,728,924	483,779,843
1 to 2 years	114,347,447	83,443,222
2 to 3 years	37,640,024	23,611,574
Over 3 years	1,661,647	1,636,778
	<u>433,378,042</u>	<u>592,471,417</u>
Less: Provision for credit loss	2,435,591	1,901,950
	<u>430,942,451</u>	<u>590,569,467</u>

(2) Classification of other receivables by nature is as follows:

	31 December 2019	31 December 2018
Trade receivables due from subsidiaries	399,906,761	520,840,336
Tender deposit	25,346,321	44,200,248
Deposit	1,430,961	20,008,386
Others	4,258,408	5,520,497
	<u>430,942,451</u>	<u>590,569,467</u>

(3) Provision for credit loss of other receivables are as follows:

	2019	2018
12-month expected credit losses		
Opening balance	1,901,950	8,433,273
Provision in the current year	1,669,771	–
Reversal in the current year	(24,771)	(6,531,323)
Write-off in the current year	(1,000,000)	–
Transfer-out in the current year (Note)	(111,359)	–
	<u>2,435,591</u>	<u>1,901,950</u>

Note: In 2019, the Company increased capital contribution to the Times Semiconductor in physical assets, and transferred relevant assets to the Times Semiconductor.

Notes to the Financial Statements

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

7. Inventories

	31 December 2019		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	1,039,870,538	49,221,644	990,648,894
Semi-finished products	137,034,001	4,714,361	132,319,640
Work in progress	23,088,654	–	23,088,654
Finished goods	1,349,715,144	3,746,334	1,345,968,810
Turnover materials	2,276,989	22,943	2,254,046
	<u>2,551,985,326</u>	<u>57,705,282</u>	<u>2,494,280,044</u>

	31 December 2018		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	556,614,475	49,056,568	507,557,907
Semi-finished products	397,195,978	14,148,606	383,047,372
Work in progress	161,436,803	–	161,436,803
Finished goods	1,443,317,304	6,364,995	1,436,952,309
Turnover materials	22,241,915	736,367	21,505,548
	<u>2,580,806,475</u>	<u>70,306,536</u>	<u>2,510,499,939</u>

The movements of provision for impairment of inventories are listed as follows:

2019

	1 January	Provision	Reversal	Write-off	31 December
	2019				2019
Raw materials	49,056,568	5,012,502	–	(4,847,426)	49,221,644
Semi-finished products	14,148,606	3,527,878	(250,745)	(12,711,378)	4,714,361
Finished goods	6,364,995	–	(2,618,661)	–	3,746,334
Turnover materials	736,367	961,379	(46,958)	(1,627,845)	22,943
	<u>70,306,536</u>	<u>9,501,759</u>	<u>(2,916,364)</u>	<u>(19,186,649)</u>	<u>57,705,282</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

7. Inventories (continued)

2018

	1 January 2018	Provision	Reversal	Consolidated transfer-in	31 December 2018
Raw materials	77,434,053	3,413,127	(32,237,302)	446,690	49,056,568
Semi-finished products	71,548,958	903,292	(58,383,740)	80,096	14,148,606
Finished goods	29,557,995	590,983	(23,892,760)	108,777	6,364,995
Turnover materials	1,183,751	482,519	(933,269)	3,366	736,367
	<u>179,724,757</u>	<u>5,389,921</u>	<u>(115,447,071)</u>	<u>638,929</u>	<u>70,306,536</u>

8. Contract assets

(1) Details of contract assets

	31 December 2019		
	Gross carrying amount	Provision for credit loss	Carrying amount
Warranty provision receivable	409,394,473	8,487,607	400,906,866
Less: Contract assets recorded in other non-current assets	<u>345,977,266</u>	<u>7,101,276</u>	<u>338,875,990</u>
	<u>63,417,207</u>	<u>1,386,331</u>	<u>62,030,876</u>

	31 December 2018		
	Gross carrying amount	Provision for credit loss	Carrying amount
Warranty provision receivable	70,695,989	1,550,702	69,145,287
Less: Contract assets recorded in other non-current assets	<u>24,777,668</u>	<u>807,758</u>	<u>23,969,910</u>
	<u>45,918,321</u>	<u>742,944</u>	<u>45,175,377</u>

Notes to the Financial Statements

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Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

8. Contract assets (continued)

(2) Provision for credit losses of contract assets

	2019	2018
Opening balance	1,550,702	–
Provision in the current year	6,936,905	1,550,702
Closing balance	8,487,607	1,550,702

As at 31 December 2019 and 31 December 2018, the Company had no credit-impaired contract assets.

(2) Provision for credit losses of contract assets (continued)

Contract assets are disclosed by category on a portfolio and credit basis as follows:

As at 31 December 2019

Credit losses has not occurred	Proportion of provision %	Gross carrying amount	Provision for credit loss	Carrying amount
Category I	0.52	63,453,729	330,711	63,123,018
Category II	1.35	305,413,151	4,121,263	301,291,888
Category III	1.64	10,554,487	172,917	10,381,570
Category IV	12.89	29,973,106	3,862,716	26,110,390
Total	2.07	409,394,473	8,487,607	400,906,866

As at 31 December 2018

Credit losses has not occurred	Proportion of provision %	Gross carrying amount	Credit impairment provision	Carrying amount
Category I	0.48	34,515,762	165,283	34,350,479
Category II	0.77	3,094,212	23,974	3,070,238
Category III	0.46	9,238,975	42,650	9,196,325
Category IV	5.53	23,847,040	1,318,795	22,528,245
Total	2.19	70,695,989	1,550,702	69,145,287

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

9. Other current assets

	31 December 2019	31 December 2018
Bank financial products	–	2,034,610,548
Structural deposits (Note)	100,000,000	600,000,000
Value-added tax retained	261,837,203	7,591,869
Other taxes retained	73,020,686	50,042,734
	<u>434,857,889</u>	<u>2,692,245,151</u>

Note: As at 31 December 2019, the Company had structural deposits with fixed income and yield rate per annum of 3.50% whose counterparties were all banks with high-level credit ratings. Therefore, the credit risk was low. These structural deposits have been matured on 27 January 2020.

10. Long-term equity investments

	31 December 2019	31 December 2018
Long-term equity investments using equity method	338,095,501	311,424,236
Long-term equity investments using cost method	5,124,623,010	2,430,548,024
	5,462,718,511	2,741,972,260
Less: Provision for impairment of long-term equity investments	246,169,001	178,169,001
	<u>5,216,549,510</u>	<u>2,563,803,259</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

Movements in provision for impairment of long-term equity investments are as follows:

	2019	2018
Opening balance	178,169,001	178,169,001
Provision in the current year	68,000,000	—
Closing balance	246,169,001	178,169,001

Long-term equity investments using equity method 2019

	1 January 2019	Investment	Investment income recognized under equity method	Cash dividends announced	31 December 2019
Non-listed investments Equity method					
Joint ventures					
Shiling	208,360,915	—	303,003	—	208,663,918
Wenzhou Electric	15,783,118	—	237,683	—	16,020,801
Shanghai Shentong CRRC	6,257,031	—	311,285	(225,000)	6,343,316
Sub-total	230,401,064	—	851,971	(225,000)	231,028,035
Associates					
Zhuzhou Siemens	45,790,970	—	171,226	—	45,962,196
CRRC Wabtec	10,232,202	—	839,798	—	11,072,000
Guoxin Technology	25,000,000	25,000,000	33,270	—	50,033,270
Sub-total	81,023,172	25,000,000	1,044,294	—	107,067,466
Total	311,424,236	25,000,000	1,896,265	(225,000)	338,095,501

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

Long-term equity investments using equity method (continued)

2018

	1 January 2018	Investment	Impact of unrealized profits	Investment income recognized under equity method	Cash dividends announced	Other equity increase	31 December 2018
Non-listed investments							
Equity method							
Joint ventures							
Shiling	203,530,474	-	10,119,017	211,424	(5,500,000)	-	208,360,915
Shanghai Shentong CRRC	6,084,780	-	-	172,251	-	-	6,257,031
Wenzhou Electric	-	-	-	204,724	-	15,578,394	15,783,118
Sub-total	<u>209,615,254</u>	<u>-</u>	<u>10,119,017</u>	<u>588,399</u>	<u>(5,500,000)</u>	<u>15,578,394</u>	<u>230,401,064</u>
Associates							
Zhuzhou Siemens	47,640,792	-	-	(1,849,822)	-	-	45,790,970
CRRC Wabtec	12,970,788	-	-	(2,738,586)	-	-	10,232,202
Guoxin Technology	-	25,000,000	-	-	-	-	25,000,000
Sub-total	<u>60,611,580</u>	<u>25,000,000</u>	<u>-</u>	<u>(4,588,408)</u>	<u>-</u>	<u>-</u>	<u>81,023,172</u>
Total	<u>270,226,834</u>	<u>25,000,000</u>	<u>10,119,017</u>	<u>(4,000,009)</u>	<u>(5,500,000)</u>	<u>15,578,394</u>	<u>311,424,236</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

Long-term equity investments using cost method

2019

	Opening balance	Changes for the current year	Closing balance
Non-listed investments			
Times Electronics	182,977,618	–	182,977,618
Ningbo Times	133,507,255	–	133,507,255
Times USA	3,187,516	–	3,187,516
Shenyang Times	56,000,000	–	56,000,000
Baoji Times (Note 1)	260,000,000	300,000,000	560,000,000
Kunming Electric	55,000,000	–	55,000,000
Hangzhou Electric	33,000,000	–	33,000,000
Guangzhou Times	18,000,000	–	18,000,000
HK Electric	731,009,400	–	731,009,400
Times Australia	1,814,037	–	1,814,037
Ningbo Electric (Note 2)	10,000,000	100,000,000	110,000,000
Times Brasil	4,062,679	–	4,062,679
Qingdao Electric	45,000,000	–	45,000,000
Times Software	50,000,000	–	50,000,000
Shanghai CRRC Railway	25,500,000	–	25,500,000
Times Signal & Communication	229,000,000	–	229,000,000
Lanzhou Times	25,500,000	–	25,500,000
ZNERCC	280,654,981	–	280,654,981
Shanghai SMD	30,000,000	–	30,000,000
Shanghai Yongdian	9,794,810	–	9,794,810
Chengdu Electric	30,000,000	–	30,000,000
Times Semiconductor (Note 3)	–	2,228,136,494	2,228,136,494
Dynex (Note 4)	216,539,728	65,938,492	282,478,220
	<u>2,430,548,024</u>	<u>2,694,074,986</u>	<u>5,124,623,010</u>
Less: Provision for impairment of long-term equity investments (Note 5)	<u>178,169,001</u>	<u>68,000,000</u>	<u>246,169,001</u>
	<u>2,252,379,023</u>	<u>2,626,074,986</u>	<u>4,878,454,009</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

Long-term equity investments using cost method (continued)

- Note 1: In December 2019, the Company unilaterally increased capital contribution of RMB300,000,000 to its subsidiary, Baoji Times. The Company's equity in Baoji Times rose from 85.8% to 90.15% upon the capital increase.
- Note 2: In July 2019, the Company made a capital increment of RMB100,000,000 in cash to its wholly-owned subsidiary Ningbo Electric.
- Note 3: In January 2019, the Company contributed RMB100,000,000 in cash to Times Semiconductor, its wholly-owned subsidiary; in October 2019, the Company increased capital contribution of RMB2,128,136,494 to Times Semiconductor in physical assets.
- Note 4: On 15 March 2019, the Company acquired all issued and outstanding ordinary shares of its subsidiary Dynex, at the price of 0.65 CAD per share in cash, amounting to RMB65,938,492 in total, and Dynex became a wholly-owned subsidiary of the Company.
- Note 5: The Company assessed the recoverable amount of the asset group giving rise to SMD goodwill, and identified that SMD goodwill suffered from impairment, amounting to RMB68,000,000 in 2019 (2018: nil).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

Long-term equity investments using cost method (continued)

2018

	Opening balance	Changes for the current year	Closing balance
Non-listed investments			
Times Electronics	182,977,618	–	182,977,618
Ningbo Times	133,507,255	–	133,507,255
Times USA	3,187,516	–	3,187,516
Times Equipment	99,561,157	(99,561,157)	–
Shenyang Times	56,000,000	–	56,000,000
Baoji Times	260,000,000	–	260,000,000
Kunming Electric	55,000,000	–	55,000,000
Hangzhou Electric	33,000,000	–	33,000,000
Guangzhou Times	18,000,000	–	18,000,000
HK Electric	352,308,400	378,701,000	731,009,400
Times Australia	1,814,037	–	1,814,037
Ningbo Electric	10,000,000	–	10,000,000
Times Brasil	4,062,679	–	4,062,679
Qingdao Electric	45,000,000	–	45,000,000
Wenzhou Electric	15,300,000	(15,300,000)	–
Times Software	50,000,000	–	50,000,000
Shanghai CRRC Railway	25,500,000	–	25,500,000
Times Signal & Communication	129,000,000	100,000,000	229,000,000
Lanzhou Times	25,500,000	–	25,500,000
ZNERCC	280,654,981	–	280,654,981
Shanghai SMD	30,000,000	–	30,000,000
Shanghai Yongdian	9,794,810	–	9,794,810
Chengdu Electric	30,000,000	–	30,000,000
	1,850,168,453	363,839,843	2,214,008,296
Listed investments			
Dynex	216,539,728	–	216,539,728
	2,066,708,181	363,839,843	2,430,548,024
Less: Provision for impairment of long-term equity investments	178,169,001	–	178,169,001
	<u>1,888,539,180</u>	<u>363,839,843</u>	<u>2,252,379,023</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

11. Fixed assets

(1) Fixed assets

2019

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
1 January 2019	1,248,930,883	1,966,283,653	28,691,226	268,560,286	3,512,466,048
Purchase	–	33,783,522	554,236	47,027,502	81,365,260
Transferred from construction in progress	148,783,985	150,082,860	–	26,072,946	324,939,791
Sale and retirement	–	(7,777,263)	(3,923,804)	(6,583,606)	(18,284,673)
Transfer to Times Semiconductor (Note)	(613,464,675)	(1,375,125,490)	(1,296,101)	(87,340,294)	(2,077,226,560)
31 December 2019	<u>784,250,193</u>	<u>767,247,282</u>	<u>24,025,557</u>	<u>247,736,834</u>	<u>1,823,259,866</u>
Accumulated depreciation					
1 January 2019	273,610,922	897,974,710	21,795,556	140,735,728	1,334,116,916
Provision	38,026,059	167,656,068	2,123,607	34,081,589	241,887,323
Write-off	–	(6,803,255)	(3,713,523)	(4,570,396)	(15,087,174)
Transfer to Times Semiconductor (Note)	(81,078,615)	(551,618,593)	(492,424)	(21,023,752)	(654,213,384)
31 December 2019	<u>230,558,366</u>	<u>507,208,930</u>	<u>19,713,216</u>	<u>149,223,169</u>	<u>906,703,681</u>
Impairment provision					
1 January 2019	10,513,264	46,279,869	–	696,752	57,489,885
Write-off	–	(540,071)	–	(600,591)	(1,140,662)
Transfer to Times Semiconductor (Note)	–	(17,191,329)	–	(6,967)	(17,198,296)
31 December 2019	<u>10,513,264</u>	<u>28,548,469</u>	<u>–</u>	<u>89,194</u>	<u>39,150,927</u>
Carrying amount					
31 December 2019	<u>543,178,563</u>	<u>231,489,883</u>	<u>4,312,341</u>	<u>98,424,471</u>	<u>877,405,258</u>
1 January 2019	<u>964,806,697</u>	<u>1,022,029,074</u>	<u>6,895,670</u>	<u>127,127,806</u>	<u>2,120,859,247</u>

Note: In 2019, the Company increased capital contribution to Times Semiconductor in physical assets, and transferred relevant assets to the Times Semiconductor company.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

11. Fixed assets (continued)

(1) Fixed assets (continued)

2018

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
1 January 2018	1,239,416,587	1,737,202,023	27,920,433	222,214,313	3,226,753,356
Purchase	–	50,554,737	2,393,894	52,670,901	105,619,532
Transferred from construction in progress	9,514,296	203,283,504	–	1,957,860	214,755,660
Sale and retirement	–	(24,756,611)	(1,623,101)	(8,282,788)	(34,662,500)
31 December 2018	<u>1,248,930,883</u>	<u>1,966,283,653</u>	<u>28,691,226</u>	<u>268,560,286</u>	<u>3,512,466,048</u>
Accumulated depreciation					
1 January 2018	233,770,055	742,571,349	19,737,832	115,184,744	1,111,263,980
Provision	39,840,867	175,767,701	3,339,788	30,735,157	249,683,513
Write-off	–	(20,364,340)	(1,282,064)	(5,184,173)	(26,830,577)
31 December 2018	<u>273,610,922</u>	<u>897,974,710</u>	<u>21,795,556</u>	<u>140,735,728</u>	<u>1,334,116,916</u>
Impairment provision					
1 January 2018	10,513,264	47,804,752	–	703,720	59,021,736
Write-off	–	(1,524,883)	–	(6,968)	(1,531,851)
31 December 2018	<u>10,513,264</u>	<u>46,279,869</u>	<u>–</u>	<u>696,752</u>	<u>57,489,885</u>
Carrying amount					
31 December 2018	<u>964,806,697</u>	<u>1,022,029,074</u>	<u>6,895,670</u>	<u>127,127,806</u>	<u>2,120,859,247</u>
1 January 2018	<u>995,133,268</u>	<u>946,825,922</u>	<u>8,182,601</u>	<u>106,325,849</u>	<u>2,056,467,640</u>

(2) As at 31 December 2019, the Company had no temporarily idle fixed assets.

(3) As at 31 December 2019, the fixed assets leased out by the Company through operating lease were buildings, carrying an amount of RMB33,331,720 (2018: RMB40,066,397).

(4) As at 31 December 2019 and 31 December 2018, there were no buildings for which the certificate of title had not yet been transacted.

Notes to the Financial Statements

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Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

12. Construction in progress

	31 December 2019	31 December 2018
Innovation experiment platform construction project	30,291,863	29,894,316
The revamping and expansion of high voltage IGBT chip module production line	24,657,434	16,625,106
Data centre computer room	8,273,087	4,821,690
Office renovation	7,697,056	–
Semiconductor intelligent manufacturing project	3,247,955	3,028,576
Semiconductor key lab construction project	–	144,742,066
Development of electrical drive system for passenger cars and tester of industrialized power drive	–	10,062,925
Others	9,675,922	17,324,654
	83,843,317	226,499,333

The movements of construction in progress in 2019 are as follows:

	Budget	1 January 2019	Increase	Transferred to fixed assets	Transferred to Times Semiconductor (Note)	31 December 2019	Capital resource	Proportion of projects investment to budget
Innovation experiment platform construction project	964,500,000	29,894,316	397,547	–	–	30,291,863	Self-raised	3%
The revamping and expansion of high voltage IGBT chip module production line	505,000,000	16,625,106	83,497,337	75,465,009	–	24,657,434	Government grant and self-raised	22%
Data centre computer room	16,500,000	4,821,690	3,451,397	–	–	8,273,087	Self-raised	50%
Office renovation	8,000,000	–	7,697,056	–	–	7,697,056	Self-raised	96%
Semiconductor intelligent manufacturing project	43,400,000	3,028,576	22,170,122	21,950,743	–	3,247,955	Self-raised	58%
Semiconductor key lab construction project	341,880,000	144,742,066	16,412,625	161,154,691	–	–	Government grant and self-raised	67%
Development of electrical drive system for passenger cars and tester of industrialized power drive	12,000,000	10,062,925	72,768	10,135,693	–	–	Self-raised	84%
Others		17,324,654	136,252,522	56,233,655	87,667,599	9,675,922		
		226,499,333	269,951,374	324,939,791	87,667,599	83,843,317		

Note: In 2019, the Company increased capital contribution to Times Semiconductor in physical assets, and transferred relevant assets to Times Semiconductor.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

The movements of construction in progress in 2018 are as follows:

	Budget	1 January 2018	Increase	Transferred to fixed assets	31 December 2018	Capital resource	Proportion of projects investment to budget
Semiconductor key lab construction project	341,880,000	131,826,777	69,540,792	56,625,503	144,742,066	Government grant	62%
Innovation experiment platform construction project	935,800,000	-	29,894,316	-	29,894,316	Self-raised	3%
The revamping and expansion of high voltage IGBT chip module production line	505,000,000	451,165	16,173,941	-	16,625,106	Government grant and self-raised	3%
Development of electrical drive system for passenger cars and tester of industrialized power drive	12,000,000	-	10,062,925	-	10,062,925	Self-raised	84%
Data centre computer room	16,500,000	-	4,821,690	-	4,821,690	Self-raised	29%
High temperature ion implantation equipment	13,780,200	13,404,421	1,488,381	14,892,802	-	Self-raised	100%
High temperature ion implantation equipment	13,500,000	13,241,298	146,305	13,387,603	-	Government grant and self-raised	100%
Low pressure chemical vapour deposition	11,372,775	7,105,167	4,821,673	11,926,840	-	Self-raised	100%
Renovation of logistics warehouse for passenger cars electrical drive system	28,980,000	6,947,364	63,208	7,010,572	-	Self-raised	29%
Power cycle tester of press pack IGBT	9,264,189	6,376,617	3,563,442	9,940,059	-	Self-raised	100%
Auto silver sintering equipment	5,929,748	5,218,349	579,265	5,797,614	-	Self-raised	98%
ICP etching machine	7,820,784	4,954,139	3,307,035	8,261,174	-	Self-raised	100%
Power curve tracer and semi-automatic probe station	4,893,776	3,004,741	1,965,824	4,970,565	-	Self-raised	100%
Others		32,162,759	70,133,399	81,942,928	20,353,230		
		<u>224,692,797</u>	<u>216,562,196</u>	<u>214,755,660</u>	<u>226,499,333</u>		

The Company received special loan for semiconductor key lab construction project. The capitalized interest for the current year amounted to RMB346,849 (2018: the capitalized interest was RMB667,413). As at 31 December 2019, among the balance of construction in progress, the accumulated capitalized interest amounted to RMB400,355 (As at 31 December 2018: the accumulated capitalized interest was RMB3,033,982).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

13. Intangible assets

The movements of intangible assets in 2019 are as follows:

	Land use rights	Software licenses	Patents, licenses and know-how	Total
Cost				
1 January 2019	110,469,384	116,753,444	471,376,134	698,598,962
Purchase	-	9,029,960	9,161,500	18,191,460
Transferred from development expenditure	-	-	92,767,467	92,767,467
Decrease in current Year	-	-	-	-
Transfer to Times Semiconductor (Note)	(35,974,978)	(6,303,206)	(9,144,790)	(51,422,974)
31 December 2019	74,494,406	119,480,198	564,160,311	758,134,915
Accumulated amortization				
1 January 2019	20,175,389	80,336,887	113,719,541	214,231,817
Provision	2,017,248	10,756,206	48,813,343	61,586,797
Decrease in current year	-	-	-	-
Transfer to Times Semiconductor (Note)	(2,338,373)	(2,925,174)	(9,144,790)	(14,408,337)
31 December 2019	19,854,264	88,167,919	153,388,094	261,410,277
Impairment provision				
Closing and opening balance	-	-	131,627,620	131,627,620
Carrying amount				
31 December 2019	54,640,142	31,312,279	279,144,597	365,097,018
1 January 2019	90,293,995	36,416,557	226,028,973	352,739,525

Note: In 2019, the Company increased capital contribution to the Times Semiconductor in physical assets, and transferred relevant assets to the Times Semiconductor.

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

13. Intangible assets (continued)

The movements of intangible assets in 2018 are as follows:

	Land use rights	Software licenses	Patents, licenses and know-how	Total
Cost				
1 January 2018	110,469,384	98,991,936	410,916,476	620,377,796
Purchase	–	17,591,848	17,352,340	34,944,188
Merger by absorption (Note)	–	169,660	6,473,204	6,642,864
Transferred from development expenditure	–	–	36,634,114	36,634,114
31 December 2018	110,469,384	116,753,444	471,376,134	698,598,962
Accumulated amortization				
1 January 2018	17,970,150	73,085,620	73,977,212	165,032,982
Provision	2,205,239	7,251,267	39,742,329	49,198,835
31 December 2018	20,175,389	80,336,887	113,719,541	214,231,817
Impairment provision				
Closing and opening balance	–	–	131,627,620	131,627,620
Net carrying amount				
31 December 2018	90,293,995	36,416,557	226,028,973	352,739,525
1 January 2018	92,499,234	25,906,316	205,311,644	323,717,194

Note: In May 2018, Zhuzhou CRRC Times Equipment Technology Co., Ltd., the wholly-owned subsidiary of the Company, was merged by the Company and transferred in the intangible assets.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

14. Deferred tax assets

Deferred tax assets recognized:

	31 December 2019		31 December 2018	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for product quality warranties	686,022,340	102,903,351	580,564,102	87,084,615
Provision for credit loss	188,275,612	28,240,889	146,028,439	21,904,266
Asset impairment provision	159,718,231	23,957,735	203,821,206	30,573,181
Government grant	343,133,904	51,470,086	428,756,137	64,313,421
Depreciation differences arising from tax laws and accounting	43,197,894	6,479,684	61,122,287	9,168,343
Accrued expenses	65,891,042	9,883,656	51,079,518	7,661,926
Employee benefits accrued but unpaid	67,531,936	10,129,790	67,638,145	10,145,722
Changes in fair value of financial assets at FVTOCI	49,551,782	7,432,767	16,907,675	2,536,151
Others	11,027,661	1,654,150	13,843,697	2,076,555
	<u>1,614,350,402</u>	<u>242,152,108</u>	<u>1,569,761,206</u>	<u>235,464,180</u>

Deductible temporary differences for which deferred tax assets were not recognized:

	31 December 2019	31 December 2018
Deductible temporary differences	<u>196,469,741</u>	<u>143,095,974</u>

15. Bills payable

	31 December 2019	31 December 2018
Bank acceptance bills	972,791,996	931,169,455
Commercial acceptance bills	<u>257,204,575</u>	<u>413,595,000</u>
	<u>1,229,996,571</u>	<u>1,344,764,455</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

16. Trade payables

Trade payables are set out as follows:

	31 December 2019	31 December 2018
Within 3 months	3,415,645,382	2,579,406,156
3 months to 1 year	1,478,229,525	1,193,042,623
1 to 2 years	131,741,458	164,331,051
2 to 3 years	98,948,322	80,424,894
Over 3 years	98,653,452	98,389,502
	5,223,218,139	4,115,594,226
Less: Classified as long-term payables	16,517,630	41,525,173
	5,206,700,509	4,074,069,053

The trade payables are non-interest-bearing and generally repaid within 3 months.

17. Contract liabilities

	31 December 2019	31 December 2018
Within 1 year	576,146,965	360,354,410
1 to 2 years	138,675,106	123,768,446
2 to 3 years	26,266,933	13,022,838
Over 3 years	4,934,379	4,647,322
	746,023,383	501,793,016

18. Taxes payable

	31 December 2019	31 December 2018
Corporate income tax	–	4,607,440
Value-added tax	–	27,948,610
City maintenance and construction tax and educational surcharge	555	7,384,819
Individual income tax	13,738,014	50,523,807
Others	1,401,224	1,828,618
	15,139,793	92,293,294

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

19. Other payables

19.1 Summary of other payables

	31 December 2019	31 December 2018
Interest payable	–	–
Dividends payable	–	–
Other payables	687,538,734	555,091,881
	687,538,734	555,091,881

19.2 Other payables

(1) Other payables are analyzed by nature as follows:

	31 December 2019	31 December 2018
Deposits and pledges	187,114,254	218,537,792
Amounts due to related companies	236,709,691	169,630,472
Government subsidies to be distributed (Note 1)	65,891,042	51,079,518
Recovery of factoring (Note 2)	193,871,569	114,701,804
Others	3,952,178	1,142,295
	687,538,734	555,091,881

Note 1: Government subsidies to be distributed are all amounts due to related companies.

Note 2: On 23 December 2019, the Company and China Merchants Bank Zhuzhou Branch ("CMB") entered into a transfer contact of trade receivables. The Company derecognised the trade receivables for the Company has lost the right of recourse against the trade receivables and has transferred substantially all risks and rewards. On 31 December 2019, the Company received from the original debtor of the trade receivables, which were presented as other payables.

On 27 December 2018, the Company and China Construction Bank Zhuzhou Branch ("CCB") entered into a transfer contact of trade receivables. The Group derecognised the trade receivables for the Company has lost the right of recourse against the trade receivables and has transferred substantially all risks and rewards. On 28 December 2018, the Company received from the original debtor of the trade receivables, which were presented as other payables.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

19. Other payables (continued)

19.2 Other payables (continued)

(2) The aging analysis of other payables by nature is as follows:

	31 December 2019	31 December 2018
Within 1 year	415,869,845	286,968,417
1 to 2 years	33,631,682	63,762,151
2 to 3 years	33,777,814	60,933,192
Over 3 years	<u>204,259,393</u>	<u>143,428,121</u>
	<u>687,538,734</u>	<u>555,091,881</u>

20. Long-term borrowings

	31 December 2019	31 December 2018
Unsecured loans	92,688,000	97,688,000
Less: Long-term borrowings due within one year	<u>5,000,000</u>	<u>5,000,000</u>
	<u>87,688,000</u>	<u>92,688,000</u>

Maturity analysis:

	31 December 2019	31 December 2018
Due within 1 year	5,000,000	5,000,000
Due within 1 to 2 years	5,000,000	5,000,000
Due within 2 to 5 years	15,000,000	15,000,000
Due more than 5 years	<u>67,688,000</u>	<u>72,688,000</u>
	<u>92,688,000</u>	<u>97,688,000</u>

As at 31 December 2019, the annual interest rate of the above borrowings was 1.08% (31 December 2018: 1.08%).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

21. Lease liabilities

	31 December 2019
Lease liabilities	32,566,770
Less: Classified as non-current liabilities due within one year	<u>5,567,273</u>
	<u>26,999,497</u>

22. Provisions

As at 31 December 2019

	Opening balance	Increase	Decrease	Closing balance
Provision for product quality warranties	580,564,102	<u>591,619,409</u>	<u>486,161,171</u>	686,022,340
Less: Provisions used up within one year	<u>232,621,056</u>			<u>275,229,129</u>
	<u>347,943,046</u>			<u>410,793,211</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

22. Provisions (continued)

As at 31 December 2018

	Opening balance	Increase	Decrease	Closing balance
Provision for product quality warranties	480,116,087	<u>620,152,570</u>	<u>519,704,555</u>	580,564,102
Less: Provisions used up within one year	<u>168,316,523</u>			<u>232,621,056</u>
	<u>311,799,564</u>			<u>347,943,046</u>

23. Deferred income

	31 December 2019	31 December 2018
Government grant related to assets	206,998,524	251,390,390
Government grant related to incomes	<u>136,135,380</u>	<u>177,365,747</u>
Total	<u>343,133,904</u>	<u>428,756,137</u>
Including: Deferred income amortized within one year	17,759,352	101,527,579

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

23. Deferred income (continued)

In 2019, the government grants are as follows:

	1 January 2019	Increase	Recognized as other income	31 December 2019	Related to asset/ income
Research on key technologies of high speed maglev transportation	39,670,000	15,896,900	-	55,566,900	Income
The revamping of high voltage and low voltage IGBT chip module production line	50,000,000	-	-	50,000,000	Asset
Construction of R&D and trial-manufacturing center of IGBT for electric vehicles	50,000,000	-	-	50,000,000	Asset
8-inch IGBT intelligent manufacturing and digital factory construction item	42,000,000	-	-	42,000,000	Asset
Industrial foundation fortification project-production of IGBT module for alternative fuel automobiles	23,340,000	-	-	23,340,000	Asset
Maotangao staff dorm building construction project	18,613,718	-	(454,918)	18,158,800	Asset
SIC-based power electronic devices lab & fab construction project (SIC base industrial construction project fund)	17,000,000	-	(3,359,984)	13,640,016	Asset
Research and development of power transmission and control system	10,305,000	808,500	-	11,113,500	Income
8 MW golden sun demonstration project	21,783,333	-	(10,891,667)	10,891,666	Asset
Hunan governmental earmark on the development of mobile internet industry in 2016	5,000,000	-	-	5,000,000	Asset
Construction of intelligent manufacturing works for core components of rolling stock	5,000,000	-	(902,778)	4,097,222	Asset
R&D, industrialization of 6-inch SIC Wafer and application in high power IGBT	7,932,505	-	(5,973,033)	1,959,472	Asset
Photovoltaic power generation comprehensive test system construction project	2,691,667	-	(1,900,000)	791,667	Asset
Industrialization of 200KM EMU AC Drive & network control system and ATP control device	2,691,667	-	(1,900,000)	791,667	Asset
Test platforms of power electronics devices & electric drive systems	937,500	-	(250,000)	687,500	Asset
(Power electronics) integrated manufacturing technology R&D and industrialization of SIC based power electronic devices	77,456,200	-	(77,230,000)	226,200	Income
Others	54,334,547	49,685,183	(49,150,436)	54,869,294	Asset/Income
	<u>428,756,137</u>	<u>66,390,583</u>	<u>(152,012,816)</u>	<u>343,133,904</u>	

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

23. Deferred income (continued)

In 2018, the government grants are as follows:

	1 January 2018	Increase	Recognized as other income/ non-operating income	31 December 2018	Related to asset/income
(Power electronics) integrated manufacturing technology R&D and industrialization of devices	73,536,200	3,920,000	–	77,456,200	Income
The revamping of high voltage and low voltage IGBT chip module production line	50,000,000	–	–	50,000,000	Asset
Construction of R&D and trial-manufacturing center of IGBT for electric vehicles	50,000,000	–	–	50,000,000	Asset
8-inch IGBT intelligent manufacturing and digital factory construction item	–	42,000,000	–	42,000,000	Asset
Research on key technologies of high speed maglev transportation	15,800,000	23,870,000	–	39,670,000	Income
R&D, industrialization of 6-inch SIC wafer and application in high power IGBT	12,000,000	–	(4,067,495)	7,932,505	Asset
Industrial foundation fortification project-production of IGBT module for alternative fuel automobiles	23,340,000	–	–	23,340,000	Asset
8 MW golden sun demonstration project	32,675,000	–	(10,891,667)	21,783,333	Asset
Maotangao staff dorm building construction project	19,068,636	–	(454,918)	18,613,718	Asset
SIC-based power electronic devices lab & fab construction project (SIC base industrial construction project fund)	17,000,000	–	–	17,000,000	Asset
Construction of intelligent manufacturing works for core components of rolling stock	5,000,000	–	–	5,000,000	Asset
Hunan governmental earmark on the development of mobile internet industry in 2016	5,000,000	–	–	5,000,000	Asset
(Power electronics) research for power electronic devices & built for production line	4,800,000	–	(400,000)	4,400,000	Asset
Photovoltaic power generation comprehensive test system construction project	4,591,667	–	(1,900,000)	2,691,667	Asset
Industrialization of 200KM EMU AC drive & network control system and ATP control device	4,591,667	–	(1,900,000)	2,691,667	Asset
Test platforms of power electronics devices & electric drive systems	1,187,500	–	(250,000)	937,500	Asset
Manufacturing equipment and complete process of large-scale integrated circuit	–	31,913,800	(31,913,800)	–	Income
Others	55,953,739	41,123,559	(36,837,751)	60,239,547	Income
	<u>374,544,409</u>	<u>142,827,359</u>	<u>(88,615,631)</u>	<u>428,756,137</u>	

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

24. Revenue and cost of sales

(1) Revenue is listed as follows:

	2019	2018
Revenue from principal operations	11,660,829,769	10,595,097,345
Other operating income	664,488,928	<u>433,824,328</u>
	<u>12,325,318,697</u>	<u>11,028,921,673</u>

(2) Details of revenue is listed as follows:

	2019	2018
Revenue from sales of goods and raw materials	11,072,893,301	10,152,931,738
Maintenance income	1,210,488,957	820,849,216
Technical service income	22,596,949	35,300,052
Lease income	9,567,453	9,074,004
Others	9,772,037	<u>10,766,663</u>
	<u>12,325,318,697</u>	<u>11,028,921,673</u>

(3) Cost of sales is stated as follows:

	2019	2018
Cost of sales from principal operations	8,382,844,395	7,892,495,670
Other operating cost	594,939,961	<u>390,306,848</u>
	<u>8,977,784,356</u>	<u>8,282,802,518</u>

Notes to the Financial Statements

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Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

25. Tax and surcharges

	2019	2018
City maintenance and construction tax	39,152,225	21,375,523
Educational surcharges	27,965,875	15,268,231
Others	23,401,445	22,412,914
	<u>90,519,545</u>	<u>59,056,668</u>

26. Finance costs

	2019	2018
Interest expenses (Note)	11,725,627	2,401,760
Less: Capitalised interests	(346,849)	(667,413)
Interest income	(51,130,046)	(42,312,068)
Exchange gains	(2,807,211)	(25,459,013)
Service charges of financial institutions	5,622,745	5,219,127
Cash discount income, etc	(6,487,217)	808,178
	<u>(43,422,951)</u>	<u>(60,009,429)</u>

Note: Interest expenses include interest expenses arising from lease liabilities amounting to RMB1,506,934 (2018: not appropriate) and factoring expenses amounting to RMB8,531,821 (2018: nil).

27. Other income

	2019	2018
Technology project fund	109,755,600	72,470,786
Government awards	42,257,216	16,144,845
	<u>152,012,816</u>	<u>88,615,631</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

28. Investment income

	2019	2018
Income from non-listed investments:		
Long-term equity investments income under the cost method	1,549,588,347	1,119,566,600
Long-term equity investments income under the equity method	1,896,265	6,119,008
Investment income on disposal of held-for-trading financial assets	106,887,877	84,973,649
Investment income on disposal of equity instruments	51,084	—
	<u>1,658,423,573</u>	<u>1,210,659,257</u>

29. Credit impairment losses

	2019	2018
Credit impairment losses of bills receivable	(42,405,188)	61,387,616
Credit impairment losses of trade receivables	78,140,205	(43,762,602)
Credit impairment losses of other receivables	1,645,000	(6,531,323)
Credit impairment losses of contract assets	643,386	742,944
Credit impairment losses of other non-current assets	6,293,519	807,758
	<u>44,316,922</u>	<u>12,644,393</u>

30. Asset impairment losses

	2019	2018
Provision for impairment of long-term equity investment	68,000,000	—
Loss from decline in value of inventories	6,585,395	(110,057,149)
	<u>74,585,395</u>	<u>(110,057,149)</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

31. Non-operating income

	2019	2018
Government grant	–	–
Penalty income and default compensation income	1,527,892	23,920
Others	7,578,481	3,504,751
	<u>9,106,373</u>	<u>3,528,671</u>

32. Non-operating expenses

	2019	2018
Penalty expenses	378	–
Others	140,015	27,871
	<u>140,393</u>	<u>27,871</u>

33. Income tax expenses

	2019	2018
Current income tax expenses		
– Mainland China	78,509,993	87,402,570
– Other countries and regions	627,126	1,928,544
Deferred tax expenses	(1,791,312)	(9,035,931)
	<u>77,345,807</u>	<u>80,295,183</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

33. Income tax expenses (continued)

	2019	2018
Total profit	<u>2,781,160,146</u>	<u>2,022,187,563</u>
Income tax expenses at statutory tax rate of 25%	695,290,037	505,546,891
Effect of preferential tax rate applicable to the Company	(278,116,015)	(201,091,786)
Profits and losses attributable to associates and joint ventures	(284,440)	(917,851)
Income not subject to tax	(233,017,696)	(167,934,990)
Additional deduction on research and development expenses	(100,987,792)	(59,012,636)
Expenses not deductible for tax	2,576,722	3,705,555
Deductible temporary differences not recognised	10,200,000	–
Effect of recognizing the deductible temporary differences unrecognized in the prior years	(2,193,935)	–
Effect on settlement and payment of annual PRC Enterprise Income Tax	<u>(16,121,074)</u>	<u>–</u>
Tax expenses at the Company's effective tax rate	<u>77,345,807</u>	<u>80,295,183</u>

34. Supplementary information to statement of cash flows

(1) Supplementary information to statement of cash flows

	2019	2018
Reconciliation of Net Profit to Cash Flow from Operating Activities:		
Net profit	2,703,814,339	1,941,892,380
Add: Asset impairment losses	74,585,395	(110,057,149)
Credit impairment losses	44,316,922	12,644,393
Depreciation of fixed asset	241,887,323	249,683,513
Depreciation of right-of-use assets	7,651,991	–
Amortisation of intangible assets	61,586,797	49,198,835
Decrease in special reserve	402,644	(3,910,737)
Losses (gains) on disposal of fixed assets, intangible assets and other long-term assets	18,140	(1,797,647)
Gains on fair value changes	(5,776,761)	–
Finance costs	11,378,778	1,734,347
Investment income	(1,658,423,573)	(1,210,659,257)
Increase in deferred tax assets	(1,791,312)	(15,468,720)
Decrease in inventories	9,634,500	73,315,274
(Increase) decrease in receivables under operating activities	(2,439,034,298)	606,406,721
Increase in payables under operating activities	<u>1,099,855,634</u>	<u>672,964,881</u>
Net Cash Flow from Operating Activities	<u>150,106,519</u>	<u>2,265,946,834</u>

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

34. Supplementary information to statement of cash flows (continued)

(1) Supplementary information to statement of cash flows (continued)

Net movement in cash and cash equivalents:

	2019	2018
Closing balance of cash	2,452,789,205	2,924,163,813
Less: Opening balance of cash	2,924,163,813	2,064,146,853
Net (decrease) increase in cash and cash equivalents	(471,374,608)	860,016,960

(2) Cash and cash equivalents

	31 December 2019	31 December 2018
Cash		
Including: Bank deposits on demand	2,452,789,205	2,924,163,813
Closing balance of cash and cash equivalents	2,452,789,205	2,924,163,813

35. Major transactions between the Company and its related parties

(1) Sales of goods to related parties

	2019	2018
Subsidiaries	1,566,932,463	1,133,825,028
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	5,619,310,928	5,159,270,968
Joint ventures of the Company	300,685,849	44,230,985
Corporation controlled by the Parent company	57,515,078	48,164,081
Associates of the ultimate holding group	30,483,689	55,992,454
Parent company	13,807,350	6,237,892
Associates of the Company	2,601,921	7,917,311
Joint ventures of the ultimate holding group	–	2,623,125
	7,591,337,278	6,458,261,844

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FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

35. Major transactions between the Company and its related parties (continued)

(2) Purchases of goods from related parties

	2019	2018
Subsidiaries	3,019,760,405	2,428,092,825
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	946,812,048	744,929,122
Corporation controlled by the parent company	604,828,291	458,577,465
Joint ventures of the Company	307,126,777	54,595,691
Associates of the Company	14,023,153	48,633,775
Joint ventures of the ultimate holding group	6,751,014	24,167,827
Parent company	2,785,507	4,716,781
	<u>4,902,087,195</u>	<u>3,763,713,486</u>

(3) Sales of electricity to related parties

	2019	2018
Subsidiaries	10,052,195	136,145
Corporation controlled by the parent company	3,080,258	1,765,344
Parent company	618,179	438,849
Associates of the Company	8,146	19,766
	<u>13,758,778</u>	<u>2,360,104</u>

(4) Purchases of electricity from related parties

	2019	2018
Subsidiaries	–	224,735
Corporation controlled by the parent company	–	174,120
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	–	131,541
	<u>–</u>	<u>530,396</u>

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

35. Major transactions between the Company and its related parties (continued)

(5) Purchases of fixed assets from related parties

	2019	2018
Subsidiaries	206,897	21,989,356
Corporation controlled by the parent company	344,658	—
	<u>551,555</u>	<u>21,989,356</u>

(6) Purchases of intangible assets from related parties

	2019	2018
Subsidiaries	<u>9,161,500</u>	<u>17,352,339</u>

(7) Related party leases

As a lessor

	2019	2018
Subsidiaries	3,489,753	2,682,684
Corporation controlled by the parent company	4,998,734	5,491,909
Parent company	3,136,073	3,539,936
Associates of the Company	417,878	454,854
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	<u>142,398</u>	<u>82,705</u>
	<u>12,184,836</u>	<u>12,252,088</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

35. Major transactions between the Company and its related parties (continued)

(7) Related party leases (continued)

As a lessee

	2019 (Note)	2018
Subsidiaries	–	402,668
Corporation controlled by the parent company	1,362,596	1,029,084
Parent company	610,827	2,031,888
Associates of the Zhuzhou ZELRI Group	–	1,241,013
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	–	377,480
	1,973,423	5,082,133

Note: The amount of 2019 only contain short-term leases.

During the year ended 31 December 2019, the cost of right-of-use assets that the Company leased from the Parent Company was RMB1,207,242 and corresponding interest expenses arising from lease liabilities amounting to RMB639,456. There was no right-of-use assets that the Company leased from the ultimate holding party other than the Zhuzhou ZELRI Group and corresponding interest expenses arising from lease liabilities amounting to RMB678,366. As at 31 December 2019, the lease liabilities to the Parent Company and the Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group were RMB617,624 and RMB491,370, respectively.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

35. Major transactions between the Company and its related parties (continued)

(8) Technical service provided to related parties

	2019	2018
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	6,598,774	12,333,462
Corporation controlled by the parent company	4,431,433	2,898,361
Parent company	1,334,902	1,323,617
Joint ventures of the ultimate holding group	–	6,790
	12,365,109	16,562,230

(9) Maintenance services provided to related parties

	2019	2018
Subsidiaries	72,303,506	113,949,365
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	1,092,096,476	696,897,274
Associates of the ultimate holding group	1,292,904	63,745,286
	1,165,692,886	874,591,925

(10) Technical service provided by related parties

	2019	2018
Subsidiaries	112,662,881	16,473,585
Parent company	179,896,226	209,509,000
Corporation controlled by the parent company	4,729,228	7,220,101
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	188,679	110,000
Joint ventures of the Company	–	215,000
	297,477,014	233,527,686

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

35. Major transactions between the Company and its related parties (continued)

(11) Fund lending to related parties

2019

	Lent amount	Interest rate	Start date	Expiry date
Subsidiaries	537,480,000	3.00%	25 August 2019	24 August 2021
Subsidiaries	45,750,500	3.00%	17 July 2019	16 July 2020
Subsidiaries	30,000,000	4.35%	18 May 2019	17 May 2020
Subsidiaries	30,000,000	4.35%	28 September 2019	27 September 2020
	<u>643,230,500</u>			

2018

	Lent amount	Interest rate	Start date	Expiry date
Subsidiaries	100,000,000	4.35%	24 October 2018	31 August 2019
Subsidiaries	50,000,000	4.35%	26 November 2018	31 August 2019
Subsidiaries	50,000,000	4.35%	25 November 2018	31 August 2019
Subsidiaries	30,000,000	4.35%	21 May 2018	17 May 2019
	<u>230,000,000</u>			

(12) Interest income from cash and bank balances

	2019	2018
Subsidiaries	28,749,179	29,565,371
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	<u>6,370,398</u>	<u>5,013,352</u>
	<u>35,119,577</u>	<u>34,578,723</u>

(13) Interest expenses of borrowings

	2019	2018
Subsidiaries	581,583	48,826
Controlling shareholders of the parent company	<u>724,997</u>	<u>1,096,009</u>
	<u>1,306,580</u>	<u>1,144,835</u>

The terms of the above sales and purchase transactions, sales and purchases of fixed assets and intangible assets, service transactions, and lease transactions with related parties were agreed by both parties.

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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

35. Major transactions between the Company and its related parties (continued)

(14) Guarantee provided to related parties

2019

	Guaranteed amount	Start date	Expiry date	Completed or not
Subsidiaries	179,156,000	5 November 2018	5 November 2021	No
Subsidiaries	247,655,100	17 October 2019	16 October 2020	No
Subsidiaries	100,651,100	17 October 2019	16 October 2020	No
Subsidiaries	85,963,680	17 October 2019	16 October 2020	No
Subsidiaries	<u>300,000,000</u>	1 November 2019	1 November 2020	No
	<u>913,425,880</u>			

2018

	Guaranteed amount	Start date	Expiry date	Completed or not
Subsidiaries	243,643,600	25 October 2018	25 October 2019	No
Subsidiaries	95,438,200	24 October 2018	24 October 2019	No
Subsidiaries	84,920,000	24 October 2018	24 October 2019	No
Subsidiaries	<u>175,240,000</u>	5 November 2018	5 November 2021	No
	<u>599,241,800</u>			

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FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

36. Amounts due from/to related parties

	31 December 2019	31 December 2018
Trade receivables (including long-term trade receivables):		
Subsidiaries	1,536,980,427	1,306,634,604
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	1,207,860,445	1,607,806,231
Joint ventures of the Company	137,589,236	86,485,618
Associates of the ultimate holding group	24,265,419	3,349,712
Associates of the Company	12,202,609	9,734,640
Parent company	10,490,184	6,572,409
Corporation controlled by the parent company	3,482,065	10,037,991
Joint ventures of the ultimate holding group	—	3,050,701
	<u>2,932,870,385</u>	<u>3,033,671,906</u>

	31 December 2019	31 December 2018
Bills receivable:		
Subsidiaries	9,100,000	14,800,000
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	836,623,935	1,602,753,540
Associates of the ultimate holding group	15,000,000	165,000,000
	<u>860,723,935</u>	<u>1,782,553,540</u>

	31 December 2019	31 December 2018
Prepayments:		
Subsidiaries	16,954,459	9,174,339
Parent company	108,220	145,020
	<u>17,062,679</u>	<u>9,319,359</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
Renminbi Yuan

XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

36. Amounts due from/to related parties (continued)

	31 December 2019	31 December 2018
Contract assets:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	30,851,047	20,980,325
Joint ventures of the ultimate holding group	34,253	-
Associates of the ultimate holding group	31,900	-
Corporation controlled by the parent company	-	54,000
	<u>30,917,200</u>	<u>21,034,325</u>

	31 December 2019	31 December 2018
Trade receivables financing:		
Subsidiaries	24,952,722	5,204,467
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	408,986,847	177,512,032
Parent company	43,322,502	7,518,476
Joint ventures of the ultimate holding group	2,848,316	-
Corporation controlled by the parent company	676,816	291,513
	<u>480,787,203</u>	<u>190,526,488</u>

	31 December 2019	31 December 2018
Other receivables:		
Subsidiaries	399,906,761	520,840,336
Parent company	2,230,700	1,081,500
Corporation controlled by the parent company	1,702,573	2,727
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	604,000	600,000
Associates of the Company	204,478	117,915
	<u>404,648,512</u>	<u>522,642,478</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

36. Amounts due from/to related parties (continued)

	31 December 2019	31 December 2018
Other non-current assets:		
Subsidiaries	–	1,100,000
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	29,064,409	8,051,584
Parent company	180,000	–
Corporation controlled by the parent company	–	8,669,283
	<u>29,244,409</u>	<u>17,820,867</u>
	31 December 2019	31 December 2018
Dividends receivable:		
Subsidiaries	<u>202,706,837</u>	<u>120,760,000</u>
	31 December 2019	31 December 2018
Interest receivable:		
Subsidiaries	–	<u>39,836,613</u>
	31 December 2019	31 December 2018
Cash and bank balances – deposits:		
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group (Note)	<u>686,966,099</u>	<u>587,824,924</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

36. Amounts due from/to related parties (continued)

Note: As at 31 December 2019, the Company's current deposit with CRRC Finance Co., Ltd. amounted to RMB686,966,099 (31 December 2018: RMB587,824,924).

As at 28 December 2018, the Company entered into a Financial Service Framework Agreement with CRRC Finance Co., Ltd. which was effective from 31 December 2018 to 30 December 2019. Pursuant to Financial Services Framework Agreement, the maximum daily deposit balance with CRRC Finance Co., Ltd. was no more than RMB700,000,000. The interest rate was no less than the benchmark interest rate set by People's Bank of China for similar deposits, the interest rate payable by other major commercial banks in China and the interest rate payable by CRRC Finance Co., Ltd. to other members of the CRRC Group for comparable deposits.

As at 25 October 2019, the Company entered into a Financial Service Framework Agreement with CRRC Finance Co., Ltd. which was effective from 31 December 2019 to 30 December 2020 (the above framework agreement on financial services signed on 28 December 2018 was terminated). Pursuant to Financial Services Framework Agreement, the maximum daily deposit balance with CRRC Finance Co., Ltd. was no more than RMB700,000,000. The interest rate was no less than the benchmark interest rate set by People's Bank of China for similar deposits, the interest rate payable by other major commercial banks in China and the interest rate payable by CRRC Finance Co., Ltd. to other members of the CRRC Group for comparable deposits.

	31 December 2019	31 December 2018
Trade payables:		
Subsidiaries	2,384,730,190	2,253,886,313
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	421,133,505	126,633,842
Corporation controlled by the parent company	144,287,833	39,026,331
Joint ventures of the Company	31,513,716	12,694,065
Joint ventures of the ultimate holding group	7,562,318	11,463,618
Parent company	2,598,562	8,354,231
Associates of the Company	103,687	55,000
	<u>2,991,929,811</u>	<u>2,452,113,400</u>

	31 December 2019	31 December 2018
Bills payable:		
Subsidiaries	478,580	521,061
Corporation controlled by the parent company	90,198,436	107,819,510
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	69,074,523	236,950,000
Joint ventures of the Company	20,000,000	5,940,000
Joint ventures of the ultimate holding group	11,020,000	21,060,000
	<u>190,771,539</u>	<u>372,290,571</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019
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XIV. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

36. Amounts due from/to related parties (continued)

	31 December 2019	31 December 2018
Contract liabilities:		
Subsidiaries	5,370,000	5,370,000
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	<u>199,371,586</u>	<u>107,304,834</u>
	<u>204,741,586</u>	<u>112,674,834</u>

	31 December 2019	31 December 2018
Other payables:		
Subsidiaries	27,432,351	15,365,543
Parent company	273,531,393	220,709,990
Corporation controlled by the parent company	1,436,989	13,018,412
Corporations controlled by the ultimate holding party other than the Zhuzhou ZELRI Group	<u>200,000</u>	<u>250,000</u>
	<u>302,600,733</u>	<u>249,343,945</u>

	31 December 2019	31 December 2018
Non-current liabilities due within one year:		
Controlling shareholders of the parent company	<u>5,000,000</u>	<u>5,000,000</u>

	31 December 2019	31 December 2018
Long-term borrowings:		
Controlling shareholders of the parent company	<u>87,688,000</u>	<u>92,688,000</u>

The Company's bills receivable from and bills payable to related parties are non-interest-bearing, unsecured and have fixed terms of repayment; cash and bank balances are interest-bearing, unsecured and have no fixed terms of repayment and long-term borrowings are interest-bearing, unsecured and have fixed terms of repayment. Other amounts due from and due to related parties are non-interest-bearing and unsecured. In particular, the repayment period of the trading amount is subject to the provisions of the trading terms. Non-trading amounts have no fixed repayment period.

Glossary

“Articles”	the Articles of Association of the Company
“Baoji Times”	寶雞中車時代工程機械有限公司 (Baoji CRRC Times Engineering Machinery Co., Ltd.), a subsidiary of the Company in which the Company holds 90.15% of its equity interests
“Beijing CRRC Intelligent Control”	北京中車軌道交通智控科技有限公司 (Beijing CRRC Transit Intelligent Control Technology Co., Ltd.), a wholly-owned subsidiary of the Company, which was merged by Times Signal & Communication, another wholly-owned subsidiary of the Company in June 2017
“Board” or “Board of Directors”	the board of Directors of the Company
“CG Code”	the Code on Corporate Governance and Corporate Governance Report set out in Appendix 14 to the Listing Rules
“Chengdu Electric”	成都中車時代電氣科技有限公司 (Chengdu CRRC Times Electric Technology Co., Ltd.), a wholly-owned subsidiary of the Company
“CNR”	formerly known as 中國北車股份有限公司 (China CNR Corporation Limited)
“Company”	株洲中車時代電氣股份有限公司 (Zhuzhou CRRC Times Electric Co., Ltd.), a joint stock company established in the PRC with limited liability whose H shares are listed on the Main Board of the Hong Kong Stock Exchange
“CRCCCE”	中國鐵建高新裝備股份有限公司 (CRCC High-Tech Equipment Corporation Limited), whose H shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1786)
“CRRC”	中國中車股份有限公司 (CRRC Corporation Limited), a joint stock limited liability company established in the PRC and formed through the merger of CSR and CNR, the A shares and H shares of which are listed on the Shanghai Stock Exchange and the Main Board of the Stock Exchange, respectively. CRRC holds the entire equity interest in the Parent Company
“CRRC Finance”	中車財務有限公司 (CRRC Finance Co., Ltd.), a company established under the laws of the PRC with limited liability
“CRRC Group”	中國中車集團有限公司, a State-owned enterprise of the PRC, which was established through the merger of 中國北方機車車輛工業集團公司 (China Northern Locomotive & Rolling Stock Industry (Group) Corporation) and 中國南車集團公司 (CSR Group), CRRC Group is the ultimate controlling shareholder of the Company

Glossary

“CRRC Hofer”	無錫中車浩夫爾動力總成有限公司 (Wuxi CRRC Hofer Powertrain Co., Ltd.), a limited liability company established under the laws of the PRC and is held as to 49%, 39% and 12% by the Company, Hofer Powertrain International GmbH and Wuxi Jintou Huicun Investment Enterprise (Limited Partnership)
“CRRC Investment & Leasing”	中車投資租賃有限公司 (CRRC Investment & Leasing Co., Ltd.), a wholly-owned subsidiary of CRRC
“CRRC Sifang”	中車青島四方機車車輛股份有限公司 (CRRC Qingdao Sifang Co., Ltd.), which is held as to 97.81% by CRRC
“CRRC Taiyuan”	中車太原機車車輛有限公司 (CRRC Taiyuan Co., Ltd.), a company established under the laws of the PRC with limited liability, an indirect wholly-owned subsidiary of CRRC
“CRRC Wabtec”	湖南中車西屋軌道交通技術有限公司 (Hunan CRRC-Wabtec Rail Transit Technology Co., Ltd.), a company held as to 50% by the Company and as to 50% by Wabtec China Rail Products & Services Holding Limited
“CRRC Zhuzhou”	中車株洲電力機車有限公司 (CRRC Zhuzhou Locomotive Co., Ltd.), a wholly-owned subsidiary of CRRC
“CSR”	formerly known as 中國南車股份有限公司 (CSR Corporation Limited)
“Director(s)”	the director(s) of the Company
“Dynex”	Dynex Power Inc., a company established under the law of Canada and listed on the TSX Venture Exchange, Toronto, Canada (stock code: DNX) whose 75% equity interests was acquired by the Company in October 2008, and the remaining interest was acquired by the Company on 15 March 2019 (Canada time) and is a wholly-owned subsidiary of the Company and the shares of which were delisted from TSX Venture Exchange on 19 March 2019 (Canada time). Dynex Semiconductor Ltd. is its only operating subsidiary and its headquarters are located in Lincoln, England
“Electric Multiple Units”	Electric Multiple Units power converters, auxiliary power supply equipment and control systems
“Group”	the Company and its subsidiaries
“Guangzhou Times”	廣州中車時代電氣技術有限公司 (Guangzhou CRRC Times Electric Technology Co., Ltd.), a subsidiary of the Company in which the Company holds 60% of its equity interests

Glossary

“Guoxin Technology”	湖南國芯半導體科技有限公司 (Hunan Guoxin Semiconductor Technology Co., Ltd.), a limited liability company established under the laws of the PRC and is held as to 25%, 25%, 10%, 10%, 10%, 10%, 5% and 5% by the Company, Chongqing Chang’an Automobile Company Limited, Electric Power Research Institute, CSG., Gree Electric Appliances, Inc. of Zhuhai, Tianjin Zhonghuan Semiconductor Co., Ltd., Hunan Xiangtuo Holdings Group Co., Ltd., Hunan CRRC Times Electric Vehicle Co., Ltd. and Times New Material respectively
“Hangzhou Electric”	杭州中車時代電氣設備有限公司 (Hangzhou CRRC Times Electric Equipment Co., Ltd.), a subsidiary of the Company in which the Company holds 60% of its equity interests
“HK Electric”	中車時代電氣（香港）有限公司 (CRRC Times Electric (Hong Kong) Co., Limited), a company established under the law of Hong Kong and a wholly-owned subsidiary of the Company
“Kunming Electric”	昆明中車時代電氣設備有限公司 (Kunming CRRC Times Electric Equipment Co., Ltd.), a wholly-owned subsidiary of the Company
“Lanzhou Times”	蘭州中車時代軌道交通科技有限公司 (Lanzhou CRRC Times Rail Transit Technology Co., Ltd.), a wholly-owned subsidiary of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Locomotives”	Locomotives power converters, auxiliary power supply equipment and control systems
“Metropolitan rail transportation equipment”	Metropolitan rail transportation equipment power converters, auxiliary power supply equipment and control systems
“Ningbo Electric”	寧波中車時代電氣設備有限公司 (Ningbo CRRC Times Electric Equipment Co., Ltd.), a wholly-owned subsidiary of the Company
“Ningbo Times”	寧波中車時代傳感技術有限公司 (Ningbo CRRC Times Transducer Technology Co., Ltd.), a wholly-owned subsidiary of the Company
“Parent Company” or “CRRC ZELRI”	中車株洲電力機車研究所有限公司 (CRRC Zhuzhou Institute Co., Ltd.), a wholly-owned subsidiary of CRRC and the controlling shareholder of the Company
“Parent Group”	the Parent Company and its subsidiaries (excluding the Group)

Glossary

“PRC”	the People’s Republic of China
“PRC Accounting Standards”	Accounting Standards for Business Enterprises and relevant regulations issued by the Ministry of Finance of the PRC
“Qingdao Electric”	青島中車電氣設備有限公司 (Qingdao CRRC Electric Equipment Co., Ltd.), which is held as to 45% by the Company, as to 38% by CRRC Sifang and as to 17% by 青島宏達賽耐爾科技股份有限公司 (Qingdao Hongda Schnell Science & Technology Co., Ltd.). It is a subsidiary of the Company since the Company has actual control over it
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai CRRC Rail Transit”	上海中車軌道交通科技有限公司 (Shanghai CRRC Rail Transit Technology Co., Ltd.), a subsidiary of the Company in which the Company holds 51% of its equity interests
“Shanghai Shentong CRRC”	上海申通中車軌道交通運行安全工程技術研究有限公司 (Shanghai Shentong CRRC Rail Transit Operation Safety Engineering Technology Research Co., Ltd.), a company in which the Company holds 50% of its equity interests
“Shanghai SMD”	上海中車艾森迪海洋裝備有限公司 (Specialist Machine Developments (Shanghai) Co., Ltd.), a wholly-owned subsidiary of the Company
“Shanghai Yongdian”	上海北車永電電子科技有限公司 (Shanghai CNR Yongdian Electronic Technology Co., Ltd.), a wholly-owned subsidiary of the Company
“Share(s)”	domestic share(s) and/or H Shares(s) of RMB1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shenyang Times”	瀋陽中車時代交通設備有限公司 (Shenyang CRRC Times Transportation Technology Co., Ltd.), a wholly-owned subsidiary of the Company
“Shiling”	株洲時菱交通設備有限公司 (Zhuzhou Shiling Transportation Equipment Co., Ltd.), held as to 50% by the Company, as to 40% by Mitsubishi Electric Corporation and as to 10% by Mitsubishi Electric (China) Ltd.
“SMD”	Specialist Machine Developments (SMD) Limited, a private limited company incorporated in England and Wales

Glossary

“SMD Group”	SMD and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisory Committee”	the supervisory committee of the Company
“Taiyuan Times”	太原中車時代軌道工程機械有限公司 (Taiyuan CRRC Times Rail Engineering Machinery Co., Ltd.), a limited liability company established under the laws of the PRC, and is owned as to 55% and 45% by Baoji Times and CRRC Taiyuan, respectively
“the year” or “the reporting period”	the financial year ended 31 December 2019
“Times Australia”	CRRC Times Electric Australia Pty. Ltd., a company established under the law of Australia and a wholly-owned subsidiary of the Company
“Times Brasil”	CRRC Times Electric Brasil Ltda., a company established under the law of Brasil and a wholly-owned subsidiary of the Company
“Times Electronics”	株洲時代電子技術有限公司 (Zhuzhou Times Electronics Technology Co., Ltd.), a wholly-owned subsidiary of the Company
“Times Equipment”	株洲中車時代裝備技術有限責任公司 (Zhuzhou CRRC Times Equipment Technology Co., Ltd.), a wholly-owned subsidiary of the Company
“Times New Materials”	株洲時代新材料科技股份有限公司 (Zhuzhou Times New Materials Technology Co., Ltd.), whose shares are listed on the Shanghai Stock Exchange (stock code: 600458), a subsidiary of CRRC ZELRI
“Times Semiconductor”	株洲中車時代半導體有限公司 (Zhuzhou CRRC Times Semiconductor Co., Ltd.), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“Times Signal & Communication”	湖南中車時代通信信號有限公司 (Hunan CRRC Times Signal & Communication Co., Ltd.), a wholly-owned subsidiary of the Company
“Times Software”	株洲中車時代軟件技術有限公司 (Zhuzhou CRRC Times Software Technology Co., Ltd.), a wholly-owned subsidiary of the Company

Glossary

“Times USA”	CRRC Times Electric USA LLC., a company established under the law of the United States of America and a wholly-owned subsidiary of the Company
“Traction Inspection”	中鐵檢驗認證株洲牽引電氣設備檢驗站有限公司 (China Railway Approved Zhuzhou Traction Electric Equipment Inspection Station Company Limited), a subsidiary of CRRC ZELRI in which CRRC ZELRI holds 55% of its equity interests
“Wenzhou Electric”	溫州中車電氣設備有限公司 (Wenzhou CRRC Electric Equipment Co., Ltd.), a limited liability company established under the laws of the PRC, and is held as to 50% by the Company
“Zhuzhou Siemens”	株洲西門子牽引設備有限公司 (Siemens Traction Equipment Ltd., Zhuzhou), a limited liability company established under the laws of the PRC, and is held as to 30% by the Company, as to 20% by CRRC Zhuzhou and as to 50% by Siemens Ltd., China
“ZNERCC”	株洲變流技術國家工程研究中心有限公司 (Zhuzhou National Engineering Research Centre of Converters Co., Ltd.), a limited liability company established under the laws of the PRC and a wholly-owned subsidiary of the Company

Basic Corporate Information

1	Name in Chinese Name in English	株洲中車時代電氣股份有限公司 Zhuzhou CRRC Times Electric Co., Ltd.
2	Authorised representatives	Li Donglin Tang Tuong Hock, Gabriel
3	Company secretary	Tang Tuong Hock, Gabriel
	Registered office	Times Road, Shifeng District, Zhuzhou, Hunan Province, PRC, 412001
	Telephone	+ 86 731 2849 8028
	Fax	+ 86 731 2849 3447
	Website	www.tec.crrcic.cc
	Principal place of business in Hong Kong	Unit 1106, 11th Floor, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong
4	Listing information	H Shares The Stock Exchange of Hong Kong Limited Stock Code: 3898 Stock Short Name: CRRC Times Elec
5	H share registrar	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
6	Legal advisers	MinterEllison LLP Grandall Law Firm (Hangzhou)
7	Auditor	Deloitte Touche Tohmatsu Certified Public Accountants LLP 30/F Bund Center, 222 East Yan'an Road, Huangpu District, Shanghai, the PRC, 200002



株洲中车时代电气股份有限公司
ZHUZHOU CRRC TIMES ELECTRIC CO., LTD.